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**UNITED STATES BANKRUPTCY COURT
 SOUTHERN DISTRICT OF NEW YORK**

	X : : : : Chapter 11 Case No. : 04-13856 () : : Jointly Administered : : X
In re Cornerstone Propane, L.P., <u>et al.</u> , <div style="text-align: right;">Debtors.</div>	

**APPLICATION OF THE DEBTORS PURSUANT TO SECTIONS 327(a) AND 328(a)
 OF THE BANKRUPTCY CODE AND BANKRUPTCY RULE 2014(a)
 FOR AUTHORIZATION TO EMPLOY KIRKLAND & ELLIS LLP
AS ATTORNEYS FOR THE DEBTORS**

TO THE HONORABLE UNITED STATES BANKRUPTCY JUDGE:

Cornerstone Propane Partners, L.P. (“Cornerstone MLP”) and its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, “Cornerstone” or the “Debtors”), respectfully represent:

Introduction

1. On the date hereof (the “Commencement Date”), Cornerstone MLP, Cornerstone Propane L.P. (“Cornerstone OLP”), and each of the other Debtors commenced with this Court a voluntary case under chapter 11 of title 11, United States Code (the “Bankruptcy Code”). The Debtors are authorized to operate their businesses and manage their properties as

debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code. Simultaneously with the filing of their petitions and this Application, the Debtors requested an order for joint administration of their chapter 11 cases pursuant to rule 1015(b) of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

Jurisdiction

2. This Court has jurisdiction to consider and determine this Application as a core proceeding pursuant to 28 U.S.C. §§ 157 and 1334.

3. Venue of these cases and this Application is proper in this District pursuant to 28 U.S.C. §§ 1408 and 1409.

4. The statutory predicates for the relief requested herein are sections 327 and 328 of the Bankruptcy Code and Bankruptcy Rule 2014.

Background

5. Cornerstone is one of the largest retail marketers of propane in the United States, delivering approximately 250 million gallons annually to approximately 423,000 customers in 33 states. Cornerstone employs approximately 1,650 people throughout the United States in approximately 200 customer service centers (“CSCs”). Cornerstone has projected a gross revenue on a consolidated basis of approximately \$350 million for the 2004 fiscal year.

6. Cornerstone MLP is a Delaware master limited partnership¹ and holds all of the limited partnership units of Cornerstone OLP. Cornerstone OLP owns Cornerstone Holding Corp. (“CHC”), which, in turn, has three wholly-owned subsidiaries: Flame Inc.

¹ A master limited partnership or MLP is a publicly traded limited partnership, and is exempt from corporate income taxes as long as it pays out almost all of its profits to investors, also called unitholders. MLPs are popular with mid-stream oil and gas companies, processing and transportation operations, as well as other companies also having tangible assets and high sustainable cash flow. Although the characteristics of a MLP closely resemble a traditional limited partnership, a major difference is that MLPs may trade on a public exchange or in the over-the-counter market. The ability to trade on a public exchange or in the over-the-counter market provides a certain amount of liquidity not found in many limited partnership investments.

("Flame"), Propane Continental, LLC ("PC"), and Coast Energy Global Services, LLC ("CEGS"). CEGS in turn owns Coast Energy Canada, LLC ("CEC"). Other than certain assets held by Flame, PC, and CEC, the assets of the Debtors are primarily held by Cornerstone OLP.

7. The managing general partner of both Cornerstone MLP and Cornerstone OLP is Cornerstone Propane GP, Inc., a California corporation ("Cornerstone GP"). The special general partner of Cornerstone MLP and Cornerstone OLP is SYN Inc. ("SYN"). Neither Cornerstone GP nor SYN have commenced bankruptcy cases.

Debt Structure

8. The OLP Notes: On December 17, 1996, Cornerstone OLP issued \$220.0 million of senior secured notes with a fixed annual interest rate of 7.53% pursuant to note purchase agreements with various investors (the "1996 Notes"). On December 11, 1998, Cornerstone OLP issued \$85.0 million of notes with a fixed annual interest rate of 7.33% pursuant to note purchase agreements with various investors (the "1998 Notes"). On November 4, 1999, Cornerstone OLP issued \$60.0 million of notes pursuant to note purchase agreements with various investors in two tranches as follows: (a) \$30.0 million with a fixed annual interest rate of 8.08% (the "1999A Notes"); and (b) \$30.0 million with a fixed annual interest rate of 8.27% (the "1999B Notes"). The 1996 Notes, the 1998 Notes, the 1999A Notes, and the 1999B Notes are collectively referred to as the "OLP Notes" or the "Senior Secured Notes," and the holders of the Senior Secured Notes are collectively referred to as the "OLP Noteholders." The Senior Secured Notes are secured by substantially all of the assets of Cornerstone OLP and its direct and indirect subsidiaries.

9. The MLP Notes: On June 25, 1999, Cornerstone MLP issued \$45 million of senior unsecured notes with a fixed annual interest rate of 10.26% pursuant to note purchase

agreements with various investors. These notes are collectively referred to as the “MLP Notes,” and the holders of the MLP Notes are collectively referred to as the “MLP Noteholders.” An ad hoc committee of the MLP Noteholders (the “MLP Notes Committee”) was organized by August of 2002. The MLP Notes Committee retained Akin Gump Strauss Hauer & Feld LLP as its attorneys and FTI Consulting LLP as its financial advisor. Since the MLP Notes Committee’s inception, Cornerstone reimbursed it for the cost of its advisors.

10. The NorthWestern Claim: On November 30, 2001, the Debtors entered into a senior secured credit facility (the “Credit Facility”) provided by certain lending institutions and guaranteed by NorthWestern. After subsequent defaults, the Credit Facility was purchased by NorthWestern, and approximately \$26.0 million remains outstanding thereunder.

11. The SYN Loan: In the Fall of 2002, SYN provided \$22.0 million of subordinated financing at a variable interest rate (the “SYN Loan”) to assure adequate liquidity for Cornerstone’s survival through the winter heating season. In June of 2003, an additional \$4,312,322 was drawn down on the SYN Loan to satisfy conditions of the Forbearance Agreement (as defined below) with the OLP Noteholders. The SYN Loan matured on December 31, 2003. The total outstanding balance owing on the SYN Loan is currently \$26,312,322.

12. Seller Notes: In addition to the financings described in the paragraphs above, Cornerstone OLP issued notes (the “Seller Notes”) in connection with the acquisitions related to the expansion of the retail propane business described previously herein, and also remains liable on numerous capital lease obligations.

Corporate History

13. Cornerstone MLP and Cornerstone OLP were formed in October of 1996 to acquire, own and operate the propane businesses and assets of Synergy Gas Corporation,

Empire Energy Corporation, Myers Propane Gas Company, and Coast Gas Holdings, Inc. and its subsidiaries. Upon its formation, Cornerstone engaged in two business segments: (a) retail propane distribution operating in several hundred locations, and (b) wholesale propane distribution and trading, which operated under the trade name Coast Energy Group (“CEG”).

14. From its initial public offering in 1996 through the 2000 fiscal year, Cornerstone pursued a growth strategy in both of its businesses. It expanded the retail propane business through acquisitions and organic growth in existing locations. To this end, Cornerstone added 82 CSCs to its operations, primarily through an active acquisition program. It also entered the energy trading business through the organic expansion of CEG in its existing propane wholesale and trading business and, via acquisitions, the natural gas and crude oil commodity trading markets in the United States and Canada.

15. From its inception until November of 2002, NorthWestern Corporation (“NorthWestern”) owned NorthWestern Growth Corporation (“NorthWestern Growth”), which in turn owned Cornerstone GP. During that time, NorthWestern reported Cornerstone on a consolidated basis in its financial statements. Cornerstone GP and SYN, along with the public unitholders, also held limited partnership interests in Cornerstone MLP.

16. As the original sponsor of the Cornerstone initial public offering, NorthWestern provided significant management and financial support to Cornerstone. NorthWestern’s management support and oversight has included appointing three members to the board of directors of Cornerstone GP (the “Board”). NorthWestern’s financial support has included occasional propane and crude oil inventory re-purchase transactions, participation by Cornerstone in fleet vehicle purchasing programs, and a variety of NorthWestern-sponsored corporate purchasing programs.

Financial and Audit Difficulties and Restructuring Efforts

17. After CEG suffered significant losses, in January of 2001, Cornerstone decided to exit the crude oil and natural gas trading business altogether. During the following months, the trading units were divested. Among the divestitures was the sale of Cornerstone's crude oil gathering and reselling business to Plains Marketing, L.P. for approximately \$8.2 million in March of 2002.

18. In May 2002, as a result of Arthur Andersen LLP's ("Andersen") difficulties, Cornerstone made the decision to replace its auditor. In May of 2002, Cornerstone retained Deloitte & Touche ("D&T") to provide auditing services for FY2002. Although D&T was engaged to audit Cornerstone's consolidated balance sheet, statements of operations, partners' capital (deficit), and cash flows for FY2002, because of the absence of significant accounting records for 2001, D&T was only able to provide an audit opinion on Cornerstone's consolidated balance sheet. As a result Cornerstone has been unable to obtain audited financial statements since FY2001.

19. By June of 2002, Cornerstone became concerned about its ability to sustain adequate levels of liquidity. An interest payment on the OLP Notes was due on June 30, 2002, which the Company did not have the funds to meet. The Credit Facility was due to expire on November 28, 2002, and there were no alternatives identified for replacing it. The liquidity issues were exacerbated by the seasonality of the propane business, as the summer months see the lowest revenues and a negative cash flow, and Cornerstone is required to substantially build up working capital in the fall in preparation for the winter season.

20. After considering Cornerstone's liquidity and restructuring needs, Cornerstone dismissed its senior management and retained Everett & Solsvig, Inc. ("E&S"), a

turnaround management firm, to manage its business and address its liquidity needs. E&S representatives were retained as the chief executive officer, chief restructuring officer, and chief financial officer of Cornerstone. In July of 2002, Cornerstone retained Kirkland & Ellis LLP (“K&E”), as its attorneys, and Greenhill & Co. LLC (“Greenhill”) as its financial advisor to investigate potential options for a restructuring or a sale of Cornerstone’s assets.

21. E&S confirmed that a liquidity crisis was imminent and that immediate action was necessary. As a result, Cornerstone initiated numerous short-term actions designed to stabilize its business and minimize cash requirements. These included a wage and hiring freeze, temporary layoffs of personnel not needed during the slow summer months, significant personnel reductions, and a capital expenditure freeze. In addition, 14 of the approximately 250 CSCs then in existence were merged into neighboring locations to reduce costs.

22. Cornerstone OLP did not make the interest payments on the OLP Notes that were due on June 30, 2002, triggering a default under the OLP Notes and a cross-default under the Credit Facility. Shortly thereafter, holders of the OLP Notes organized and formed an ad hoc committee (the “Old OLP Notes Committee”). The Old OLP Notes Committee retained Debevoise & Plimpton as its counsel and Crossroads, LLC as its financial advisors.

23. Cornerstone, with the assistance of K&E and Greenhill, negotiated with the Old OLP Notes Committee and NorthWestern, a commitment to forebear from exercising remedies on account of their secured claims. In addition, members of the Old OLP Notes Committee committed to provide Cornerstone with additional liquidity if necessary to enable it to operate its business through the pending heating season. This enabled Cornerstone to avoid commencing a free-fall bankruptcy case at that time.

24. Thereafter, Cornerstone implemented several other strategic initiatives that reduced costs, capital expenditures and working capital needs under the guidance of E&S. In August and September of 2002, Greenhill and E&S also engaged in negotiations to ensure Cornerstone could obtain financing on an emergency basis either from the OLP Noteholders or a third party lender.

25. In November of 2002, NorthWestern “deconsolidated” Cornerstone from its financial reporting (the “Deconsolidation”). The Deconsolidation was accomplished through a return to Cornerstone MLP and Cornerstone OLP of NorthWestern’s and SYN’s economic interests in the business (through Cornerstone GP), in addition to certain other steps including the insertion of two wholly owned subsidiaries of North Western Growth, CornerNorth LLC and NorthWestern Capital Corporation. Cornerstone GP now has only a non-economic, managing general partner interest in Cornerstone MLP.

26. In November of 2002, Cornerstone sold the remainder of its wholesale propane business to Enterprise Products Partners L.P. (“Enterprise”) for approximately \$8.0 million. Because this operation was not a part of Cornerstone’s remaining core business, had a dubious profit history, and required a disproportionate amount of Cornerstone’s working capital its divesture was beneficial. In conjunction with this sale, Cornerstone entered into a long-term supply agreement with Enterprise, which committed to be the sole provider of propane liquids to Cornerstone through March of 2006.

27. As a result of these and other initiatives, and the funds provided by the SYN Loan, Cornerstone satisfied its immediate liquidity requirements and reduced its cash consumption. Thus, the Company had sufficient liquidity to operate through the winter heating season of 2002-2003. However, Cornerstone still faced significant long-term liquidity issues. A

significant factor in solving Cornerstone's short-term liquidity problems had been the withholding of interest payments to all creditors, which was not a long-term solution. Cornerstone believed that it was over-leveraged and its business did not generate sufficient cash flows to support the current level of debt.

28. Greenhill presented several restructuring scenarios to the Company in December of 2002. In addition, based upon the strong unit price performance of publicly traded partnerships in Cornerstone's business sector (the logical potential buyers) and the favorable interest rates and accessible credit markets available to potential buyers, a sale of substantially all of Cornerstone's assets was viewed as an option that merited exploration.

29. Cornerstone determined that a sale during the 2002-2003 heating season would not bring optimum value because (a) it could be perceived by potential buyers as a "fire sale" and (b) strategic buyers are reluctant to undertake a large acquisition during their peak winter heating season. In addition, management believed that solid performance during the heating season under the new E&S management initiatives would prove to potential buyers the viability of the business and support a higher valuation of Cornerstone.

30. In December of 2002, Greenhill and Cornerstone began work on a confidential offering memorandum (the "Memorandum") that described the business operations and strategy of Cornerstone in detail. Cornerstone completed the Memorandum in April, and the Memorandum included the March financial results demonstrating Cornerstone's success through the 2002-2003 heating season. Throughout this process, Cornerstone continued to consider both a stand-alone restructuring and the potential sale of its assets and business.

31. After the Memorandum was completed, Greenhill approached approximately four dozen potential buyers to discuss the opportunity to acquire the Debtors'

business. The group of potential buyers included a mix of strategic buyers and financial buyers. Cornerstone also issued a press release publicly seeking buyers. Ultimately, thirty-four parties executed mutually satisfactory confidentiality agreements and subsequently received the Memorandum.

32. Eleven of these parties submitted non-binding proposals to purchase Cornerstone in early June of 2003. Based on the relative attractiveness of valuation, consideration and other aspects of these proposals, Greenhill and management selected six parties to meet with management and perform detailed due diligence on the assets and business of Cornerstone.

33. Cornerstone OLP had been in default under the OLP Notes and the Credit Facility since late June of 2002, and had been negotiating the terms of formal forbearance agreements with their lenders. On July 2, 2003, Cornerstone OLP entered into forbearance agreements (the "Forbearance Agreements") with the OLP Noteholders and NorthWestern, as lender under the Credit Facility. Pursuant to the Forbearance Agreements, the OLP Noteholders and NorthWestern agreed to forbear from exercising their remedies until the earlier of October 31, 2003 or the occurrence of any additional default under the respective loan documents (the "Forbearance Period"), NorthWestern extended the maturity of its loans under the Credit Agreement until October 31, 2003. In connection with the Forbearance Agreements, Cornerstone repaid \$20 million to the OLP Noteholders.

34. Thereafter, as a result of the marketing efforts of Greenhill and Cornerstone's management, five parties submitted binding offers in late July of 2003 to acquire Cornerstone. Of the final five bids, two were from strategic buyers and in the range of \$337 to \$350 million, while three were from financial buyers. Cornerstone told the two buyers at the

highest proposed valuation, Strategic Buyer A and Strategic Buyer B, that it was choosing between two very close offers, and offered them an opportunity to improve their bids. Each of these two buyers improved its bid for the assets.

35. On October 10, 2003, the MLP Noteholders notified Cornerstone that they were exercising their rights to accelerate the obligations under the MLP Notes (the “MLP Acceleration Notice”). Meanwhile, on October 31, 2003, the Forebearance Agreement was extended through January 9, 2004.

36. When negotiations with Strategic Buyer A began to fail, Strategic Buyer B resurfaced as a viable alternative. In December 2003, just as the terms of an asset purchase agreement were being negotiated, a significant portion of the OLP Notes were acquired by a new group of holders.

37. In January of 2004, new holders holding in the aggregate over 90% in principal amount of the OLP Notes formed a new ad hoc committee (the “OLP Notes Committee”). The OLP Notes Committee retained Milbank Tweed Hadley & McCloy LLP as its counsel, and UBS Securities LLC as its financial advisors.

38. Cornerstone began negotiating with the OLP Notes Committee immediately upon learning of its formation. It became apparent early on in the negotiations that the OLP Notes Committee perceived that the best way to maximize value for Cornerstone’s creditors was through a standalone restructuring rather than through a sale. Cornerstone refocused its restructuring efforts and began negotiating the terms of a standalone restructuring with the OLP Notes Committee.

39. On February 6, 2004, the OLP Noteholders notified Cornerstone that they were exercising their rights to accelerate the obligations under the OLP Notes (the “OLP Acceleration Notice”).

40. As of the Commencement Date, the Debtors remain in default on the OLP Notes, the MLP Notes and the Credit Facility.

41. Despite the issuance of the OLP Acceleration Notice, the MLP Acceleration Notice and the expiration of the Forebearance Agreements, the Debtors continued to negotiate the terms of a restructuring plan. To this end, the Debtors, in consultation with the OLP Notes Committee, and in the exercise of their prudent business judgment, determined that it was in the best interests of all of their stakeholders and for the maximization of the value of their businesses to commence these chapter 11 cases and consummate a restructuring of their indebtedness under the auspices of this Court.

42. The good faith and arms'-length negotiations between the Debtors and the OLP Notes Committee resulted in the parties reaching an agreement on the principal terms of a chapter 11 plan of reorganization for Cornerstone (the “Plan”) and entering into an agreement pursuant to which OLP Noteholders, holding 85% in principal amount of the OLP Notes in the aggregate agreed to support the Plan.

43. Accordingly, the Debtors filed the Plan, and intend to file the related disclosure statement in the immediate future, obtain confirmation of the Plan pursuant to applicable bankruptcy law, and emerge from these chapter 11 cases as expeditiously as possible.

Relief Requested

44. The Debtors seek court approval, pursuant to sections 327(a) and 328(a) of the Bankruptcy Code and Bankruptcy Rule 2014(a), to employ and retain Kirkland & Ellis LLP (“K&E”), as the Debtors’ attorneys to perform the extensive legal services that will be necessary

during their chapter 11 cases. Pursuant to section 328(a) of the Bankruptcy Code, the Debtors request that the Court approve the retention of K&E, under a general retainer, in accordance with K&E's normal hourly rates and policies in effect when K&E renders the services or incurs the expenses.

45. The Debtors have been informed that the partners, counsel, and associates of K&E, who will be employed in these chapter 11 cases are members in good standing of, among others, the Bar of the State of New York and the United States District Court for the Southern District of New York. In addition, K&E attorneys who will be providing services to the Debtors in these cases are all members in good standing of their respective states of admission.

46. The Debtors have selected K&E as their attorneys because of the firm's knowledge of the Debtors' business and financial affairs and its extensive general experience and knowledge, and in particular, its recognized expertise in the field of debtors' protections and creditors' rights and business reorganizations under chapter 11 of the Bankruptcy Code.

47. Since June, 2002, K&E has represented the Debtors in connection with (a) general corporate matters; (b) filings and other pending matters before the Securities and Exchange Commission; and (c) securities litigation matters. In addition, K&E has recently represented the Debtors in connection with matters relating to their restructuring efforts, including, ultimately, the preparation and filing of the Debtors' chapter 11 petitions and related documents. During the course of its representation of the Debtors, K&E has become familiar with the Debtors' businesses and financial affairs and many of the potential legal issues that may arise in the context of these chapter 11 cases.

48. In addition, K&E possesses extensive expertise, experience and knowledge practicing before bankruptcy courts (including this Court). K&E has been actively involved in major chapter 11 cases, and has represented debtors in many cases, including In re NRG Energy, Inc., Case No. 03-13024 (PCB) (Bankr. S.D.N.Y. 2003); In re Allegiance Telecom, Inc., Case No. 03-13057 (RDD) (Bankr. S.D.N.Y. 2003); In re UAL Corp., Case No. 02-B-48191 (ERW) (Bankr. N.D. Ill. 2002); In re Conseco, Inc., Case No. 02-B-49672 (CAD) (Bankr. N.D. Ill. 2002); In re Polymer Group, Inc., Case No. 02-05573-jw (Bankr. D. S.C. 2002); In re Homelife Corporation, Case No. 01-2412 (LHK) (Bankr. D. Del 2001); In re Chiquita Brands International, Inc., Case No. 01-18812 (Bankr. S.D. Ohio 2001); In re W.R. Grace & Co., Case No. 01-01139 (JKF) (Bankr. D. Del. 2001); In re Trans World Airlines, Inc., Case No. 01-00056 (PJW) (Bankr. D. Del. 2001); In re Teligent, Inc., Case No. 01-12974 (SMB) (Bankr. S.D.N.Y. 2001); In re Quality Stores, Inc., Case No. 01-11068-jdg (Bankr. W.D. Mich. 2001); In re AmeriServe Food Distribution, Inc., Case No. 00-00358 (PJW) (Bankr. D. Del. 2000); In re The Babcock & Wilcox Co., Case No. 00-10992 (Bankr. E.D. La. 2000); In re United Artists Theatre Co., Case No. 00-3514 (PJW) (Bankr. D. Del. 2000); In re Harnischfeger Industries, Inc., Case No. 99-02171 (PJW) (Bankr. D. Del. 1999); In re Zenith Elec. Corp., Case No. 99-02911 (MFW) (Bankr. D. Del. 1999), among others.

49. The Debtors believe that K&E is both well qualified and uniquely able to represent them in their chapter 11 cases in a most efficient and timely manner.

50. If the Debtors were required to retain attorneys other than K&E in connection with the prosecution of these chapter 11 cases, the Debtors, their estates, and all parties in interest would be unduly prejudiced by the time and expense necessarily attendant to such attorneys' familiarization with the intricacies of the Debtors and their business operations.

51. The employment of K&E under a general retainer is appropriate and necessary to enable the Debtors to execute faithfully their duties as debtors and debtors in possession and to implement the restructuring and reorganization of the Debtors.

Services to be Provided

52. Subject to this Court's approval, the professional services that K&E will render to the Debtors may include, but shall not be limited to, the following:

- (a) advise the Debtors with respect to their powers and duties as debtors in possession in the continued management and operation of their businesses and properties;
- (b) attend meetings and negotiate with representatives of creditors, the United States Trustee and other parties in interest;
- (c) take all necessary action to protect and preserve the Debtors' estates, including prosecuting actions on the Debtors' behalf, the defense of any action commenced against the Debtors and representing the Debtors' interests in negotiations concerning litigation in which the Debtors are involved, including, but not limited to, objections to claims filed against the estates;
- (d) prepare on the Debtors' behalf all motions, applications, answers, orders, reports and papers necessary to the administration of the estates;
- (e) negotiate and prepare on the Debtors' behalf a chapter 11 plan or plans, disclosure statement and all related agreements and/or documents and take any necessary action on behalf of the Debtors to obtain confirmation of such plan(s);
- (f) represent the Debtors in connection with obtaining debtor in possession financings;
- (g) advise the Debtors in connection with any potential sale(s) of assets;
- (h) appear before any court and protect the interests of the Debtors' estates before such courts;
- (i) consult with the Debtors regarding tax matters; and

- (j) perform all other necessary legal services and provide all other necessary legal advice to the Debtors in connection with these chapter 11 cases.

**K&E Does Not Hold or Represent an Interest
Adverse to the Debtors' Estates and is Disinterested**

53. K&E has stated its desire and willingness to act in these cases and render the necessary professional services as attorneys for the Debtors. To the best of the Debtors' knowledge, the partners and associates of K&E do not have any connection with or any interest adverse to the Debtors, their creditors or any other party in interest, or their respective attorneys and accountants, except as may be set forth in the affidavit of Matthew A. Cantor, a partner of K&E, dated June 3, 2004 (the "Cantor Affidavit"), annexed hereto as Exhibit "A." As such, K&E is a "disinterested person," as that phrase is defined in section 101(14) of the Bankruptcy Code and as modified by section 1107(b) of the Bankruptcy Code, and K&E's employment is necessary and in the best interests of the Debtors and the Debtors' estates.

54. The Debtors have thousands of creditors or alleged creditors. As described more fully in the Cantor Affidavit, K&E may represent or may have represented certain of such parties in matters unrelated to these chapter 11 cases.

55. If a conflict arises with respect to these creditors or other creditors in the future, the Debtors will seek authorization to retain conflicts counsel to represent the Debtors in all matters in which K&E may have conflicts in its representation of the Debtors in these chapter 11 cases.

56. None of the representations described above and/or in the Cantor Affidavit are materially adverse to the interests of the Debtors' estates or any class of creditors or equity security holders. Moreover, pursuant to section 327(c) of the Bankruptcy Code, K&E is not

disqualified from acting as the Debtors' attorneys merely because it represents creditors, or equity security holders, and/or other parties in interest in unrelated matters.

57. K&E will periodically review its files during the pendency of these chapter 11 cases to ensure that no conflicts or other disqualifying circumstances exist or arise. If any new relevant facts or relationships are discovered or arise, K&E will use reasonable efforts to identify such further developments and will promptly file a supplemental affidavit as required by Bankruptcy Rule 2014(a).

Professional Compensation

58. K&E is not a creditor of the Debtors. During the twelve (12) month period prior to the Commencement Date, K&E received from the Debtors an aggregate of \$6,043,385.62 for professional services performed and to be performed and expenses incurred and to be incurred, including advance payments of \$750,000 (the "Advance Payments") for professional services performed and to be performed and expenses incurred and to be incurred in connection with these chapter 11 cases. Other than the Advance Payments, all payments received by K&E from the Debtors have been made in the ordinary course of business of K&E, in the ordinary course of business of the Debtors, and consistent with prior dealings between the Debtors and K&E and/or the dealings between similarly situated parties. K&E has used the Advance Payments to credit the Debtors' account with K&E's estimated charges for professional services performed and expenses incurred up to the time of the commencement of these chapter 11 cases and has reduced the balance of the credit available to the Debtors by the amount of such charges. As of the Commencement Date, K&E had a remaining credit balance in favor of the Debtors for future professional services to be performed, and expenses to be incurred, in the approximate amount of \$553,677.61, subject to processing of all time and disbursements up to the commencement of these chapter 11 cases. The Debtors have agreed that K&E will remit to

the Debtors an amount equal to the unused advance payment less the total fees and costs owing to K&E at the termination of K&E's representation. The advanced payment amount will not be placed in a segregated account by K&E and any amounts to be returned by K&E to the Debtors will be paid out of K&E's general funds.²

59. The Debtors understand that K&E intends to apply for compensation for professional services rendered in connection with these chapter 11 cases, subject to approval of this Court and in compliance with applicable provisions of the Bankruptcy Code, the Bankruptcy Rules, the Local Bankruptcy Rules for the Southern District of New York, guidelines established by the United States Trustee and Orders of this Court, on an hourly basis, plus reimbursement of actual, necessary expenses and other charges that K&E incurs. K&E will charge the Debtors hourly rates consistent with the rates it charges in bankruptcy and non-bankruptcy matters of this type.

60. K&E's hourly rates are set at a level designed to fairly compensate K&E for the work of its attorneys and paralegals and to cover fixed and routine overhead expenses. Hourly rates vary with the experience and seniority of the individuals assigned.

61. It is K&E's policy to charge its clients in all areas of practice for all expenses incurred in connection with a client's case. The expenses charged to clients include, among other things, photocopying, witness fees, travel expenses, certain secretarial and other overtime expenses, filing and recording fees, long distance telephone calls, postage, express mail and messenger charges, computerized legal research charges and other computer services, expenses for "working meals" and telecopier charges. K&E will charge the Debtors for these

² The disclosures contained herein constitute K&E's statement of compensation paid or agreed to be paid for services rendered or to be rendered in contemplation of or in connection with the Debtors' chapter 11 cases, and the source of such compensation, in compliance with Section 329(a) of the Bankruptcy Code.

expenses in a manner and at rates consistent with charges made generally to its other clients. K&E believes that it is more fair to charge these expenses to the particular client rather than increasing the hourly rates and spreading the expenses among all clients.

62. Pursuant to section 328(a) of the Bankruptcy Code, the Debtors may retain K&E on any reasonable terms and conditions. The Debtors submit that the most reasonable terms and conditions are those charged by K&E to the Debtors and other clients on a daily basis in a competitive market for legal services.

63. Therefore, the Debtors and K&E have agreed that K&E shall be paid its customary hourly rates for services rendered that are in effect from time to time, as set forth in the Cantor Affidavit, and shall be reimbursed according to K&E's customary reimbursement policies.

64. No prior application or motion for the relief requested herein has been made to this or any other court.

Memorandum of Law

65. This Application includes citations to the applicable authorities and a discussion of their application to this Application. Accordingly, the Debtors respectfully submit that such citations and discussion satisfy the requirement that the Debtors submit a separate memorandum of law in support of this Application pursuant to rule 9013-1(b) of the Local Bankruptcy Rules for the Southern District of New York.

Notice

66. Notice of this Application has been provided to (a) the Office of the United States Trustee for the Southern District of New York, (b) attorneys for the OLP Notes Committee, (c) attorneys for NorthWestern Corporation and (d) attorneys for the MLP Notes Committee. In light of the nature of the relief requested herein, the Debtors submit that no other or further notice is required.

WHEREFORE, the Debtors respectfully request entry of an order granting the relief requested herein and such other and further relief as the Court may deem just and proper.

Dated: June 3, 2004

CORNERSTONE PROPANE PARTNERS,
L.P.
CORNERSTONE PROPANE, L.P.
CORNERSTONE HOLDING CORP.
FLAME, INC.
PROPANE CONTINENTAL, LLC
COAST ENERGY GLOBAL SERVICES,
LLC
COAST ENERGY CANADA, LLC

By: /s/ Curtis G. Solsvig III
Curtis G. Solsvig III
Chief Executive Officer of Cornerstone
Propane Partners, L.P.