As filed with the Securities and Exchange Commission on February 23, 1999
Registration No. 333-68329

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 2 to
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Star Gas Partners, L.P.
(Exact name of registrant as specified in its charter)

Delaware	5984	06-1437793
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code)	(I.R.S. Employer Identification No.)

2187 Atlantic Street P.O. Box 120011 Stamford, Connecticut 06912-0011 (203) 328-7300 (Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)	Joseph P. Cavanaugh, President Star Gas Corporation 2187 Atlantic Street P.O. Box 120011 Stamford, Connecticut 06912-0011 (203) 328-7300 (Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Andrews & Kurth L.L.P. 805 Third Avenue New York, New York 10022 (212) 850-2800 Attn: Michael Rosenwasser, Esq.	Phillips Nizer Benjamin Krim & Ballon LLP 666 Fifth Avenue, 28th Floor New York, New York 10103 (212) 977-9700 Attn: Alan Shapiro, Esq.	Latham & Watkins 885 Third Avenue New York, New York 10022-4802 (212) 906-1200 Attn: Robert A. Zuccaro, Esq.

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [_]
If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [_]
If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]_____.
If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]_____.
If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of

the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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+The information in this prospectus is not complete and may be changed. We may +
+not sell these securities until the registration statement filed with the   +
+Securities and Exchange Commission is effective. This prospectus is not an   +
+offer to sell these securities and it is not soliciting an offer to buy these +
+securities in any state where the offer or sale is not permitted.   +
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PROSPECTUS

Subject to completion, dated February 23, 1999

8,947,368 Common Units

Star Gas Partners, L.P.

Representing Limited Partner Interests

We are offering common units representing limited partner interests through this prospectus. This offering of common units is made in connection with and conditioned upon our acquisition of Petroleum Heat and Power Co., Inc. We are the eighth largest retail distributor of propane and, upon our acquisition of Petro, will be the largest retail distributor of home heating oil in the United States.

We intend, to the extent we have sufficient cash available from operations, to distribute to each holder of common units a distribution of at least $0.575 per common unit per quarter, which is the minimum quarterly distribution, or $2.30 per common unit on a yearly basis. Our general partner has broad discretion in making cash disbursements and establishing reserves. During the subordination period, which generally will not end before October 1, 2002, we will make the minimum quarterly distribution to holders of common units before any distributions will be made on the Star Gas Partners interests that rank below the common units.

The common units are listed on the New York Stock Exchange under the symbol "SGU." The last reported sale price of common units on the NYSE on February 22, 1999 was $18.25 per common unit.

You should read "Risk Factors" beginning on page 20 of this prospectus for a discussion of the material risks relating to an investment in the common units.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Common Unit	Total
Public Offering Price.....	$	$
Underwriting Discounts and Commissions.....	$	$
Proceeds, Before Expenses, to Star Gas Partners.....	$	$

The underwriters may also purchase up to an additional 1,342,105 common units on the same terms described above within 30 days from the date of this prospectus to cover over-allotments, if any. The underwriters are offering the common units subject to various conditions and may reject all or part of any order.

PaineWebber Incorporated
CIBC Oppenheimer

Dain Rauscher Wessels

a division of Dain Rauscher Incorporated
Donaldson, Lufkin & Jenrette
A.G. Edwards & Sons, Inc.
Lehman Brothers

Prudential Securities

The date of this prospectus is , 1999

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GUIDE TO READING THIS PROSPECTUS

The following information should help you understand some of the conventions used in this prospectus.

. Throughout this prospectus, we refer to ourselves, Star Gas Partners, L.P., as "we," or "us" or "Star Gas Partners." Generally we refer to ourselves as "we" or "us" when discussing operations (such as "We are the eighth largest retail distributor of propane.....''), and as ""Star Gas Partners" when discussing our entity or its structure (such as "Star Gas Partners conducts its operations through Star Gas Propane, L.P. . . .").

. When we refer to a fiscal year, we are referring to Star Gas Partners' fiscal year that ends September 30. Historically, Petro has operated on a calendar year basis.

. Except as the context otherwise requires, references to:

(1) the "transaction" refer to our proposed acquisition of Petro and certain related transactions, including this offering;

(2) our operations prior to the completion of the transaction include the operations of Star Gas Propane, L.P., referred to in this prospectus as "Star Gas Propane" and its subsidiary; and

(3) our operations from the time of completion of the transaction include all of the operations cited above together with Petro's home heating oil operations.

. This prospectus generally treats Petro's home heating oil operations as if they had historically been owned and operated by Star Gas Partners. Prior to the transaction, the home heating oil business and operations referred to in this prospectus were owned and operated by Petro, which is the current parent of our general partner. Following the transaction, the home heating

oil business and operations will be operated by Petro, which will be our wholly-owned subsidiary, Petro's immediate parent corporation, Petro Holdings, Inc., referred to in this prospectus as "Petro Holdings," and Petro's wholly-owned subsidiaries.

- As part of the transaction, we will have a new general partner, Star Gas LLC. References to the "general partner" generally refer to Star Gas LLC unless the context refers to the period prior to the transaction, in which case we are referring to Star Gas Corporation.

- For ease of reference, a glossary of some terms used in this prospectus is included as Annex B to this prospectus. Capitalized terms not otherwise defined in this prospectus have the meanings given in the glossary.

- Unless otherwise specified, the information in this prospectus assumes that the underwriters' over-allotment option is not exercised.

SUMMARY

This summary highlights some information from this prospectus. It may not contain all of the information that is important to you. To understand this offering fully, you should read the entire prospectus carefully, including the risk factors, financial statements, annexes and all information incorporated by reference.

The Business

General

We are the eighth largest retail distributor of propane and, upon our acquisition of Petro, will be the largest retail distributor of home heating oil in the United States. Our propane operations serve customers in the Midwest and Northeast regions, and our home heating oil operations serve customers in the Northeast and Mid-Atlantic regions.

Propane Operations

Our propane operations are primarily engaged in the retail distribution of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers. We serve our approximately 166,000 propane customers from 55 branch locations and 32 satellite storage facilities in the Midwest, and 19 branch locations and 14 satellite storage facilities in the Northeast. In addition to our retail business, we also serve approximately 30 wholesale customers from our facilities in southern Indiana.

On a pro forma basis giving effect to acquisitions in fiscal 1998, approximately 80% of our propane sales, by volume of gallons sold, were to retail customers and approximately 20% were to wholesale customers. Our retail sales have historically had a greater profit margin, more stable customer base and less price sensitivity than our wholesale business.

Home Heating Oil Operations

We are a leading consolidator in the highly fragmented home heating oil industry. We serve approximately 340,000 home heating oil customers from 24 branch locations in the Northeast and Mid-Atlantic regions. We also install and repair heating equipment 24 hours a day, seven days a week, 52 weeks a year, generally within four hours of requests. These services are an integral part of our basic home heating oil service, and are designed to maximize customer satisfaction and loyalty.

As a result of a major strategic study, in 1996 we began to implement an operational restructuring program designed to take advantage of our size within the home heating oil industry. This program involves regionalization of our home heating oil operation into three profit centers, which allows us to operate more efficiently. In addition, this program enables us to access developments in communication and computer technology that are in use by other large distribution businesses, but are generally not used by other retail heating oil companies. This program is designed to reduce our operating costs, improve our customer service and establish a brand image among our heating oil consumers.

For the twelve months ended September 30, 1998, approximately 83% of our total sales were from sales of home heating oil, approximately 13% were from the installation and repair of heating equipment and approximately 4% were from the sale of other petroleum products, including diesel fuel and gasoline, to commercial customers.

Industry Characteristics

Propane is used primarily for space heating, water heating and cooking by residential and commercial customers. Home heating oil is used primarily as a source of residential space heating. The retail propane and home heating oil industries are both mature, with total demand expected to remain relatively flat or to decline slightly. We believe that these industries are relatively stable and predictable due to the largely non-discretionary nature of propane and home heating oil use. Accordingly, the demand for propane and home heating oil has historically been relatively unaffected by general economic conditions and has been a function of weather conditions.

According to the American Petroleum Institute, the domestic retail market for propane is approximately 9.4 billion gallons annually and-

according to the Energy Information Administration, this accounts for approximately 4% of household energy consumption in the United States. According to the Energy Information Administration, the domestic retail market for home heating oil is approximately 7.4 billion gallons annually and the Northeast accounts for approximately two-thirds of the demand for home heating oil in the United States. In 1997, approximately 6.9 million, or 36% of all homes in the Northeast, were heated by oil.

The propane and home heating oil distribution industries are highly fragmented, characterized by a large number of relatively small, independently owned and operated local distributors. Each year a significant number of local distributors have sought to sell their business for reasons that include retirement and estate planning. In addition, the propane and heating oil distribution industries are becoming more complex due to increasing environmental regulations and escalating capital requirements needed to acquire advanced, customer oriented technologies. Primarily as a result of these factors, both industries are undergoing consolidation, and Star Gas Partners and Petro have been active consolidators in their markets.

Competitive Strengths

We believe that we are well-positioned to compete in the propane and home heating oil industries. Our competitive strengths include:

- High Percentage of Sales to Stable, Higher Margin Residential Customers. Our propane and home heating oil operations concentrate on sales to residential customers. Residential customers tend to generate higher margins and are generally more stable purchasers than other customers. For the year ended September 30, 1998, sales to residential customers represented 56% of our retail propane gallons sold and 66% of propane gross profit. In addition, we own approximately 95% of the propane tanks located at our customers' homes, which further enhances our profitability and customer stability. For the twelve months ended September 30, 1998, sales to residential customers represented 83% of Petro's total heating oil gallons sold and 91% of total heating oil gross profit.

- Proven Acquisition Expertise. Petro has a proven track record in the acquisition of home heating oil companies. Petro has achieved substantial growth since 1979 through the acquisition and consolidation of 188 retail home heating oil distributors in both new and existing markets. In addition, since January 1994, our propane operations have acquired 12 distributors, including seven distributors in fiscal 1998.

- Premium Service Provider with Brand Name Recognition. In New York and our Mid-Atlantic region, our home heating oil business now operates only under the name "Petro," rather than the acquired brand names previously in use. We have been building this brand name by focusing on delivering premium service to our customers.

- Operating Leverage. As the largest retail distributor of home heating oil and a leading retail distributor of propane in the United States, we are able to realize economies of scale in operating, marketing, information technology and other areas by spreading our costs over a larger base of sales. In our home heating oil business, we are using communication and computer technology, generally not used by our competitors, that has allowed us to realize operating efficiencies.

Business Strategy

Our primary objective is to increase cash flow on a per unit basis. We intend to pursue this objective principally through the following strategies:

- Pursuing Strategic Acquisitions. We intend to continue to grow through acquisitions. Both the propane and home heating oil distribution industries are highly fragmented, characterized by a large number of relatively small, independently owned and operated local distributors. We believe that, as a result of the transaction, the field of potential acquisition candidates will be broadened due to our ability to acquire propane companies, home heating oil companies and companies with both propane and home heating oil operations. In addition, our increased size will enable us to consider larger transactions.

- Realizing Operating Efficiencies in Existing and Acquired Operations. We intend to continue to implement our restructuring and cost reduction programs in our home heating oil business to improve profitability and realize cost savings in both existing and acquired operations. We intend to continue to focus our propane operations in high margin markets with a large proportion of residential customers.

- Focusing on Customer Growth and Retention. We intend to continue to seek internal growth through individual branch marketing programs in our propane business. In our home heating oil business, we seek to maximize customer retention by providing premium customer service and building brand awareness and customer loyalty.

- Enhancing Our Brand Awareness. We believe that the impact of Petro's branding efforts may offer competitive advantages in the home heating oil industry, due to the lack of comparable branding and extremely low consumer awareness in the industry.

There can be no assurance that we will be able to implement the above strategies.

The Transaction

Star Gas Partners will acquire Petro as part of a four-part transaction. Each part of the transaction is meant to be completed at the same time. The four principal parts of the transaction are described below.

- Acquisition of Petro. Petro will become a wholly-owned, indirect subsidiary of Star Gas Partners through:

  (1) a merger of one of Star Gas Partners' wholly-owned subsidiaries into Petro; and

  (2) an exchange by affiliates of Petro of their Petro common stock for senior subordinated units, junior subordinated units and general partner units of Star Gas Partners.

- Financings and Refinancings. We are offering common units representing limited partner interests. Separately, senior secured notes are being privately offered by Petro. Star Gas Partners, along with Petro Holdings, will guarantee the notes. Star Gas Partners will use the proceeds from these offerings to redeem or restructure most of Petro's public and private debt and its preferred stock.

- New General Partner. As a result of the transaction, Star Gas Corporation will become a subsidiary of Star Gas Partners. We will be substituting a new general partner, Star Gas LLC, for Star Gas Corporation. This substitution is necessary because a general partner cannot be a subsidiary

of a limited partnership of which it is a general partner.

. Amendment of Partnership Agreement. We will be amending our partnership agreement in effect prior to the transaction. The amendment will, among other things, facilitate the completion of the transaction and increase our minimum quarterly distribution from $0.55 to $0.575 per common unit per quarter.

Estimated Uses of Funds from This Offering and Debt Offering

The following table shows the estimated funds that we will receive from this offering of common units at an assumed public offering price of $19.00 per unit. The exact number of common units that we will issue will depend upon the market price of the common units at the time of the offering. For example, if the market price is less than $19.00 per unit then we will issue a greater number of units. This table also shows the estimated funds that Petro will receive from the sale of notes in the debt offering. The estimated sources and uses may change, depending on market conditions, results of operations and other factors.

(In thousands)

Sources	
This offering, net of underwriting discounts, commissions and offering expenses	$159,900
Debt offering, net of discounts, commissions and offering expenses	87,915
	$247,815
Uses	
Redeem Petro 12 1/4% Senior Subordinated Debentures due 2005	$ 84,094
Redeem Petro 10 1/8% Senior Subordinated Notes due 2003	50,000
Redeem Petro 9 3/8% Senior Subordinated Debentures due 2006	75,000
Redeem Petro 12 7/8% preferred stock	27,600
Repurchase Petro 1989 preferred stock	4,167
Transaction fees and expenses	6,954
	$247,815

Outstanding Star Gas Partners Units

The following table shows the approximate number of units outstanding before and after the transaction assuming a public offering price of $19.00 per unit. The 323,082 general partner interests/units represents 321,467 general partner units in Star Gas Partners and the 0.01% general partner interest in Star Gas Propane. This 0.01% interest is deemed to be in unit form solely for purposes of this table.

	Before Transaction		After Transaction	
	Number	Percentage	Number	Percentage
Common Units				
Existing common units	3,858,999	60.5%	3,858,999	23.9%
Issued to Petro junior preferred stockholders	--	--	102,773	0.6
Issued in this offering	--	--	8,947,368	55.4
Subtotal	3,858,999	60.5	12,909,140	79.9
Subordinated Units				
Existing subordinated units	2,396,078	37.5	--	--
Senior subordinated units	--	--	2,491,500	15.4
Junior subordinated units	--	--	430,395	2.7

Subtotal	2,396,078	37.5	2,921,895	18.1
General Partner Interests/Units	127,655	2.0	323,082	2.0
Total	6,382,732	100.0%	16,154,117	100.0%

Capitalization

The following table shows our historical capitalization as of September 30, 1998 on an actual basis and as adjusted to give pro forma effect to the acquisition of Petro. It is further adjusted to give pro forma effect to this offering and the debt offering and the application of the net proceeds of these offerings. This table does not include $4.2 million of the current portion of Petro's 1989 preferred stock that will be paid with the proceeds of this offering and the debt offering.

The Petro public debt listed below consists of:

- $84.1 million of 12 1/4% Senior Subordinated Debentures due 2005, including a prepayment premium of $2.8 million;
- $50.0 million of 10 1/8% Senior Subordinated Notes due 2003; and
- $75.0 million of 9 3/8% Senior Subordinated Debentures due 2006.

Upon completion of the transaction, Petro has the right to redeem up to an aggregate of 98.5% of the principal amount of these securities.

The Petro private debt listed below consists of:

- approximately $60.0 million of 9% Senior Notes due 2002 before $3.1 million of interest rate reduction payment;
- $4.1 million of 10 1/4% Subordinated and Senior Notes due 2001 before $0.2 million of interest rate reduction payment; and
- $14.0 million of notes payable for the purchase of fuel oil dealers maturing at various dates through 2004.

You should read this table together with the historical and pro forma financial statements and notes included and incorporated by reference in this prospectus.

	December 31, 1998		
	Actual	Pro Forma Combined	Adjusted Pro Forma
	(In thousands)		
Cash	$ 5,831	$ 7,835	$ 11,287
Debt:			
Star Gas Propane First Mortgage Notes	$ 96,000	$ 96,000	$ 96,000
Star Gas Propane acquisition facility	7,616	7,616	7,616
The notes issued in the debt offering	--	--	90,000
Petro public debt	--	209,094	--
Petro private debt	--	72,481	78,111
Total Long-Term Debt	103,616	385,191	271,727
Redeemable Preferred Stock:			
Petro 12 7/8% preferred stock	--	27,600	--
Partners' Capital:			

Common unitholders.....	57,347	59,300	219,200
Existing subordinated unitholders.....	(962)	--	--
Senior and junior subordinated unitholders.....	--	13,861	13,861
General partner.....	63	1,294	1,294
Total Partners' Capital.....	56,448	74,455	234,355
Total Capitalization....	$160,064	$487,246	$506,082

Star Gas Partners Structure and Management Following the Transaction

Our propane operations are conducted through Star Gas Propane and its wholly-owned corporate subsidiaries. In addition, substantially all of our propane operations' consolidated assets and liabilities are accounted for by Star Gas Propane in which Star Gas Partners owns a 99.99% limited partnership interest and the general partner owns a 0.01% general partner interest. The general partner directs and manages all activities of Star Gas Partners and Star Gas Propane and is reimbursed on a monthly basis for all related direct and indirect expenses it incurs on their behalf. Our home heating oil operations will be conducted through Petro Holdings, Petro and Petro's subsidiaries.

Upon completion of the transaction, Star Gas LLC will become our general partner and the general partner of Star Gas Propane. All of the membership interests in Star Gas LLC will be owned by some of our current affiliates. Some of the officers of Star Gas Corporation and Petro will become officers of Star Gas LLC following the transaction.

Star Gas Partners, L.P.'s principal executive offices are located at 2187 Atlantic Street, Stamford, CT 06902. Our telephone number is (203) 328-7300.

The following chart illustrates the organization and ownership of Star Gas Partners, Star Gas Propane and its subsidiaries and Star Gas LLC immediately following the transaction, assuming an offering price of $19.00 per common unit. The percentages reflected in the following chart represent the approximate ownership interests in each of Star Gas Partners and Star Gas Propane, individually, and not on an aggregate basis.

[Star Gas Partners Organization Chart Following the Transaction]

Summary Selected Historical Financial and Operating Data-Propane Operations

The following table shows, for the periods and dates indicated, summary selected historical financial and operating data of Star Gas Partners, which is derived from our consolidated financial statements. The financial data is only a summary and should be read in conjunction with our historical financial statements and related notes contained in the annual reports and other information that we have filed with the SEC. See "Incorporation of Certain Documents by Reference." The historical financial data for the three months ended December 31, 1997 and 1998 is unaudited. The results of operations for the three-month periods ended December 31, 1997 and 1998 contain all adjustments that are of a normal and recurring nature necessary to present fairly the financial condition and results of operations for those periods. The historical Other Data is unaudited but has been prepared on the same basis as that of the audited consolidated financial statements. These historical results of operations do not predict the future results of operations.

The 1996 column of the table shows the results of operations of the predecessor of Star Gas Partners for the period from October 1, 1995 through

December 20, 1995 and the results of Star Gas Partners from December 20, 1995 through September 30, 1996. We combined these operating results to facilitate an analysis of the fundamental operating data. However, on a per unit basis, both the net income (loss) and the cash distributions paid in the 1996 column of the table represent Star Gas Partners' actual results for the period from December 20, 1995 through September 30, 1996.

"EBITDA" listed in the table below is defined as operating income plus depreciation, amortization and other non-cash charges, less net gain (loss) on sales and equipment. EBITDA should not be considered an alternative to net income, as an indicator of operating performance, or as an alternative to cash flow, as a measure of liquidity or ability to service debt obligations. Instead, EBITDA provides additional information for evaluating our ability to make the minimum quarterly distribution. The definition of EBITDA used by Star Gas Partners is different from the definition of EBITDA used by Petro and may be different from that used by other corporations or partnerships.

	September 30,			Three Months Ended December 31,	
	1996	1997	1998	1997	1998
	(In thousands, except for per unit data)				
Statement of Operations Data					
Sales	$119,634	$135,159	$111,685	$41,844	$30,237
Costs and expenses					
Cost of sales	58,557	72,211	49,498	21,650	11,978
Delivery and branch expenses	34,750	36,427	37,216	10,153	10,295
Depreciation and amortization	9,680	10,242	11,462	2,785	3,008
General and administrative expenses	6,457	6,818	6,065	1,369	1,429
Net gain (loss) on sales of assets	(260)	(295)	(271)	(48)	(4)
Operating income	9,930	9,166	7,173	5,839	3,523
Interest expense, net	7,124	6,966	7,927	2,086	2,178
Amortization of debt issuance costs	128	163	176	40	45
Income (loss) before income taxes	2,678	2,037	(930)	3,713	1,300
Income tax expense	85	25	25	6	6
Net income (loss)	$ 2,593	$ 2,012	$ (955)	$ 3,707	$ 1,294
General partner's interest in net income (loss)	--	40	(19)	74	26
Limited partners' interest in net income (loss)	--	$ 1,972	$ (936)	$ 3,633	$ 1,268
Basic and diluted, net income (loss) per limited partner unit	$ 0.11	$ 0.37	$ (0.16)	$ 0.66	$ 0.20
Cash distribution declared per unit	$ 1.17	$ 2.20	$ 2.20	$ 0.55	$ 0.55(c)

	September 30,			Three Months Ended December 31,	
	1996	1997	1998	1997	1998
	(In thousands)				
Balance Sheet Data (end of period)					
Current assets	$ 17,842	$ 14,165	$ 17,947	$ 21,989	$ 25,514
Total assets	156,913	147,469	179,607	179,451	185,403
Long-term debt	85,000	85,000	104,308	96,000	103,616
Partners' capital	61,398	51,578	57,347	71,883	56,448
Summary Cash Flow Data					
Net cash provided by operating activities	$ 9,982	$ 18,964	$ 9,264	$ 1,980	$ 2,244
Net cash provided by (used in) investing activities	(6,954)	(4,905)	(13,276)	(548)	(1,285)
Net cash provided by (used in) financing activities	(2,649)	(14,276)	4,238	1,131	3,757
Other Data					
Operating income before depreciation, amortization and other non-cash charges less net gain (loss) on sales of equipment ("EBITDA")	$ 19,870	$ 19,703	$ 18,906	$ 8,672	$ 6,535
Retail propane gallons sold	96,294	94,893	98,870	38,550	29,400
Ratio of earnings to fixed charges(a)	1.22x	1.27x	--	2.7x	1.6x
Total capital expenditures(b)	$ 5,332	$ 5,279	$ 5,015	$ 2,085	$ 1,312

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(a) For purposes of determining the ratio of earnings to fixed charges, earnings are defined as earnings (loss) from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness, the amortization of deferred debt issuance costs and the portion of operating rental expense that is representative of the interest factor. For the year ended September 30, 1998, earnings were inadequate to cover fixed charges by $1.0 million.

(b) Includes net maintenance capital expenditures for the fiscal years ended September 30, 1996, 1997 and 1998 and the three months ended December 31, 1997 and 1998 of $2.3 million, $3.1 million, $2.6 million, $1.3 million and $0.5 million.

(c) Star Gas Partners did not declare a distribution on the subordinated units for the three months ended December 31, 1998.

Summary Selected Historical Financial and Operating Data-- Home Heating Oil Operations

The following table shows summary selected historical financial and operating data of Petro, which is derived from the consolidated financial statements of Petro. The financial data is only a summary, and you should read it in conjunction with Petro's historical financial statements, and related notes, contained in the annual reports and other information that Petro has filed with the SEC. See "Incorporation of Certain Documents by Reference." Since Star Gas Partners' initial public offering in December 1995, Star Gas Partners has been accounted for under the equity method of accounting in Petro's financial statements. The Historical Other Data is unaudited but has been prepared on the same basis as that of the Audited Consolidated Financial Statements. These historical results of operations do not predict future results.

In analyzing the results of Petro, the following important factors should be noted:

- The decline in operating income before depreciation, amortization and provision for supplemental benefits (EBITDA) for the year ended December 31, 1997, as compared to the year ended December 31, 1996, was primarily due to warm weather experienced in 1997.

- For the twelve months ended December 31, 1998, home heating oil volume declined by approximately 21% as compared to the twelve months ended December 31, 1997 primarily due to the abnormally warm temperatures associated with the weather phenomenon generally referred to as "El Nino." While volume declined approximately 21%, EBITDA declined only 11.5% due to a reduction in operating costs largely attributable to the effects of the restructuring and cost reduction programs.

	Year Ended December 31,		
	1996	1997	1998
	(In thousands, except per share data)		
Statement of Operations Data			
Net sales	$ 608,161	$ 548,141	$ 408,019
Costs and expenses			
Cost of sales	427,388	379,748	265,526
Operating expenses	138,703	132,383	111,881
Restructuring, corporate identity, pension curtailment and Star Gas transaction expenses	4,366	7,640	5,510
Depreciation, amortization and other non-cash costs	28,946	28,847	26,895
Operating income (loss)	8,758	(477)	(1,793)
Interest expense-net	(32,412)	(31,668)	(30,732)
Amortization of debt issuance cost	(1,872)	(1,464)	(1,404)
Income tax expense	(500)	(500)	(400)
Other income (expense)-net	1,842	11,445	112
Share of income (loss) of Star Gas	2,283	(235)	(1,120)
Income (loss) before extraordinary item	(21,901)	(22,899)	(35,337)
Extraordinary Item	(6,414)	--	--
Net income (loss)	$ (28,315)	$ (22,899)	$ (35,337)
Basic and Diluted earnings (losses) per common share			
Class A and Class C common stock	$ (1.20)	$ (1.06)	$ (1.52)
Cash dividends declared per common share			
Class A and Class C common stock	$ 0.60	$ 0.30	--
Weighted average number of common shares outstanding			
Basic			
Class A common stock	22,983	23,441	23,962
Class C common stock	2,598	2,598	2,598
Diluted			
Class A common stock	22,983	23,441	23,962
Class C common stock	2,598	2,598	2,598
Balance Sheet Data (end of period)			
Cash	$ 3,257	$ 2,390	$ 2,004
Working capital	18,093	12,436	(8,977)
Total assets	275,025	247,846	199,531
Long-term debt	291,337	288,957	278,731
Redeemable preferred stock (long-term			

portion)	8,333	32,489	28,578
Stockholders' deficiency	(145,733)	(177,033)	(215,825)
Summary Cash Flow Data:			
Net cash provided by (used in) operating activities	$ (3,852)	$ 18,644	$ 19,284
Net cash provided by (used in) investing activities	(26,193)	(980)	1
Net cash provided by (used in) financing activities	(44,983)	(18,531)	(19,671)
Other Data			
Operating income before depreciation, amortization and provision for supplemental benefits (EBITDA)	$ 37,704	$ 28,370	$ 25,102
Heating oil gallons	456,141	410,291	324,667
Ratio of earnings to fixed charges(a)	--	--	--

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(a) For purposes of determining the ratio of earnings to fixed charges, earnings are defined as earnings (losses) from continuing operations before income taxes, plus fixed charges. Fixed charges consist of interest expense on all indebtedness and the amortization of deferred debt issuance costs and the portion of operating rental expense that is representative of the interest factor. For the years ended December 31, 1996, 1997 and 1998, earnings were inadequate to cover fixed charges by $28.3 million, $22.9 million, and $35.3 million.

Summary Selected Unaudited Pro Forma Condensed Consolidated Financial Information

The following summary selected unaudited pro forma condensed consolidated Statement of Operations Data, and Other Data for the twelve month period ended September 30, 1998 assume the transaction occurred on October 1, 1997. The pro forma Statement of Operations Data, and other data for the three months ended December 31, 1998 assume the transaction occurred on October 1, 1998. The Balance Sheet data assume the transaction occurred on December 31, 1998. The pro forma financial information below reflects the purchase method of accounting and is intended to give you a better picture of what our businesses might have looked like had they been combined. The companies may have performed differently if they were combined. You should not rely on the pro forma financial information as being indicative of the historical results that we would have had or the future results that we will experience after the transaction. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

The "Pro Forma Combined" column of the table represents the acquisition of Petro by Star Gas Partners and the "As Adjusted Pro Forma" column of the table represents the further effects of the equity and debt offerings.

	Twelve Months Ended September 30, 1998		Three Months Ended December 31, 1998	
	(In thousands, except per unit amounts)		(In thousands, except per unit amounts)	
	Pro Forma Combined	As adjusted Pro Forma	Pro Forma Combined	As adjusted Pro Forma
Statement of Operations Data				
Sales	$ 566,155	$ 566,155	$ 146,777	$ 146,777
Costs and expenses:				
Cost of sales	349,472	349,472	85,996	85,996
Operating expenses	161,551	161,551	41,847	41,847
Restructuring charges	2,085	2,085	--	--
Transaction expenses	1,029	1,029	3,794	3,794
Corporate identity expenses	1,100	1,100	--	--
Provision for				

supplemental benefits	409	409	90	90
Depreciation and amortization	36,671	36,671	9,173	9,173
Net gain (loss) on sales of assets	(48)	(48)	(19)	(19)
Operating income	13,790	13,790	5,858	5,858
Interest (income) expense, net	39,157	24,047	9,998	6,220
Amortization of debt issuance costs	1,608	420	380	106
Income (loss) before income taxes	(26,975)	(10,677)	(4,520)	(468)
Income tax expense	500	500	81	81
Net income (loss)	$ (27,475)	$ (11,177)	$ (4,601)	$ (549)
Net income (loss) per limited partner unit	--	$ (0.69)	--	$ (0.03)
Balance Sheet Data (as of December 31, 1998)				
Current assets			$ 113,820	$ 117,272
Total assets			671,882	677,419
Long-term debt			385,191	271,727
Total partners' capital			74,455	234,355

	Twelve Months Ended September 30, 1998		Three Months Ended December 31, 1998	
	(dollars in thousands)		(dollars in thousands)	
	Pro Forma Combined	As adjusted Pro Forma	Pro Forma Combined	As adjusted Pro Forma
Summary Cash Flow Data				
Net cash provided by operating activities	$ 11,955	$ 27,065	$ (7,275)	$ (3,497)
Net cash provided by (used in) investing activities	(4,826)	(4,826)	(2,295)	(2,295)
Net cash provided by (used in) financing activities	(17,356)	(22,926)	4,991	(1,138)
Other Data				
Operating income before depreciation, amortization less net gain (loss) on sales of equipment ("EBITDA")(a)	$ 50,918	$ 50,918	$ 15,140	$ 15,140
Ratio of earnings to fixed charges(b)	--	--	--	--
Heating oil and propane gallons	455,360	455,360	127,488	127,488

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(a) EBITDA has been reduced by approximately $3.8 million for the three months ended December 31, 1998 and $4.2 million for the year ended September 30, 1998 for expenses associated with Petro's corporate identity, restructuring and transaction expenses.

(b) For the twelve months ended September 30, 1998 pro forma combined and as adjusted pro forma, the earnings were inadequate to cover fixed charges by $27.5 million and $11.2 million. For the three months ended December 31,

1998, the pro forma combined and as adjusted pro forma, the earnings were inadequate to cover fixed charges by $4.6 million and $0.5 million.

In analyzing the historical results of Star Gas Partners and the pro forma information as provided in the table above, the following three important factors should be considered.

- First, the results for the fiscal 1998 pro forma exclude cost savings associated with Petro's restructuring program implemented during 1998. This restructuring program includes reductions in both corporate and field personnel, the consolidation of employee benefit plans and the rationalization of branch facilities.

- Second, while depreciation and amortization expenses reduce net income as a non-cash expense, these expenses do not impact distributable cash flow.

- Third, in fiscal 1998, temperatures were significantly warmer than normal for the areas in which Star Gas Partners conducts its propane operations and Petro conducts its home heating oil operations. Star Gas Partners believes that overall levels of pro forma available cash from operating surplus were adversely affected during fiscal 1998 due to this abnormally warm weather.

Recent Developments

Star Gas Partners

For the month ended January 31, 1999, retail propane volume sold increased 4.9 million gallons or 36.9% to 18.1 million gallons for the month ended January 31, 1999, as compared to 13.2 million gallons for the month ended January 31, 1998. These changes were largely attributable to the impact of 24.4% colder temperatures in the areas that Star Gas Partners conducts operations.

Petro

For the month ended January 31, 1999, home heating oil volume sold increased 13.5 million gallons or 24.6% to 68.6 million gallons for the month ended January 31, 1999, as compared to 55.1 million gallons for the month ended January 31, 1998. These changes were attributable to the impact of 21.9% colder temperatures in the areas that Petro conducts operations.

The Offering	
Common units offered.....	8,947,368
Common units outstanding after the offering.....	12,909,140
Distributions of available cash..... (See page 39)	. We intend to distribute, to the extent there is sufficient available cash, at least a minimum quarterly distribution of $0.575 per unit, or $2.30 per unit on a yearly basis. . "Available cash" for any quarter consists generally of all cash on hand at the end of that quarter, as adjusted for reserves. The general partner has broad discretion in establishing reserves. . In general, available cash will be distributed per quarter based on the following priorities: . First, to the common units until each has received $0.575, plus any arrearages from prior quarters. . Second, to the senior subordinated units

	until each has received $0.575. . Third, to the junior subordinated units and general partner units until each has received $0.575. . Finally, after each unit has received $0.575, available cash will be distributed proportionately to all units until target levels are met. . If distributions of available cash exceed target levels greater than $0.604, the senior subordinated units, junior subordinated units and general partner units will receive incentive distributions.
Limitations and prohibitions on distributions..... (See page 43)	. Distributions will not be made on the senior subordinated units, junior subordinated units or general partner units for any quarter in our fiscal year 1999, which ends on September 30, 1999. . Distributions may be made on the senior subordinated units, junior subordinated units and general partner units beginning with our fiscal year 2000, which begins on October 1, 1999. Any distributions made on these units depends on the amount of available cash we generate after October 1, 1999.
Timing of distributions..... (See page 40)	. We make distributions approximately 45 days after March 31, June 30, September 30 and December 31 to unitholders on the applicable record date.

Subordination period..... (See page 40)	. The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before October 1, 2002. However, if the general partner is removed under some circumstances, the subordination period will end. . When the subordination period ends, all senior subordinated units and junior subordinated units will convert into Class B common units on a one-for-one basis, and each common unit will be redesignated as a Class A common unit. . The main difference between the Class A common units and Class B common units is that the Class B common units will continue to have the right to receive incentive distributions and additional units.
Incentive distributions..... (See page 41)	If quarterly distributions of available cash exceed target levels, the senior subordinated units, junior subordinated units and general partner units will receive an increased percentage of distributions, resulting in their receiving a greater amount on a per unit basis than the common units.
NYSE trading symbol.....	SGU.

Cash Available for Distribution

We believe that we will generate sufficient available cash for the first full four quarter period following the transaction to cover the minimum quarterly distribution on all outstanding units. Our belief is based on a number of assumptions, including the assumptions that:

- normal weather conditions will prevail in our operating areas;
- our operating margins will remain constant; and
- market and overall economic conditions will not change substantially.

Although we believe our assumptions are within a range of reasonableness, most of the assumptions are not within our control and cannot be predicted with any degree of certainty. For example, in any particular year or even series of years, weather may deviate substantially from the norm. Therefore, some of our assumptions may prove to be inaccurate. As a result, our cash available for distribution could deviate materially from our current expectations. See "Risk Factors."

The amount of cash needed to pay the minimum quarterly distribution for the next four quarters on units outstanding immediately after the transaction is approximately:

Common units	$29.7 million
Senior subordinated units	5.7 million
Junior subordinated units	1.0 million
General partner units	0.7 million
Total	$37.1 million

After giving pro forma effect to the transaction, the amount of available cash generated in the twelve months ended December 31, 1998 would have been about $14.7 million. If infrequent restructuring, corporate identity and transaction expenses were not taken into effect, pro forma cash available for distribution would have been $20.2 million.

In 1998, temperatures were significantly warmer than normal for the areas in which we conduct our propane operations and our home heating oil operations. We believe that overall levels of both pro forma available cash and EBITDA were adversely affected during 1998 due to this abnormally warm weather. In addition, the pro forma results for this period also do not reflect certain cost savings that Petro implemented in fiscal 1998. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

We are required by some of our debt agreements to establish reserves for the future payment of principal and interest on some of our indebtedness. There are other provisions in these agreements that will, under some circumstances, restrict our ability to make distributions to our unitholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Description of Indebtedness" incorporated in this prospectus by reference in our Quarterly Report on Form 10-Q, dated February 12, 1999. The notes issued by Petro has provisions that will, under some circumstances, similarly restrict our ability to make distributions to unitholders.

Summary of Tax Considerations

The tax consequences of an investment in Star Gas Partners will depend in part on your own tax circumstances. You should consult your own tax advisor about the federal, state and local tax consequences of an investment in common units. The following is a brief summary of the material tax consequences of owning and disposing of common units. For a detailed discussion see "Federal

Income Tax Considerations."

We Will Be Classified as a Partnership For Tax Purposes

In the opinion of counsel, we have been and will continue to be classified for federal income tax purposes as a partnership. Accordingly, we will pay no federal income taxes, and each unitholder will be required to report in his federal income tax return his share of our income, gains, losses and deductions without regard to distributions.

Star Gas Partners Allocations and Distributions Are Based on Your Percentage of Interest in Us

In general, our yearly income and loss will be allocated to the general partner and the unitholders for each taxable year in accordance with their percentage interests in us. A unitholder will be required to take into account, in determining his federal income tax liability, his share of our taxable income for each of our taxable years ending with or within the taxable year of the unitholder, even if cash distributions are not made to him. As a consequence, a unitholder's share of our taxable income, and possibly the income tax payable by him for that income, may exceed the cash distributed to him.

Ratio of Taxable Income to Distributions Allocated to Purchasers of Common Units Is Less Than 20 Percent

We estimate that if you purchase common units in this offering and hold them through December 31, 2001, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period which is less than 20% of the cash distributed for that period. We further estimate that for taxable years beginning after December 31, 2001, the taxable income allocable to a unitholder will constitute a significantly higher percentage of cash distributed to him. No assurance can be given that these estimates will be correct.

Passive Loss Limitations on Deductibility of Partnership Losses Are Only Available to Offset Our Future Income

In the case of taxpayers subject to the passive loss limitations, generally, individuals and closely held corporations, our losses will only be available to offset our future income and cannot be used to offset income from other activities, including passive activities or investments and dividend income and interest from Petro and its affiliates. Any losses unused by virtue of these rules can be deducted when a unitholder disposes of all of his units in a fully taxable transaction with an unrelated party.

Ownership of Common Units by Tax-Exempt Organizations and Certain Other Investors Raises Tax Issues

An investment in units by tax-exempt organizations, including IRAs and other retirement plans, regulated investment companies and foreign persons raises issues unique to them. Much of the income derived by a unitholder which is a tax-exempt organization will be taxable to it because it is unrelated business taxable income; no significant amount of our gross income will be qualifying income for purposes of determining whether a unitholder will qualify as a regulated investment company, at least in the first few years; and a unitholder who is a nonresident alien, foreign corporation or other foreign person will be subject to withholding on his distributions and will be required to file federal income tax returns and to pay tax on his share of our taxable income.

We Are Registered As a Tax Shelter

We are registered as a tax shelter with the IRS and the IRS has issued the following tax shelter registration number to us: 96026000016. Issuance of this registration number does not indicate that an investment in us or the claimed tax benefits have been reviewed, examined or approved by the IRS.

Disposition of Common Units Will Result in Recognition of a Gain or Loss

A unitholder who sells his common units will recognize gain or loss equal to the difference between the amount realized and his adjusted basis in those common units. Thus, our distributions to a unitholder in excess of his share of

our income will, in effect, become taxable income if he sells his units at a price greater than his adjusted tax basis even if the price is less than his original cost.

We Have Made the Section 754 Election

We have made the election provided for by Section 754 of the Code, which will generally permit a unitholder to calculate income and deductions by reference to the portion of his purchase price attributable to each of our assets.

Other Tax Considerations

In addition to federal income taxes, a unitholder will be subject to other taxes, such as state and local income taxes, unincorporated business taxes and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which he resides and in which we do business or own property. A unitholder will likely be required to file state income tax returns and to pay taxes in various states and may be subject to penalties for failure to comply with these requirements.

RISK FACTORS

Limited partner interests are inherently different from capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. Prospective purchasers of the common units should consider the following risk factors in evaluating an investment in the common units.

Risks Inherent in Our Businesses

Since Weather Conditions May Adversely Affect the Demand for Propane and Home Heating Oil, Our Financial Condition Is Vulnerable to Warm Winters

Weather conditions have a significant impact on the demand for both propane and home heating oil because our customers depend on these products principally for heating purposes. As a result, weather conditions may adversely impact our operating results and financial condition. During the peak heating season of October through March, sales of propane represent approximately 70% to 75% of our annual retail propane volume and sales of home heating oil represent approximately 75% to 80% of our annual home heating oil volume. Actual weather conditions can vary substantially from year to year, significantly affecting our financial performance. Furthermore, warmer than normal temperatures in one or more regions in which we operate can significantly decrease the total volume we sell and the gross profit realized on those sales and, consequently, our results of operations. In fiscal 1998, temperatures were significantly warmer than normal for the areas in which we sell propane and home heating oil. We believe that overall levels of both pro forma Available Cash from Operating Surplus and EBITDA generated during fiscal 1998 were adversely affected during fiscal 1998 primarily due to this abnormally warm weather. Weather variations also affect demand for propane from agricultural customers, because dry weather during the harvest season reduces demand for propane used in crop drying.

Petro's Operating Results Will Be Adversely Affected If Its Significant Customer Losses Are Not Offset or Reduced by Customer Gains

Petro's net attrition of home heating oil customers has been between approximately 5% to 6% per year over the past five years. This rate represents an annual gross customer loss rate of about 15% to 16%, offset by customer gains of approximately 10% yearly. Customer losses are the result of various factors, including:

- customer relocations;
- supplier changes based primarily on price and service;
- natural gas conversions; and
- credit problems.

Petro may not be able to maintain or reduce its customer attrition rate in the future.

Sudden and Sharp Oil and Propane Price Increases That Cannot Be Passed on to Customers May Adversely Affect Our Operating Results

The retail propane and home heating oil industries are "margin-based" businesses in which gross profits depend on the excess of retail sales prices over supply costs. Consequently, our profitability is sensitive to changes in wholesale prices of propane and heating oil caused by changes in supply or other market conditions. Many of these factors are beyond our control and thus, when there are sudden and sharp increases in the wholesale costs of propane and heating oil, we may not be able to pass on these increases to our customers through retail sales prices. In addition, the timing of cost pass-throughs can significantly affect margins. Wholesale price increases could reduce our gross profits and could, if continuing over an extended period of time, reduce demand by encouraging conservation or conversion to alternative energy sources.

Our home heating oil business also competes for customers with suppliers of alternative energy products, principally natural gas. We could face additional price competition from alternative heating sources such as electricity and natural gas as a result of deregulation in those industries. Over the past five years, conversions by Petro's customers from heating oil to other sources have averaged approximately 1% per year of the homes it serves.

Market Volatility and/or Inflation May Cause Us to Sell Inventory at Less Than the Price That We Purchased It, Which Would Adversely Affect Operating Results

Because of the potential volatility of propane prices, the market price for propane could fall below the price at which we purchased it, which could adversely affect gross margin or render sales from inventory unprofitable. Propane is available from numerous sources, including integrated international oil companies, independent refiners and independent wholesalers. We purchase propane from a variety of suppliers under supply contracts and on the spot market. The major portion of propane purchased by us is produced domestically representing approximately 95% in fiscal 1998. To the extent that we purchase propane from Canadian sources, approximately 5% in fiscal 1998, our propane business will be subject to risks of disruption in foreign supply. We attempt to minimize inventory risks by purchasing propane on a short-term basis. During periods of low demand for propane, which generally occur during the summer months, we have on occasion purchased, and may purchase in the future, large volumes of propane at relatively attractive prices for storage in our 21 million gallon Indiana underground storage facility for future resale. We may from time to time engage in transactions, such as options or fixed price contracts to purchase propane, to hedge product costs in an attempt to reduce cost volatility. To date, the level of these activities has not been significant and we are not currently engaged in any of these transactions.

Inflation increases our operating and administrative costs. We attempt to limit the effects of inflation on our operations through cost control efforts, productivity improvement and increases in gross profit margins.

If We Do not Make Acquisitions on Economically Acceptable Terms, Our Future Financial Performance Will Be Limited

Neither the propane nor the home heating oil industry is a growth industry because of increased competition from alternative energy sources. A significant portion of our growth in the past decade has been directly tied to the success of our acquisition programs. Accordingly, our future financial performance will depend on our ability to continue to make acquisitions at attractive prices. We cannot assure you that we will be able to identify attractive acquisition candidates, whether in the home heating oil or propane sector, in the future or that we will be able to acquire businesses on economically acceptable terms. In particular, competition for acquisitions in the propane business has intensified and become more costly. Factors that may adversely affect our propane and home heating oil operating and financial results, such as warm weather patterns, may limit our access to capital and adversely affect our ability to make acquisitions. Any acquisition may involve potential risks, including:

.an increase in our indebtedness;

.the inability to integrate the operations of the acquired business;

.the diversion of management's attention from other business concerns; and

.an excess of customer loss or loss of key employees from the acquired business.

In addition, acquisitions may be dilutive to earnings and distributions to the unitholders and any additional debt incurred to finance acquisitions may affect our ability to make distributions to the unitholders.

Our Indebtedness May Limit Our Ability to Make Distributions and Affect our Operations

As a result of the transaction, we will have debt that is substantial compared to our partners' capital. Principal and interest payable on this debt will reduce cash available to make distributions on the common units. Under specified circumstances, the terms of our debt instruments, including the guarantee of the senior secured notes that will be issued in the debt offering, will limit its ability to distribute cash to our common unitholders and to borrow additional funds. The limitations and restrictions in new debt that we and our subsidiaries issue may be more restrictive than those in current indebtedness. In addition, some of our debt is secured by our assets. If we defaulted on this secured debt, the lenders could institute foreclosure proceedings to seize our assets. Any attempt to stay these foreclosure actions by seeking to reorganize under the federal Bankruptcy Code would have a material adverse effect on us and our common unitholders.

Petro Has Significant Recent Net Losses That Are Likely to Continue

Petro has a history of operational and financial difficulties, including high leverage and recent substantial net losses. Petro incurred net losses of approximately $28.3 million, $22.9 million and $35.3 million for the years ended December 31, 1996, 1997 and 1998. These net losses were primarily a result of the amortization and interest expense associated with Petro's many acquisitions since 1980. Other factors include:

.customer attrition;

.recent mild winters; and

.other operational factors.

Since Petro's strategy is to maximize cash flow, its accounting focus is not on net income. Consequently, Petro is likely to incur non-cash expenses, such as depreciation and amortization, that may result in net losses in the near term.

Because of the Highly Competitive Nature of the Retail Propane and Home Heating Oil Businesses, We May Not Be Able to Maintain Existing Customers or Acquire New Customers, Which Would Have An Adverse Impact on Our Operating Results and Financial Condition

In both our propane and home heating oil business, if we are unable to compete effectively, we may lose existing customers or fail to acquire new customers, which will have a material adverse effect on our results of operations and financial condition.

Many of our propane competitors and potential competitors are larger or have substantially greater financial resources than we do, which may provide them with some advantages. Generally, competition in the past few years has intensified, partly as a result of warmer-than-normal weather and general economic conditions. Most of our propane retail branch locations compete with five or more marketers or distributors. The principal factors influencing competition with other retail marketers are:

.price;

.reliability and quality of service;

.responsiveness to customer needs;

.safety concerns;

.long-standing customer relationships;

.the inconvenience of switching tanks and suppliers; and

.the lack of growth in the industry.

We can make no assurances that we will be able to compete successfully on the basis of these factors. If a competitor attempts to increase market share by reducing prices, our operating results and financial condition could be materially and adversely affected. Competition from alternative energy sources has been increasing as a result of reduced regulation of many utilities, including natural gas and electricity.

Our home heating oil business competes with heating oil distributors offering a broad range of services and prices, from full service distributors, like Petro, to those offering delivery only. Competition with other companies in the home heating oil industry is based primarily on customer service and price. Long-standing customer relationships are typical in the industry. It is customary for companies to deliver home heating oil to their customers based upon weather conditions and historical consumption patterns, without the customer making an affirmative purchase decision. Most companies provide home heating equipment repair service on a 24-hour per day basis. In some cases, homeowners have formed buying cooperatives to purchase fuel oil from distributors at a price lower than individual customers are otherwise able to obtain. As a result of these factors, it may be difficult for Petro to acquire new retail customers.

We Are Subject to Operating and Litigation Risks That Could Adversely Affect Our Operating Results to the Extent Not Covered by Insurance

Our operations are subject to all operating hazards and risks normally incidental to handling, storing and transporting and otherwise providing customers with combustible liquids such as propane and home heating oil. As a result, we may be a defendant in various legal proceedings and litigation arising in the ordinary course of business. We maintain insurance policies with insurers in amounts and with coverages and deductibles as we believe are reasonable. However, there can be no assurance that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. In addition, the occurrence of an explosion, whether or not we are involved, may have an adverse effect on the public's desire to use our products.

We Are Dependent on Principal Suppliers and Carriers, Increasing the Risk of an Interruption in Supply That Might Result In a Loss of Revenues and/or Customers

During fiscal year 1998, 28% of our propane purchases in the Midwest were purchased on the spot market from various Mont Belvieu, Texas sources, 27% of our propane purchases were from three refineries in Illinois, Kentucky and Michigan owned by Marathon Ashland Petroleum, LLC and 23% were purchased from three refineries in Illinois and Indiana owned by Amoco Canada Marketing Group. Although we believe that alternative sources of propane are readily available, if we are unable to purchase propane from our usual sources, the failure to obtain alternate sources at competitive prices and on a timely basis could have a material adverse effect on our business.

Historically, a substantial portion of the propane we purchase has originated in Mont Belvieu, Texas and has been shipped to us through a major common carrier pipeline. Any significant interruption in the service at Mont Belvieu or on the common carrier pipeline could have a material adverse effect on our business.

Provisions Concerning Change of Control, Default and Preclusion From Paying Distributions in Our Debt Instruments May Affect Distributions

After completing the transaction, it is expected that our debt instruments will contain provisions relating to a "change of control." A change of control of Star Gas Partners would result in approximately $96 million of Star Gas Propane debt and approximately $170 million of Petro debt becoming immediately due and payable. A change of control at the Petro level would accelerate the Petro debt but not the Star Gas Propane debt. In either case, this would

necessarily affect our ability to make distributions to unitholders. Neither Star Gas Partners nor Petro is restricted from entering into a transaction that would trigger the change of control provisions. If these change of control provisions are triggered, some of the outstanding debt may become due. It is possible that Star Gas Partners or Petro will not have sufficient funds at the time of any change of control to make the required debt payments or that restrictions in its other debt instruments will not permit those payments. In some instances, lenders would have the right to foreclose on Star Gas Partners' or Petro's assets if debt payments were not made upon a change of control.

Our Results of Operations and Financial Condition May Be Adversely Affected by Governmental Regulation and Associated Environmental and Regulatory Costs

Our home heating oil business is subject to a wide range of federal and state laws and regulations related to environmental and other regulated matters. Petro has implemented environmental programs and policies designed to avoid potential liability and costs under applicable environmental laws. It is possible, however, that Petro will have increased costs due to stricter pollution control requirements or liabilities resulting from non-compliance with operating or other regulatory permits. New environmental regulations might adversely impact Petro's operations, including underground storage and transportation of home heating oil. In addition, the environmental risks inherently associated with our home heating oil operations, such as the risks of accidental release or spill, are greater than those associated with our propane operations. It is possible that material costs and liabilities will be incurred, including those relating to claims for damages to property and persons.

Risks Arising Out of the Transaction

Conflicts of Interest Were Present in Negotiating and Structuring the Transaction

All of the directors of Star Gas Corporation, other than the members of the special committee, are also directors or officers of Petro. Thus, except for the special committee, members of the Petro board of directors and the Star Gas Corporation board of directors have interests that are different from, and in conflict with, the interests of the Star Gas Partners common unitholders. The Star Gas Corporation board of directors appointed the two members of the special committee to negotiate the acquisition of Petro on behalf of the Star Gas Partners common unitholders.

Prior to Petro's acquisition of Star Gas Corporation in 1992, Star Gas Corporation engaged Nicoletti & Company Inc., an investment banking firm owned by William P. Nicoletti, a member of the special committee, to perform specific investment banking services for Star Gas Corporation. In this engagement, Star Gas Corporation paid Nicoletti & Company Inc. fees of $40,000, $521,500 and $81,600 for services rendered during 1992, 1993 and 1994. In 1995, Star Gas Corporation paid Nicoletti & Company Inc. $20,000 in advisory fees for a proposed acquisition. In 1997, Star Gas Corporation paid Mr. Nicoletti $20,000 for serving on the special committee that explored the possible sale or merger of Star Gas Partners. In 1998, Star Gas Corporation paid Mr. Nicoletti $40,000 for serving on the Star Gas Partners special committee that explored the business combination with Petro.

Elizabeth K. Lanier, a member of the special committee, was a partner in the law firm of Frost & Jacobs in Cincinnati, Ohio until June 1996. Frost & Jacobs has acted as counsel to Star Gas Corporation in specific litigation matters. In 1997, Star Gas Corporation paid Ms. Lanier $20,000 for serving on the special committee that explored the possible sale or merger of Star Gas Partners. In 1998, Star Gas Corporation paid Ms. Lanier $40,000 for serving on the special committee that explored the business combination with Petro.

The officers and directors of Star Gas Corporation will be indemnified, to the extent permitted by law, for any and all actions taken in the transaction, and they are also covered by customary directors' and officers' liability insurance. Each member of the Star Gas Corporation board of directors will be a member of the board of directors of Star Gas LLC following the transaction, except that, at her request, Elizabeth Lanier will withdraw after the transaction as a result of additional duties associated with a new job. She will be replaced by a director selected by the Star Gas LLC board, and the new director will not be an officer or employee of Star Gas LLC or any of its

affiliates. The current officers of Star Gas Corporation will be employed as officers of Star Gas Propane following the transaction.

Continued and/or Increased Distributions per Common Unit Are Not Assured

The Star Gas Corporation board of directors structured the transaction with the intent that it would increase the cash available to be distributed per common unit. The intended increase in cash available for distributions is based on several expectations that may not be realized, such as:

.successfully acquiring home heating oil businesses at attractive prices;

.completing Petro's restructuring program to reduce customer attrition; and

.increasing profit margins on a per gallon basis.

The amount of cash needed to pay the minimum quarterly distribution for four quarters on units outstanding is approximately:

Common units	$29.7 million
Senior subordinated units	5.7 million
Junior subordinated units	1.0 million
General partner units	0.7 million
Total	$37.1 million

After giving pro forma effect to the transaction, the amount of available cash generated in the twelve months ended December 31, 1998 would have been about $14.7 million. If infrequent restructuring, corporate identity and transaction expenses were not taken into effect, pro forma cash available for distribution would have been $20.2 million.

The Percentage of Common Units Will Increase, Which Will Make It More Difficult to Pay the Full Minimum Quarterly Distribution

The existing common units represent a 60.5% limited partner interest in Star Gas Partners. After the transaction, the common units will represent a 79.9% limited partner interest. Accordingly, we will be required to make distributions to a larger percentage of our equity at the common unit level, which will increase the likelihood that we will not have sufficient funds to pay the full minimum quarterly distribution to all common unitholders. In addition during the subordination period, Star Gas Partners can issue 2,500,000 additional common units without obtaining any unitholder approval. These additional common units could further dilute the interest of then-existing unitholders in the net assets of, and distributions to be made by, Star Gas Partners. In addition, holders of common units will not have preemptive rights to acquire additional common units or other partnership interests that may be issued.

The Increase in Taxes Payable By Petro In the Future Will Reduce Dividends to Star Gas Partners, Which May Reduce Distributions to Unitholders

Although Petro and its corporate affiliates do not expect to pay significant federal income tax for several years following the transaction, over time the amount of federal income taxes paid by Petro and its corporate affiliates will increase, and this will also reduce the amount of cash that we can distribute to unitholders. A successful IRS challenge to the deduction of depreciation or interest on specific debt will increase Petro and its corporate affiliates' tax liability and this will reduce our ability to distribute cash to unitholders.

The transaction will result in income to Petro equal to the difference in the value of the Star Gas Partners units distributed in the merger, including the amount of any debt of which Petro is relieved, and the federal income tax basis Petro has in those units. Petro expects that its net operating losses will generally offset this income and Petro will incur only nominal tax. The IRS could challenge the amount of Petro's net operating losses and the use of the net operating losses to offset income realized in the transaction. A successful challenge could reduce our cash available for distribution.

Petro and its corporate affiliates do not expect to pay significant federal income tax for several years. Petro and its affiliates do expect to generate earnings and profits during that time, which will make part of the distributions from these entities to Star Gas Partners taxable dividend income to the unitholders. This dividend income cannot be offset by past or future losses generated by our propane activities.

Risks Inherent in an Investment in Star Gas Partners

Cash Distributions Are Not Guaranteed and May Fluctuate with Our Performance and Reserve Requirements

Because distributions on the common units are dependent on the amount of cash generated, distributions may fluctuate based on our performance. The actual amount of cash that is available will depend upon numerous factors, including:

- profitability of operations;
- required principal and interest payments on debt;
- cost of acquisitions;

- issuance of debt and equity securities;
- fluctuations in working capital;
- capital expenditures;
- adjustments in reserves;
- prevailing economic conditions; and
- financial, business and other factors.

Some of these factors are beyond the control of the general partner.

The partnership agreement gives the general partner discretion in establishing reserves for the proper conduct of our business. These reserves will also affect the amount of cash available for distribution. The general partner may establish reserves for distributions on the senior subordinated units only if those reserves will not prevent us from distributing the full minimum quarterly distribution, plus any arrearages, on the common units for the following four quarters.

The amount of cash needed to pay the minimum quarterly distribution for the next four quarters on units outstanding immediately after the transaction is approximately $37.1 million. This figure represents $29.7 million for the common units, $5.7 million for the senior subordinated units, $1.0 million for the junior subordinated units and $0.7 million for the general partner units. After giving pro forma effect to the transaction, the amount of available cash generated in the twelve months ended December 31, 1998 would have been about $14.7 million. If infrequent restructuring, corporate identity and transaction expenses were not taken into effect, pro forma cash available for distribution would have been $20.2 million.

The Partnership Agreement Contains Provisions Intended to Discourage a Change of Management That May Diminish Trading Value

The partnership agreement contains specific provisions that may discourage attempts to remove an incumbent general partner or otherwise change the management of Star Gas Partners. These provisions may diminish the trading price of the senior subordinated units under some circumstances.

Unitholders Have Limited Voting Rights and Do Not Control the General Partner

Unitholders have no right to elect the general partner on an annual or other continuing basis. The general partner manages and operates Star Gas Partners and Star Gas Propane. Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business. The general partner generally may not be removed unless approved by the holders of 66 2/3% of the outstanding units, voting together as a single class but not

including those held by the general partner and its affiliates. As a result, unitholders have only limited influence on matters affecting our operation, and it would be difficult for third parties to control or influence us. Although the partnership agreement provides that the general partner may not, with specified exceptions, transfer its general partner units to another person before December 31, 2005 unless approved by a unit majority, the members of Star Gas LLC may transfer their limited liability company interests in Star Gas LLC to a third party at any time without the approval of the unitholders.

There Is a Limited Call Right That May Require Unitholders to Sell Their Units at an Undesirable Time or Price

If at any time less than 20% of the outstanding units of any class are held by persons other than the general partner and its affiliates, the general partner has the right to acquire all, but not less than all, of those units held by the unaffiliated persons. The price for these units will generally equal the then-current market price of the units. As a consequence, a unitholder may be required to sell his units at an undesirable time or price. The general partner may assign this acquisition right to any of its affiliates or Star Gas Partners. After the

subordination period ends, if we acquire more than 66 2/3% of the Class B common units in a twelve-month period, then we will have a similar call right.

Our Ability to Make Distributions May Be Adversely Affected by Our Obligation to First Reimburse the General Partner

Before we make any distributions on the units, we will reimburse the general partner for all expenses it has incurred on our behalf. The reimbursement of those expenses and the payment of reasonable fees charged by the general partner for services could adversely affect our ability to make distributions. Reimbursable expenses and fees are determined by the general partner in its sole discretion.

Unitholders May Not Have Limited Liability in Some Circumstances

A number of states have not clearly established limitations on the liability of limited partners for the obligations of a limited partnership. If it were determined that we had been conducting business in any state and had failed to comply with the applicable limited partnership statute, or that the rights or exercise of the rights by the limited partners as a group under the partnership agreement constituted participation in the "control" of Star Gas Partners, then a unitholder might be held liable to the same extent as the general partner for our obligations.

The General Partner Has Conflicts of Interest and Limited Fiduciary Responsibilities That May Permit the General Partner to Favor Its Own Interests to the Detriment of Unitholders

Conflicts of interest have arisen and could arise in the future as a result of relationships between the general partner and its affiliates, on the one hand, and Star Gas Partners or any of the limited partners, on the other hand. As a result of these conflicts the general partner may favor its own interests and those of its affiliates over the interests of the unitholders. The nature of these conflicts is ongoing and includes the following considerations.

- The general partner may limit its liability and reduce its fiduciary duties, while also restricting the remedies available to unitholders for actions that might, without the limitations, constitute breaches of fiduciary duty. Unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law.

- The general partner is allowed to take into account the interests of parties in addition to Star Gas Partners in resolving conflicts of interest, thereby limiting its fiduciary duty to the unitholders.

- Except for Irik P. Sevin, who is subject to a non-competition agreement, the general partner's affiliates are not prohibited from engaging in other business or activities, including direct competition with us.

- The general partner determines the amount and timing of asset purchases

and sales, capital expenditures, borrowings and reserves, each of which can impact the amount of cash that is distributed to unitholders.

- The general partner determines whether to issue additional units or other equity securities of Star Gas Partners.

- The general partner determines which costs are reimbursable by us.

- The general partner controls the enforcement of obligations owed to us by the general partner.

- The general partner decides whether to retain separate counsel, accountants or others to perform services for us.

- Some officers of the general partner, who will provide services to us, will also devote significant time to the businesses of the general partner's affiliates and will be compensated by these affiliates for the services rendered to them.

- The general partner is not restricted from causing us to pay the general partner or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.

- In some instances the general partner may borrow funds in order to permit the payment of distributions.

Tax Risks to Common Unitholders

The Increase in Taxes Payable By Petro In the Future Will Reduce Dividends to Star Gas Partners, Which May Reduce Distributions to Unitholders

Petro and its corporate affiliates do not expect to pay significant federal income tax for several years following the transaction. However, over time the amount of federal income taxes paid by Petro and its corporate affiliates will increase. This will reduce the amount of cash that we can distribute to our unitholders. A successful IRS challenge to the deduction of depreciation or interest on specific debt will increase Petro and its corporate affiliates' tax liability, also reducing our ability to distribute cash to our unitholders.

The transaction will result in income to Petro equal to the difference in the value of the Star Gas Partners units distributed in the merger, including the amount of any debt of which Petro is relieved and the federal income tax basis Petro has in those units. Petro expects that its net operating losses will generally offset this income and that it will incur only nominal tax. The IRS could challenge the amount of Petro's net operating losses and the use of the net operating losses to offset income realized in the transaction. A successful challenge could reduce the cash we have available for distribution.

Petro and its corporate affiliates do not expect to pay significant federal income tax for several years. Petro and its corporate affiliates do expect to generate earnings and profits during that time, which will make part of the distributions from these entities to Star Gas Partners taxable dividend income to the unitholders. This dividend income cannot be offset by past or future losses generated by Star Gas Partners' propane activities.

The IRS Could Classify Us as an Association Taxable as a Corporation, Which Could Result in Us Paying Tax as an Entity Which Would Substantially Reduce the Cash Available for Distribution to Unitholders

The federal income tax benefit of an investment in Star Gas Partners depends largely on Star Gas Partners' classification as a partnership for federal income tax purposes. Assuming the accuracy of factual matters represented as true by the general partner and Star Gas Partners, counsel is of the opinion that Star Gas Partners has been and will be classified as a partnership for federal income tax purposes. No ruling from the IRS as to classification has been or is expected to be requested. Instead, we intend to rely on the opinion of counsel, which is not binding on the IRS. Based on the representations of Star Gas Partners and the general partner and a review of applicable legal authorities, counsel is also of the opinion that at least 90% of our gross income is "qualifying income," within the meaning of Section 7704 of the

Internal Revenue Code. This means that our income is derived from the exploration, development, mining or production, processing, refining, transportation or marketing of any mineral or natural resource or other items. Whether we will continue to be classified as a partnership depends, at least partly, on our ability to continue to meet this qualifying income test in the future.

If we were classified as an association taxable as a corporation for federal income tax purposes, we would pay tax on our income at corporate rates, which is currently a 35% federal rate. If this were to occur, distributions to the unitholders would generally be taxed again as corporate distributions, and no income, gains, losses or deductions would flow through to the unitholders. Because a tax would be imposed upon Star Gas Partners as an entity, the cash available for distribution to unitholders would be substantially reduced. Treatment of Star Gas Partners as an association that is taxable as a corporation or otherwise as a taxable entity would result in a material reduction in the anticipated cash flow and after-tax return to the unitholders, likely causing a substantial reduction in the market value of the units.

There can be no assurance that the law will not change so as to cause Star Gas Partners to be treated as an association taxable as a corporation for federal income tax purposes or otherwise to be subject to entity-level taxation. The partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects Star Gas Partners to taxation as a corporation or otherwise subjects Star Gas Partners to entity-level taxation for income tax purposes, then specified provisions of the partnership agreement are subject to change, including a decrease in distribution to reflect the impact of that law on us.

A Unitholder May Be Required to Pay Taxes on Income From Star Gas Partners Even if He Receives No Cash Distributions

A unitholder will be required to pay federal income taxes and, in some cases, state and local income taxes on his allocable share of our income, whether or not he receives cash distributions from us. No assurance can be given that a unitholder will receive cash distributions equal to his allocable share of our taxable income or even equal to the actual tax liability that results from this allocable share of income. Further, upon the sale of his units, a unitholder may incur a tax liability in excess of the amount of cash he receives.

Investors, Other Than Individuals That Are U.S. Residents, May Have Adverse Tax Consequences From Owning Units

Investment in units by specific tax-exempt entities, regulated investment companies and foreign persons raises issues unique to these persons. For example, for any unitholder that is an organization exempt from federal income tax, including IRAs and other retirement plans, virtually all of the unitholder's allocable share of taxable income in the first few years will constitute unrelated business taxable income and thus will be taxable to this unitholder.

Because We Are a Registered Tax Shelter, A Unitholder or Star Gas Partners Faces an Increased Risk of an IRS Audit Resulting In Taxes Payable on Star Gas Partners' and Non-Star Gas Partners' Income

We are registered with the Secretary of the Treasury as a "tax shelter." The IRS has issued the following tax shelter registration number to Star Gas Partners: 96026000016. We cannot assure unitholders that we will not be audited by the IRS or that adjustments to our income or losses will not be made. Any unitholder owning less than a 1% profit interest in Star Gas Partners has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in the unitholders' tax returns and may lead to audits of unitholders' tax returns and adjustments of items unrelated to us. Each unitholder is responsible for any tax owed as the result of an examination of his personal tax return.

Star Gas Partners Treats a Purchaser of Units As Having the Same Tax Benefits As the Seller; the IRS May Challenge This Treatment Which Could Adversely Affect the Value of the Units

Because we cannot match transferors and transferees of units and because of other reasons, we have adopted depreciation and amortization conventions that

do not conform with all aspects of specified proposed and final Treasury Regulations. A successful IRS challenge to those conventions could adversely affect the amount of tax benefits available to a purchaser of units and could have a negative impact on the value of the units.

There Are State, Local and Other Taxes To Which Unitholders Will Probably Be Subject Solely Because of an Investment In the Units

In addition to federal income taxes, unitholders will likely be subject to other taxes, such as state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. A unitholder will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of the various jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. The general partner anticipates that substantially all of our income will be generated in the following states: Connecticut, Indiana, Kentucky, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island and West Virginia. Each of these states currently imposes a personal income tax; however, New Hampshire's tax only applies to interest and dividend income. It is the responsibility of each unitholder to file all United States federal, state and local tax returns that may be required of him. Counsel has not rendered an opinion on the state or local tax consequences of ownership or sale of units.

THE TRANSACTION

We will acquire Petro through a four part transaction. Each part of the transaction is meant to close at the same time. The four principal parts of the transaction are described below.

Acquisition of Petro

On October 22, 1998, Petro, Star Gas Partners, Star Gas Propane and a wholly-owned subsidiary of Star Gas Propane, executed a merger agreement. The parties entered into an amended and restated merger agreement on February 3, 1999 to reflect changes in the transaction. Under the merger agreement, upon the completion of the transaction, the subsidiary will be merged with and into Petro, with Petro surviving the merger as a wholly-owned indirect subsidiary of Star Gas Propane. As a result of the merger:

- each outstanding share of Petro Class A common stock, par value $0.10 per share, and Petro Class C common stock, par value $0.10 per share, other than shares that have been exchanged in the exchange or as to which dissenters' rights have been perfected, will be converted into 0.11758 senior subordinated units;

- each outstanding share of Petro junior convertible preferred stock will be converted into 0.11758 common units; and

- each outstanding share of Petro Series C exchangeable preferred stock due 2009 will be converted into the right to receive $23 in cash per share plus accrued and unpaid dividends.

There are 11,228 shares of Petro Class B common stock, par value $0.10 per share, currently outstanding, representing less than 0.01% of the issued and outstanding shares of Petro common stock, which will remain outstanding following the completion of the transaction.

The "exchange" will occur immediately prior to the merger and is comprised of the following elements.

(a) Holders of Petro common stock, consisting of Irik P. Sevin, Audrey L. Sevin, Hanseatic Corp. and Hanseatic Americas LDC, who are referred to as the "LLC Owners," will form Star Gas LLC, to which they will contribute a portion of their shares of Petro common stock in exchange for all of the limited liability company interests in Star Gas LLC. Star Gas LLC will

contribute those shares to Star Gas Partners in exchange for general partner units. In addition, the LLC Owners will contribute their remaining shares of Petro common stock to Star Gas Partners in exchange for junior subordinated units.

(b) Other Petro common stockholders who are affiliates of Petro will contribute shares of Petro common stock to Star Gas Partners in exchange for Star Gas Partners senior subordinated units.

Financings and Refinancings

An integral element of the transaction is the refinancing of Petro's outstanding debt and preferred stock to substantially reduce Petro's ongoing borrowing costs. This refinancing will be accomplished through several related transactions, which will close at the same time as the closing of the transaction.

To accomplish this refinancing, we are offering common units and Petro is privately offering 7.92% senior secured notes. We are offering for sale to the public 8.9 million common units in this offering, the net proceeds of which are estimated to be $159.9 million. Petro will sell, in a private placement, $90.0 million of senior secured notes, the net proceeds of which are estimated to be $87.9 million. Star Gas Partners and Petro Holdings will guarantee the notes.

All of the net proceeds of this offering, together with the $87.9 million of estimated net proceeds from the debt offering will be used:

- to redeem Petro's 12 1/4% Senior Subordinated Debentures due 2005, Petro's 10 1/8% Senior Subordinated Notes due 2003, Petro's 9 3/8% Senior Subordinated Debentures due 2006 and the public preferred stock;

- to repurchase Petro's 1989 preferred stock; and

- to pay for a portion of the expenses of the transaction.

See "Uses of Funds From This Offering and the Debt Offering."

New General Partner

Since Star Gas Corporation is a wholly-owned subsidiary of Petro and will be acquired as our subsidiary in the transaction, it will no longer be able to serve as our general partner. Our new general partner will be Star Gas LLC, which will be owned by the LLC Owners. Star Gas LLC's business activities will be limited to those related to being our general partner. Star Gas LLC is not expected to have a significant net worth except for its interest in Star Gas Partners.

Amendment of Partnership Agreement

In order to complete the transaction, amendments must be made to our partnership agreement and Star Gas Propane's partnership agreement in effect before the transaction. The amendment will, among other matters, increase the minimum quarterly distribution from $0.55 to $0.575 per unit. See "The Partnership Agreement."

Outstanding Star Gas Partners Units

The following table sets forth the approximate number of units outstanding before and after completion of the transaction. The 323,082 general partner interests/units represent 321,467 general partner units in Star Gas Partners and the 0.01% general partner interest in Star Gas Propane. This 0.01% is deemed to be in unit form solely for purposes of this table.

	Before Transaction		After Transaction	
	Number	Percentage	Number	Percentage
Common Units				

Existing common units	3,858,999	60.5%	3,858,999	23.9%
Issued to Petro junior preferred stockholders	--	--	102,773	0.6
Issued in this offering	--	--	8,947,368	55.4
Subtotal	3,858,999	60.5	12,909,140	79.9
Subordinated Units				
Existing subordinated units	2,396,078	37.5	--	--
Senior subordinated units	--	--	2,491,500	15.4
Junior subordinated units	--	--	430,395	2.7
Subtotal	2,396,078	37.5	2,921,895	18.1
General Partner Interests/Units	127,655	2.0	323,082	2.0
Total	6,382,732	100.0%	16,154,117	100.0%

USES OF FUNDS FROM THIS OFFERING AND THE DEBT OFFERING

The following table shows the estimated funds that we will receive from this offering of common units at an assumed public offering price of $19.00 per unit. The exact number of common units that we will issue will depend upon the market price of the common units at the time of the offering. For example, if the market price is less than $19.00 per unit then we will issue a greater number of units. This table also shows the estimated funds that Petro will receive from the sale of senior secured notes in the debt offering. The estimated sources and uses may change, depending on market conditions, results of operations and other factors.

(In thousands)

Sources	
This offering, net of underwriting discounts, commissions and offering expenses	$159,900
Debt offering, net of discounts, commissions and offering expenses	87,915
	$247,815
Uses	
Redeem Petro 12 1/4% Senior Subordinated Debentures due 2005	$ 84,094
Redeem Petro 10 1/8% Senior Subordinated Notes due 2003	50,000
Redeem Petro 9 3/8% Senior Subordinated Debentures due 2006	75,000
Redeem Petro 12 7/8% preferred stock	27,600
Repurchase Petro 1989 preferred stock	4,167
Transaction fees and expenses	6,954
	$247,815

CAPITALIZATION

The following table shows our historical capitalization as of December 31, 1998 on an actual basis and as adjusted to give pro forma effect to the acquisition of Petro. It is further adjusted to give pro forma effect to this offering and the debt offering and the application of the net proceeds of these offerings. This table does not include $4.2 million of the current portion of Petro's 1989 preferred stock that will be paid with the proceeds of this offering and the debt offering.

The Petro public debt listed below consists of:

- $84.1 million of 12 1/4% Senior Subordinated Debentures due 2005, including a prepayment premium of $2.8 million;
- $50.0 million of 10 1/8% Senior Subordinated Notes due 2003; and

. $75.0 million of 9 3/8% Senior Subordinated Debentures due 2006.

Upon completion of the transaction, Petro has the right to redeem up to an aggregate of 98.5% of the principal amount of these securities.

The Petro private debt listed below consists of:

. approximately $60.0 million of 9% Senior Notes due 2002 before $3.1 million of interest rate reduction payment;

. $4.1 million of 10 1/4% Subordinated and Senior Notes due 2001 before $0.2 million of interest rate reduction payment; and

. $14.0 million of notes payable for the purchase of fuel oil dealers maturing at various dates through 2004.

You should read this table together with the historical and pro forma financial statements and notes included and incorporated by reference in this prospectus.

	December 31, 1998		
	Actual	Pro Forma Combined	Adjusted Pro Forma
	(In thousands)		
Cash	$ 5,831	$ 7,835	$ 11,287
Debt:			
Star Gas Propane First Mortgage Notes	$ 96,000	$ 96,000	$ 96,000
Star Gas Propane acquisition facility	7,616	7,616	7,616
The notes issued in the debt offering	--	--	90,000
Petro public debt	--	209,094	--
Petro private debt	--	72,481	78,111
Total Long-Term Debt	103,616	385,191	271,727
Redeemable Preferred Stock:			
Petro 12 7/8% preferred stock	--	27,600	--
Partners' Capital:			
Common unitholders	57,347	59,300	219,200
Existing subordinated unitholders	(962)	--	--
Senior and junior subordinated unitholders	--	13,861	13,861
General partner	63	1,294	1,294
Total Partners' Capital	56,448	74,455	234,355
Total Capitalization	$160,064	$487,246	$506,082

STAR GAS PARTNERS STRUCTURE AND MANAGEMENT FOLLOWING THE TRANSACTION

Following the transaction, our propane operations will be conducted through Star Gas Propane and its wholly-owned corporate subsidiaries. Our home heating oil operations will be conducted through Petro Holdings, Petro and Petro's subsidiaries.

Upon the completion of the transaction, Star Gas LLC will become our general partner and the general partner of Star Gas Propane. All of the membership

interests in Star Gas LLC will be owned by Irik P. Sevin, Audrey L. Sevin, and two entities affiliated with Wolfgang Traber. Some of the current officers of Star Gas Corporation and Petro before the transaction will become officers of Star Gas LLC following the transaction.

Upon the completion of the transaction, the officers and employees of Star Gas Corporation will become officers and employees of Star Gas Propane. In addition, upon the completion of the transaction, the officers and employees of Petro will continue to be officers and employees of Petro.

The ability of Star Gas Partners to make distributions is restricted by various debt instruments of Star Gas Partners and Petro. See "Description of Indebtedness."

Star Gas Partners, L.P.'s principal executive offices are located at 2187 Atlantic Street, Stamford, CT 06902. Our telephone number is (203) 328-7300.

The first chart below illustrates the current organization and ownership of Star Gas Partners, Star Gas Propane and its subsidiaries and Star Gas Corporation. The second chart illustrates the organization and ownership of Star Gas Partners, Star Gas Propane and its subsidiaries and Star Gas LLC immediately following the transaction, without giving any effect to the issuance of any additional senior subordinated units. The percentages reflected in the following charts represent the approximate ownership interests in each of Star Gas Partners and Star Gas Propane, individually, and not on an aggregate basis.

[CURRENT ORGANIZATIONAL CHART OF STAR GAS PARTNERS]

[ORGANIZATIONAL CHART OF STAR GAS PARTNERS IMMEDIATELY FOLLOWING TRANSACTION]

PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

The common units are listed and traded on the New York Stock Exchange under the symbol "SGU." The common units began trading on December 20, 1995 on the Nasdaq National Market System under the symbol "SGASZ," at an initial public offering price of $22.00 per common unit. The following table shows the closing high and low sales prices for the common units on the Nasdaq National Market System through May 28, 1998, and after that date, on the NYSE and the cash distribution declared per common unit for the periods indicated.

Common Unit Closing Sales Price Range

	Fiscal 1999			Fiscal 1998			Fiscal 1997		
Fiscal Quarter Ended	High	Low	Cash Distribution	High	Low	Cash Distribution	High	Low	Cash Distribution
December 31,.....	$21.75	$14.50	$0.55	$23.38	$20.50	$0.55	$23.88	$21.75	$0.55
March 31,.....	19.88(a)	17.00(a)	--	24.75	21.38	0.55	24.63	20.75	0.55
June 30,.....	--	--	--	23.00	20.50	0.55	21.88	19.00	0.55
September 30,.....	--	--	--	22.38	20.13	0.55	23.50	21.00	0.55

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(a) Through February 22, 1999.

As a result of the transaction, the minimum quarterly distribution will be increased from $0.550 to $0.575 per unit, or from $2.20 to $2.30 per unit on a yearly basis. The first distribution on the common units offered in this transaction is expected to be paid on approximately May 15, 1999 to holders of record as of May 4, 1999 and will relate to the quarter ending March 31, 1999.

The last reported sale price of common units on the NYSE on February 22, 1999 was $18.25 per common unit. As of February 22, there were approximately 189 holders of record of Star Gas Partners' common units.

New York Stock Exchange Listing

On February 12, 1999, the New York Stock Exchange advised us that our application to list the senior subordinated units on the NYSE had been approved subject to official notice of issuance. At the same time, however, the NYSE advised us that based on pro forma information in our registration statement regarding the Petro acquisition, as filed with the SEC, we would fall below the NYSE's continued listing criteria upon completion of the Petro acquisition.

When a company falls below any of the NYSE's criteria, the NYSE reviews the appropriateness of the company's continued listing. The NYSE is currently conducting a review of our continued listing as part of its standard procedures.

In connection with the NYSE review process, during the week of February 22, 1999, we will make a submission to the NYSE Listing and Compliance Committee. The submission, which will be based largely on our business strategy and the projections set forth in our joint proxy statement and prospectus, will demonstrate a plan of action that will permit us to meet the NYSE criteria.

We believe that as a result of this NYSE review, and in accordance with NYSE procedures, the NYSE will not take action to delist any of our securities at this time, but will monitor our progress and performance on a quarterly basis. Under current NYSE practice, we will need to meet the NYSE continued listing criteria in 18 months and the NYSE original listing criteria in 36 months. Our ability to make acceptable progress toward meeting the criteria, and ultimately to meet the criteria and remain listed on the NYSE, will depend on our business performance and other factors, including those described under the caption "Risk Factors."

CASH DISTRIBUTION POLICY

General Description of Cash Distribution

In general, we distribute to our partners on a quarterly basis, all of our Available Cash in the manner described below. Available Cash is defined in the glossary and generally means, for any of our fiscal quarters, all cash on hand at the end of that quarter, less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the general partner to:

(1) provide for the proper conduct of our business;

(2) comply with applicable law, any of our debt instruments or other agreements; or

(3) provide funds for distributions to the common unitholders and the senior subordinated unitholders during the next four quarters, in some circumstances.

The general partner may not establish cash reserves for distributions to the senior subordinated units unless the general partner has determined that the establishment of reserves will not prevent us from distributing the minimum quarterly distribution on all common units and any common unit arrearages for the next four quarters. As discussed below, the restrictions on distributions to senior subordinated units, junior subordinated units and general partner units could result in cash that would otherwise be Available Cash being reserved for other purposes.

Cash distributions will be characterized as distributions from either Operating Surplus or Capital Surplus. This distinction affects the amounts distributed among different classes of units. See "--Quarterly Distributions of Available Cash."

Operating Surplus is defined in the glossary and generally means:

(1) the cash balance of Star Gas Partners on the date we began operations, plus approximately $20 million, plus all of our cash receipts, excluding cash receipts that constitute Capital Surplus; less

(2) all of our operating expenses, debt service payments, maintenance capital expenditures and reserves established for future operations;

provided, however, that Operating Surplus is calculated without any reduction for costs or expenses incurred in the transaction.

Capital Surplus is also defined in the glossary and is generally generated only by borrowings other than for working capital purposes, sales of debt and equity securities and sales or other dispositions of assets for cash, other than inventory, accounts receivable and other assets, all as disposed of in the ordinary course of business.

All Available Cash distributed from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since our commencement equals the Operating Surplus as of the end of the quarter before that distribution. This method of cash distribution avoids the difficulty of trying to determine whether Available Cash is distributed from Operating Surplus or Capital Surplus. Any excess Available Cash, irrespective of its source, will be deemed to be Capital Surplus and distributed accordingly.

If Capital Surplus is distributed on each common unit issued in our initial public offering in an aggregate amount per unit equal to $22.00 per common unit, the distinction between Operating Surplus and Capital Surplus will cease. All distributions after that date will be treated as from Operating Surplus. The general partner does not expect that there will be significant distributions from Capital Surplus.

The senior subordinated units and the junior subordinated units are each a separate class of interests in Star Gas Partners, and the rights of holders of those interests to participate in distributions differ from the rights of the holders of common units. When issued, the Class B common units will also be a separate class of interests in Star Gas Partners.

Quarterly Distributions of Available Cash

Except for the limitations and prohibitions on distributions discussed below, we will make distributions to our partners for each of our fiscal quarters before liquidation in an amount equal to all of our Available Cash for that quarter. Distributions will be made approximately 45 days after each March 31, June 30, September 30 and December 31, to holders of record on the applicable record date. We are prohibited from making any distributions on our senior subordinated units, junior subordinated units and general partner units during the remainder of our fiscal year 1999, which ends on September 30, 1999. If we generate sufficient Available Cash to satisfy the limitation described below, the first distribution permitted to be paid to the holders of the senior subordinated units issued in the transaction will be paid for the first quarter of our fiscal year 2000, which begins on October 1, 1999. The first distribution on the common units, including those issued in this offering, after the completion of the transaction will be paid for the quarter ending March 31, 1999 on approximately May 15, 1999 to holders of record on approximately May 4, 1999 regardless of how many days the common units have been outstanding. For a discussion of the restrictions on distributions to the holders of subordinated interests, see "--Limitation and Prohibitions on Distributions on Subordinated Interests."

Upon expiration of the subordination period, all senior subordinated units and junior subordinated units will be converted, on a one-for-one basis, into Class B common units, and distributions on the general partner units will no longer be subordinated to distributions on the common units. All references to common units after the expiration of the subordination period are references to Class A common units and Class B common units, collectively, unless otherwise indicated. Neither Class A common units nor Class B common units will accrue arrearages for any quarter after the subordination period, and senior subordinated units, junior subordinated units and general partner units will not accrue any arrearages on distributions for any quarter.

Distributions of Available Cash from Operating Surplus During the Subordination Period

The subordination period is defined in the glossary and will generally extend until the first day of any quarter beginning on or after October 1, 2002 that each of the following three events occur:

(1) distributions of Available Cash from Operating Surplus on the common units, senior subordinated units, junior subordinated units and general partner units equal or exceed the sum of the minimum quarterly distributions on all of the outstanding common units, senior subordinated units, junior subordinated units and general partner units for each of the three non-overlapping four-quarter periods immediately preceding that date;

(2) the Adjusted Operating Surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units, senior subordinated units, junior subordinated units and general partner units during those periods on a fully diluted basis for employee options or other employee incentive compensation. This includes all outstanding units and all common units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest before the end of the quarter immediately following the quarter for which the determination is made. It also includes all units that have as of the date of determination been earned by but not yet issued to our management for incentive compensation; and

(3) there are no arrearages in payment of the minimum quarterly distribution on the common units.

In specific circumstances, if the general partner is removed without cause, the subordination period will end, any existing arrearages on the common units will be extinguished, the senior subordinated units and junior subordinated units will immediately convert into Class B common units and distributions on the general partner units will no longer be subordinated. See "The Partnership Agreement--Withdrawal or Removal of the General Partner; Approval of Successor General Partner."

Distributions of Available Cash from Operating Surplus for any quarter during the subordination period will be made in the following manner:

. First, 100% to the common units, pro rata, until there has been distributed for each common unit an amount equal to the minimum quarterly distribution for that quarter.

. Second, 100% to the common units, pro rata, until there has been distributed for each common unit an amount equal to any cumulative common unit arrearages on each common unit for any prior quarter.

. Third, 100% to the senior subordinated units, pro rata, until there has been distributed for each senior subordinated unit an amount equal to the minimum quarterly distribution for that quarter.

. Fourth, 100% to the junior subordinated units and general partner units, pro rata, until there has been distributed for each junior subordinated unit and general partner unit an amount equal to the minimum quarterly distribution for that quarter.

. Thereafter, in the manner described in "--Incentive Distributions During the Subordination Period" below.

Upon completion of the transaction, the general partner will have a 1.99% general partner interest in Star Gas Partners in the form of general partner units and a 0.01% general partner interest in Star Gas Propane. References in this prospectus to distributions on the general partner units disregard the general partner's 0.01% general partner interest in Star Gas Propane.

Distributions of Available Cash from Operating Surplus After the Subordination Period

Distributions of Available Cash from Operating Surplus for any quarter after the subordination period will be made in the following manner:

(1) First, 100% to all units, pro rata, until there has been distributed to each unit an amount equal to the minimum quarterly distribution for that quarter.

(2) Thereafter, in the manner described in "--Incentive Distributions After the Subordination Period" below.

Incentive Distributions During the Subordination Period

For any quarter that both (1) and (2) below occur, holders of the senior subordinated units, junior subordinated units and general partner units will receive incentive distributions as described below.

(1) Available Cash from Operating Surplus is distributed to each of the common units, senior subordinated units, junior subordinated units and general partner units in an amount equal to the minimum quarterly distribution.

(2) Available Cash has been distributed on outstanding common units in the amount as may be necessary to eliminate any cumulative common unit arrearages.

After the distributions described in (1) and (2) above are met, additional Available Cash from Operating Surplus for that quarter will be distributed among the units in the following manner:

- First, 100% to all units, until each unit has received, in addition to any distributions to the common units to eliminate any cumulative common unit arrearages, a total of $0.604 per unit for that quarter (the "First Target Distribution").

- Second, 86.7% to all units, pro rata, and 13.3% to all senior subordinated units, junior subordinated units and general partner units, pro rata, until each common unit has received, in addition to any distributions to eliminate any cumulative common unit arrearages, a total of $0.711 per unit for that quarter (the "Second Target Distribution").

- Third, 76.5% to all units, pro rata, and 23.5% to all senior subordinated units, junior subordinated units and general partner units, pro rata, until each common unit has received, in addition to any distributions to eliminate any cumulative common unit arrearages, a total of $0.926 per unit for that quarter (the "Third Target Distribution").

- Thereafter, 51.0% to all units, pro rata, and 49.0% to all senior subordinated units, junior subordinated units and general partner units, pro rata.

The partnership agreement may not be amended, including the issuance of additional Star Gas Partners securities, in any manner that would increase the aggregate amount of incentive distributions without the approval of a majority of the outstanding units of the classes, each class voting separately, that would be adversely affected.

The following table illustrates the amount of Available Cash from Operating Surplus distributed pro rata as the base distribution to all unitholders pro rata and the percentage of Available Cash distributed as incentive distributions to the holders of senior subordinated units, junior subordinated units and general partner units only at the target distribution levels. The percentages in the table below are the percentage interests of the unitholders in Available Cash from Operating Surplus distributed as base distributions to all unitholders and distributed as incentive distributions based on the number of units outstanding immediately after completion of the transaction.

			Percentage of Available Cash Distributed as Incentive Distributions to the Specified Unit Class		
Quarterly Distribution Amount per Common Unit	Percentage of Available Cash Distributed as Base Distributions	Percentage of Available Cash Distributed as Incentive Distributions	Senior Subordinated Units	Junior Subordinated Units	General Partner Units

Minimum Quarterly Distribution.....	$0.575	100.0%	--	--	--	--
First Target Distribution.....	0.604	100.0	--	--	--	--
Second Target Distribution.....	0.711	86.7	13.3%	10.2%	1.8%	1.3%
Third Target Distribution.....	0.926	76.5	23.5	18.0	3.1	2.3
Thereafter.....	--	51.0	49.0	37.6	6.5	4.9

The percentage allocation of incentive distributions among senior subordinated units, junior subordinated units and general partner units, will change in the future if there are additional non-proportional issuances of units.

Incentive Distributions After the Subordination Period

For any quarter for which Available Cash from Operating Surplus is distributed to each of the Class A common units, the Class B common units and general partner units in an amount equal to the minimum quarterly distribution, then any additional Available Cash from Operating Surplus for that quarter will be distributed among the unitholders in the following manner:

- First, 100% to all units, pro rata, until each unit has received the First Target Distribution.

- Second, 86.7% to all units, pro rata, and 13.3% to all Class B common units and general partner units, pro rata, until each Class A common unit has received the Second Target Distribution.

- Third, 76.5% to all units, pro rata, and 23.5% to all Class B common units and general partner units, pro rata, until each Class A common unit has received the Third Target Distribution.

- Thereafter, 51% to all units, pro rata, and 49% to all Class B common units and general partner units, pro rata.

Distributions from Capital Surplus

Distributions of Available Cash from Capital Surplus will be made 100% on all units, pro rata, until each common unit that was issued in our initial public offering has received distributions equal to $22.00. This was the unit price from the initial public offering. Thereafter, all distributions from Capital Surplus will be distributed as if they were from Operating Surplus.

When a distribution is made from Capital Surplus, it is treated as if it were a repayment of the unit price from the initial public offering. To reflect repayment, the minimum quarterly distribution and the target distribution levels will be adjusted downward by multiplying each amount by a fraction. This fraction is determined as follows: the numerator is the unrecovered initial unit price immediately after giving effect to the repayment and the denominator is the unrecovered initial unit price immediately before the repayment. For example, based on the Unrecovered Initial Unit Price of $22.00 per unit and assuming Available Cash from Capital Surplus of $11.00 per unit is distributed on all common units issued in the initial public offering, then the amount of the minimum quarterly distribution and the target distribution levels would each be reduced to 50% of its initial level.

A "payback" of the unit price from the initial public offering occurs when the unrecovered initial unit price is zero. At that time, the minimum quarterly distribution and the target distribution levels each will have been reduced to zero. All distributions of Available Cash from all sources after that time will be treated as if they were from Operating Surplus. Because the minimum quarterly distribution and the target distribution levels will have been reduced to zero, the holders of the rights to incentive distributions will then be entitled to receive 49% of all distributions of Available Cash, after distributions for cumulative common unit arrearages.

Distributions from Capital Surplus will not reduce the minimum quarterly distribution or any of the target distribution levels for the quarter in which they are distributed.

Limitations and Prohibitions on Distributions on Subordinated Interests

Distributions on the senior subordinated units, junior subordinated units and general partner units are prohibited during the remainder of our fiscal year 1999, which ends on September 30, 1999. There is no prohibition on distributions to common units during this time.

Beginning with the first quarter of our fiscal year 2000, which begins on October 1, 1999, no distributions will be made on the senior subordinated units, junior subordinated units or general partner units, unless the aggregate amount of distributions on all units for all quarters, beginning with the first quarter of our fiscal year 2000, is equal to or less than the total Operating Surplus generated by us since October 1, 1999. Solely for purposes of this limitation, Operating Surplus does not include our cash balance on the date we began operations, plus approximately $20 million.

The holders of the senior subordinated units, junior subordinated units and general partner units are not prohibited from receiving distributions from Capital Surplus in a partial liquidation during the subordination period.

Adjustment of Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjustments made upon a distribution of Available Cash from Capital Surplus, the following will each be proportionately adjusted upward or downward, as appropriate, if any combination or subdivision of units should occur:

(1) the minimum quarterly distribution;

(2) the target distribution levels;

(3) the Unrecovered Initial Unit Price;

(4) the number of additional common units issuable during the subordination period without a unitholder vote;

(5) the number of Class B common units issuable upon conversion of the senior subordinated units and the junior subordinated units; and

(6) other amounts calculated on a per unit basis.

However, no adjustment will be made by reason of the issuance of additional units for cash or property. For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the Unrecovered Initial Unit Price would each be reduced to 50% of its initial level.

The minimum quarterly distribution and target distribution levels may also be adjusted if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes. In this event, the minimum quarterly distribution and target distribution levels for each quarter after that time would be reduced to amounts equal to the product of:

(1) the minimum quarterly distribution or target distribution level; multiplied by

(2) one minus the sum of:

(x) the highest marginal federal corporate income tax rate to which we are then subject as an entity; plus

(y) any increase in the effective overall state and local income tax rate to which we are subject as a result of the new imposition of the entity level tax, after taking into account the benefit of any deduction allowable for federal income tax purposes for the payment of state and local income taxes, but only to the extent

of the increase in rates resulting from that legislation or interpretation.

For example, assuming we are not previously subject to state and local income tax, if we were to become taxable as an entity for federal income tax purposes and we became subject to a maximum marginal federal, and effective state and local, income tax rate of 38%, then the minimum quarterly distribution and the target distribution levels would each be reduced to 62% of the amount thereof immediately before the adjustment.

Issuance of Additional Senior Subordinated Units

The partnership agreement provides for the issuance of up to 909,000 additional senior subordinated units if Petro meets specified financial tests. Specifically, if the dollar amount of Petro Adjusted Operating Surplus per Petro Unit equals or exceeds $2.90 for any four-quarter period that occurs between the first and fifth anniversaries of the transaction, we will issue 303,000 senior subordinated units to the holders of the senior subordinated units, junior subordinated units and general partner units of record for the final quarter of that four-quarter period. After the end of the subordination period, we would instead issue 303,000 Class B common units to the holders of the Class B common units and the general partner units. In any case, we may not issue more than 303,000 senior subordinated units or Class B common units in any 365-day period. Furthermore, we may not issue more than 909,000 senior subordinated units or Class B common units under this provision in the aggregate. We will not issue any fractional units in the issuance of these additional units but will pay to each holder who would otherwise be entitled to a fractional unit an amount in cash in lieu of those fractional units. The amount of cash to be paid will be determined by multiplying the fraction by the current market price of a senior subordinated unit or a Class B common unit, as the case may be. For this purpose, the current market price is set as of the date three days prior to issuance of the additional units. On the first day after the record date for distributions for the first quarter ending on or after the fifth anniversary of completion of the transaction, the right to receive the additional units shall lapse and all conversion rights shall cease to exist.

"Petro Adjusted Operating Surplus" means, for any four-quarter period, the Adjusted Operating Surplus generated by Petro, which includes all subsidiaries of Star Gas Partners primarily engaged in the home heating oil business, during that four quarter period. The determination of this amount is made in good faith by a majority of the members of the board of directors of the general partner acting with the concurrence of the audit committee. In calculating Petro Adjusted Operating Surplus,

(1) debt service, including the payment of principal, interest and premium on all debt incurred or assumed by Petro or any of its affiliates, the proceeds of which are used by or for the benefit of Petro, including the proceeds from the debt offering, shall be included to the extent that debt service is included in the calculation of Operating Surplus, and

(2) debt service, including the payment of principal, interest and premium, on all debt incurred or assumed by Petro or any of its affiliates, the proceeds of which are not used by or for the benefit of Petro, shall be excluded.

"Petro Units", for any date, means the sum of:

(1) the excess of the number of units outstanding at completion of the transaction over the number of units outstanding immediately before the completion of the transaction, assuming the simultaneous closing of this offering;

(2) the number of units issued by Star Gas Partners after the transaction to the extent the net proceeds of which are contributed to Petro, which for these purposes includes all subsidiaries of Star Gas Partners primarily engaged in the home heating oil business;

(3) the number of senior subordinated units or Class B common units issued under the partnership agreement based on the performance of

Petro; and

(4) the deemed number of units outstanding based upon a contribution of capital to Petro by Star Gas Partners or any of its affiliates after completion of the transaction, which contribution is not covered by (2) above or traceable to debt proceeds, which number of deemed units is obtained by dividing:

(A) the amount of that Star Gas Partners' contribution; by

(B) the Current Market Price of a common unit, or of a Class A common unit after the termination of the subordination period.

For purposes of (4) above, the amount used to pay down the Petro debt discussed below will be treated as if it were contributed to Petro by Star Gas Partners. Specifically, Petro debt paid or debt allocated to Petro from internally generated funds that exist at Petro only because Petro has not paid dividends up to Star Gas Partners in an amount equal to the distributions that would have been paid on the Petro Units had they been actual outstanding units of Star Gas Partners will fall within (4) above. The distribution per senior subordinated unit of Star Gas Partners shall be the amount that Star Gas Partners would have been deemed to have distributed per Petro Unit had they been actual outstanding units of Star Gas Partners. For purposes of the number of deemed outstanding units in (4) above, those units shall be deemed to be issued on the date of the capital contribution. For purposes of determining the number of outstanding Petro Units for any period of time, the number of units issued under (2), (3) and (4) above shall be determined on a weighted average basis based on the amount of time they have been outstanding. For this purpose, common unit means Class A common unit upon expiration of the subordination period. Petro Units are not "units" as such term is used in this prospectus.

The terms upon which any of the said additional units may be issued may not be amended in a manner that would materially adversely affect the rights of the holders of those units without the affirmative vote of the holders of a majority of the outstanding senior subordinated units, junior subordinated units and general partner units, voting together as a single class.

Distributions of Cash upon Liquidation During the Subordination Period

Following the beginning of the dissolution and liquidation, assets will be sold or otherwise disposed of and the partners' capital account balances will be adjusted to reflect any resulting gain or loss. The proceeds of liquidation will first be applied to the payment of our creditors in the order of priority provided in the

partnership agreement and by law and, thereafter, be distributed on the units in accordance with respective capital account balances, as so adjusted.

Partners are entitled to liquidation distributions in accordance with capital account balances. Although operating losses are allocated on all units pro rata, the allocations of gains and losses attributable to liquidation are intended to favor the holders of outstanding common units over the holders of all other outstanding units, to the extent of the unrecovered initial unit price plus any cumulative common unit arrearages. However, no assurance can be given that there will be sufficient gain upon liquidation of Star Gas Partners to enable the holders of common units to fully recover their Unrecovered Initial Unit Price and arrearages, even though there may be cash available for distribution to the holders of senior subordinated units and junior subordinated units. The manner of the adjustment is provided in the partnership agreement. If our liquidation occurs before the end of the subordination period, any gain, or unrealized gain attributable to assets distributed in kind, will be allocated to the partners in the following manner:

- First, to the partners that have negative balances in their capital accounts, to the extent of and in proportion to, those negative balances.

- Second, 100% to the common units, pro rata, until the capital account for each common unit is equal to the Unrecovered Initial Unit Price for that common unit plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs, plus any cumulative common unit arrearages on those common units.

- Third, 100% to the senior subordinated units, pro rata, until the capital account for each senior subordinated unit is equal to the Unrecovered Initial Unit Price plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs.

- Fourth, 100% to the junior subordinated units and general partner units, pro rata, until the capital account for each junior subordinated unit is equal to the Unrecovered Initial Unit Price plus the amount of the minimum quarterly distribution for the fiscal quarter during which the dissolution occurs.

- Fifth, 100% to all units, pro rata, until there has been allocated under this clause an amount per common unit equal to (a) the excess of the First Target Distribution per unit over the then effective minimum quarterly distribution per unit for each quarter of Star Gas Partners' existence, less (b) the amount per common unit of any distributions of Available Cash from Operating Surplus in excess of the then effective minimum quarterly distribution per unit that was distributed 100% to all units, pro rata, for each quarter of Star Gas Partners' existence.

- Sixth, 86.7% to all units, pro rata, 13.3% to senior subordinated units, junior subordinated units and general partner units, pro rata, until there has been allocated under this clause an amount per common unit equal to (a) the excess of the Second Target Distribution per common unit over the First Target Distribution per common unit for each quarter of Star Gas Partners' existence, less (b) the amount per common unit of any distributions of Available Cash from Operating Surplus in excess of the First Target Distribution per common unit but not in excess of the Second Target Distribution for each quarter of Star Gas Partners' existence.

- Seventh, 76.5% to all units, pro rata, and 23.5% to all senior subordinated units, junior subordinated units and general partner units, pro rata, until there has been allocated under this clause an amount per common unit equal to (a) the excess of the Third Target Distribution per common unit over the Second Target Distribution but not in excess of the Third Target Distribution for each quarter of Star Gas Partners' existence.

- Thereafter, 51.0% to all units, pro rata, and 49.0% to all senior subordinated units, junior subordinated units and general partner units, pro rata.

Any loss or unrealized loss will be allocated to the unitholders in the following manner:

- First, 100% to the junior subordinated units and general partner units, pro rata, in proportion to the positive balances in their capital accounts until the positive balances in their capital accounts have been reduced to zero.

- Second, 100% to the senior subordinated units in proportion to the positive balances in their capital accounts until the positive balances in their capital accounts have been reduced to zero.

- Third, 100% to the common units in proportion to the positive balances in their capital accounts until the positive balances in their capital accounts have been reduced to zero.

- Thereafter, to the general partner units.

Distributions of Cash upon Liquidation After the Subordination Period

If our liquidation occurs after the end of the subordination period, any gain, or unrealized gain attributable to assets distributed in kind, will be allocated to the partners in the following manner:

- First, to the partners that have negative balances in their capital accounts to the extent of and in proportion to those negative balances.

- Second, 100% to all Class A common units and Class B common units, until the capital account for each Class A common unit and Class B common unit is equal to the Unrecovered Initial Unit Price, plus the amount of the

minimum quarterly distribution for the fiscal quarter during which the dissolution occurs.

- Third, 100% to all units, pro rata, until there has been allocated under this clause an amount per Class A common unit equal to (a) the excess of the First Target Distribution per Class A common unit over the then effective minimum quarterly distribution for each quarter of our existence, less (b) the amount per Class A common unit of any distributions of Available Cash from Operating Surplus in excess of the then effective minimum quarterly distribution per Class A common unit that was distributed 100% to units, pro rata, for each quarter of our existence.

- Fourth, 86.7% to all units, pro rata, and 13.3% to Class B common units and general partner units, pro rata, until there has been allocated under this clause an amount per Class A common unit equal to (a) the excess of the Second Target Distribution per Class A common unit over the First Target Distribution per Class A common unit for each quarter of our existence, less (b) the amount per Class A common unit of any distributions of Available Cash from Operating Surplus in excess of the First Target Distribution but not in excess of the Second Target Distribution for each quarter of our existence.

- Fifth, 76.5% to all units, pro rata, and 23.5% to Class B common units and general partner units, pro rata, until there has been allocated under this clause an amount per Class A common unit equal to (a) the excess of the Third Target Distribution per Class A common unit over the Second Target Distribution per Class A common unit for each quarter of our existence, less (b) the amount per Class A common unit of any distributions of Available Cash from Operating Surplus in excess of the Second Target Distribution but not in excess of the Third Target Distribution for each quarter of our existence.

- Thereafter, 51.0% to all units, pro rata, and 49.0% to all Class B common units and general partner units, pro rata.

Any loss or unrealized loss will be allocated to the general partner units, the Class A common units and the Class B common units, pro rata, in proportion to the positive balances in their capital accounts, until the positive balances in those capital accounts have been reduced to zero.

Interim adjustments to capital accounts will be made at the time we issue additional interests or make distributions of property. These adjustments will be based on the fair market value of the interests issued or the property distributed and any gain or loss resulting from the adjustments will be allocated to the unitholders in the same manner as gain or loss is allocated upon liquidation.

Cash Available for Distribution

We believe that we will generate sufficient Available Cash from Operating Surplus for the first four-quarter period following the completion of the transaction to cover the full minimum quarterly distribution for the four-quarter period on all then outstanding units.

Even if this amount is generated, we may, however, not distribute the cash. We will not make distributions on the senior subordinated units, junior subordinated units and general partner units for any quarter during our fiscal year 1999. Beginning with the first quarter of our fiscal year 2000, we are allowed to make distributions on the senior subordinated units, junior subordinated units and general partner units, but may distribute less than the minimum quarterly distribution on these units because of the subordination provisions and other limitations on distributions in the partnership agreement.

Our belief about the amount of cash we may generate is based on a number of assumptions, including the assumptions that:

- normal weather conditions will prevail in Star Gas Partners' and Petro's operating areas;
- Star Gas Partners' and Petro's operating margins will remain constant; and
- market and overall economic conditions will not change substantially.

Although we believe our assumptions are within a range of reasonableness, most of the assumptions are not within our control and cannot be predicted with any degree of certainty. For example, in any particular year or series of years, weather may deviate substantially from normal. Therefore, our assumptions concerning the weather may prove to be inaccurate. As a result, our Operating Surplus could deviate from that currently expected. See "Risk Factors."

The amount of Available Cash constituting Operating Surplus needed to pay the minimum quarterly distribution for four quarters on the common units, senior subordinated units, junior subordinated units and general partner units to be outstanding immediately after the transaction is approximately:

Common units	$29.7 million
Senior subordinated units	5.7 million
Junior subordinated units	1.0 million
General partner units	0.7 million
Total	$37.1 million

These amounts assume that 8.9 million common units will be issued in this offering. If more common units are issued in this offering, the amount of Available Cash constituting Operating Surplus needed to pay the minimum quarterly distribution will increase.

After giving pro forma effect to the transaction, the amount of pro forma Available Cash constituting Operating Surplus generated during the twelve months ended December 31, 1998, would have been approximately $14.7 million. If infrequent restructuring, corporate identity and transaction expenses were not taken into effect, pro forma Available Cash constituting Operating Surplus would have been $20.2 million. In 1998, temperatures were significantly warmer than normal for the areas in which Star Gas Partners conducts its propane operations and Petro conducts its home heating oil operations. We believe that overall levels of both pro forma Available Cash from Operating Surplus and EBITDA were adversely affected during 1998 due to this abnormally warm weather. See "Unaudited Pro Forma Condensed Consolidated Financial Information."

We are required to establish reserves for the future payment of principal and interest on the First Mortgage Notes and the indebtedness under the bank credit facilities. There are other provisions in these agreements that will, under some circumstances, restrict our ability to make distributions to our partners. See "Note 9 to Consolidated Financial Statements--Long-Term Debt and Working Capital Borrowings" in our Annual Report on Form 10-K/A for the fiscal year ended September 30, 1998 that is incorporated by reference in this prospectus. The notes issued in the debt offering are expected to have provisions that will, under some circumstances, similarly restrict our ability to make distributions to our unitholders.

BUSINESS

General

We are the eighth largest retail distributor of propane and, upon our acquisition of Petro, will be the largest retail distributor of home heating oil in the United States. Our propane operations serve approximately 166,000 customers in the Midwest and Northeast regions, and the home heating oil operations that Star Gas Partners is acquiring serve approximately 340,000 customers in the Northeast and Mid-Atlantic regions. On a pro forma basis for the twelve months ended September 30, 1998 and giving effect to the transaction and the acquisitions made in fiscal 1998, we had $566.2 million in revenues and $50.9 million in EBITDA, as defined in this prospectus, on propane sales volume of 103.4 million gallons and home heating oil sales volume of 352.0 million gallons. If certain infrequent restructuring, corporate identity and transaction expenses were not subtracted from EBITDA, pro forma EBITDA for the same period would have been $55.1 million.

Propane Operations

We are primarily engaged in the retail distribution of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers. We serve our approximately 166,000 propane customers from 55 branch locations and 32 satellite storage facilities in the Midwest, and 19 branch locations and 14 satellite storage facilities in the Northeast. In addition to our retail business, we also serve approximately 30 wholesale customers from our facilities in southern Indiana.

For the fiscal year ended September 30, 1998, on a pro forma basis giving effect to acquisitions in fiscal 1998, our propane operations had EBITDA of $20.2 million on sales of $116.1 million. Based on volumes of gallons sold approximately 80% of these sales were to retail customers and approximately 20% were to wholesale customers. Our retail sales have historically had a greater profit margin, more stable customer base and less price sensitivity than our wholesale business.

Home Heating Oil Operations

We are a leading consolidator in the highly fragmented home heating oil industry. We serve approximately 340,000 home heating oil customers from 24 branch locations in the Northeast and Mid-Atlantic regions. We also install and repair heating equipment 24 hours a day, seven days a week, 52 weeks a year, generally within four hours of requests. These services are an integral part of our basic home heating oil service, and are designed to maximize customer satisfaction and loyalty.

For the twelve months ended September 30, 1998, our home heating oil operations had total sales of $450.1 million and EBITDA of $30.7 million. If certain infrequent restructuring, corporate identity and transaction expenses were not subtracted from EBITDA, pro forma EBITDA for the same period would have been $34.9 million. For the twelve months ended September 30, 1998, our total sales consisted of approximately:

- .83% from sales of home heating oil;
- .13% from the installation and repair of heating equipment; and
- . 4% from the sale of other petroleum products, including diesel fuel and gasoline, to commercial customers.

Our home heating oil business' sales volume, cash flow and EBITDA have increased significantly since 1979, when current management assumed control, primarily due to the acquisition of 188 home heating oil businesses over that period.

Industry Characteristics

Propane is used primarily for space heating, water heating and cooking by residential and commercial customers. Home heating oil is used primarily as a source of residential space heating. The retail propane and

home heating oil industries are both mature, with total demand expected to remain relatively flat or to decline slightly. We believe that these industries are relatively stable and predictable due to the largely non-discretionary nature of propane and home heating oil use. Accordingly, the demand for propane and home heating oil has historically been relatively unaffected by general economic conditions and has been a function of weather conditions.

It is common practice in both the propane and home heating oil distribution industries to price products to customers based on a per gallon margin over wholesale costs. As a result, distributors generally seek to maintain their margins by passing costs through to customers, thus insulating themselves from the volatility in wholesale heating oil and propane prices. However, during periods of sharp price fluctuations in supply costs, distributors may be unable or unwilling to pass entire cost increases or decreases through to customers. In these cases, significant increases or decreases in per gallon margins may result. In addition, the timing of cost pass-throughs can significantly affect margins.

The propane and home heating oil distribution industries are highly fragmented, characterized by a large number of relatively small, independently owned and operated local distributors. Each year a significant number of these

local distributors have sought to sell their business for reasons that include retirement and estate planning. In addition, the propane and heating oil distribution industries are becoming more complex due to increasing environmental regulations and escalating capital requirements needed to acquire advanced, customer oriented technologies. Primarily as a result of these factors, both industries are undergoing consolidation, and Star Gas Partners and Petro have been active consolidators in each of their markets.

Competitive Strengths

We believe that we are well-positioned to compete in the propane and home heating oil industries. Our competitive strengths include:

- High Percentage of Sales to Stable, Higher Margin Residential Customers. Our propane and home heating oil operations concentrate on sales to residential customers. Residential customers tend to generate higher margins and are generally more stable purchasers than our other customers. For the year ended September 30, 1998, sales to residential customers represented 56% of our retail propane gallons sold and 66% of propane gross profit. In addition, we own approximately 95% of the propane tanks located at our customers' homes, which further enhances our profitability and customer stability. For the twelve months ended September 30, 1998, sales to residential customers represented 83% of Petro's total heating oil gallons sold and 91% of total heating oil gross profit. Although overall demand for heating oil and propane is affected by weather and other factors, we believe that our residential business is relatively stable due to the largely non-discretionary nature of most heating oil and propane purchases by residential customers. In many states, fire safety regulations restrict the refilling of a leased tank solely to the propane supplier that owns the tank. These regulations, which require customers to switch propane tanks when they switch suppliers, help enhance the stability of our customer base because of the inconvenience involved with switching tanks.

- Proven Acquisition Expertise. Petro has a proven track record in the acquisition of home heating oil companies. Petro has achieved substantial growth since 1979 through the acquisition and consolidation of 188 retail heating oil distributors in both new and existing markets. In addition, since January 1994, our propane operations have acquired 12 distributors, including seven distributors in fiscal 1998.

- Premium Service Provider with Brand Name Recognition. In our New York and Mid-Atlantic regions, our home heating oil business now operates only under the name "Petro," rather than the acquired brand names previously in use. We have been building this brand name by focusing on delivering premium service to our customers. We have also adopted operational initiatives to provide a full range of services to our heating oil customers, including supply, repair and maintenance.

- Operating Leverage. As the largest retail distributor of home heating oil and a leading retail distributor of propane in the United States, we are able to realize economies of scale in operating,

marketing, information technology and other areas by spreading our costs over a larger base of sales. In our home heating oil business, we are using communication and computer technology that is generally not used by our competitors, which has allowed us to realize operating efficiencies.

Business Strategy

Our primary objective is to increase cash flow on a per unit basis. We intend to pursue this objective principally through the following strategies:

- Pursuing Strategic Acquisitions. We intend to continue to grow through acquisitions. Both the propane and home heating oil distribution industries are highly fragmented, characterized by a large number of relatively small, independently owned and operated local distributors. We believe that, as a result of the transaction, the field of potential acquisition candidates will be broadened due to our ability to acquire propane companies, home heating oil companies and companies with both propane and home heating oil operations. In addition, our increased size will enable us to consider larger transactions.

- Realizing Operating Efficiencies in Existing and Acquired Operations. We intend to continue to implement our restructuring and cost reduction programs in our home heating oil business to improve profitability and realize cost savings at both existing and acquired operations. We intend to continue to focus our propane operations in high margin markets with a large proportion of residential customers.

- Focusing on Customer Growth and Retention. We intend to continue to seek internal growth through individual branch marketing programs in our propane business. In our home heating oil business, we seek to maximize customer retention by providing premium customer service and building brand awareness and customer loyalty.

- Enhancing Our Brand Awareness. We believe that the impact of Petro's branding efforts may offer competitive advantages in the home heating oil industry, due to the lack of comparable branding and extremely low consumer awareness in the industry.

We cannot assure that we will be able to implement the above strategies.

Propane

General

Propane is used primarily for space heating, water heating, clothes drying and cooking by residential and commercial customers. Residential customers are typically homeowners, while commercial customers include motels, restaurants, retail stores and laundromats. Industrial users, such as manufacturers, use propane as a heating and energy source in manufacturing and drying processes. In addition, propane is used to supply heat for drying crops and curing tobacco and as a fuel source for certain motor vehicles.

Propane is extracted from natural gas or oil wellhead gas at processing plants or separated from crude oil during the refining process. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution. When the pressure is released or the temperature is increased, it is usable as a flammable gas. Propane is colorless and odorless; an odorant is added to allow its detection. Propane is clean-burning, producing negligible amounts of pollutants when consumed. According to the American Petroleum Institute, the domestic retail market for propane is approximately 9.4 billion gallons annually. Based upon information contained in the Energy Information Administration's Annual Energy Review-1995, propane accounts for approximately 4% of household energy consumption in the United States.

The retail market for propane is seasonal because it is used primarily for heating in residential and commercial buildings. Approximately 70% to 75% of our retail propane volume is sold during the peak heating season from October through March.

Consequently, sales and operating profits are largely generated in the first and second fiscal quarters of each year. To the extent necessary, we will reserve cash flows from the first and second fiscal quarters for distribution to unitholders in the third and fourth fiscal quarters. In addition, sales volume traditionally fluctuates from year to year in response to variations in weather, prices and other factors. We believe that the broad geographic distribution of our operations helps to minimize exposure to regional weather or economic patterns.

Operations

As of September 30, 1998, we distributed propane to approximately 166,000 retail customers in 13 states from 74 branch locations. Our propane operations are conducted under a number of trademarks and trade names, including: Star Gas(R), Star Gas Service(TM), Silgas(TM), Blue Flame(R), Maingas(TM), Arrow Gas(TM), Mid-Hudson Valley Propane(TM), Coleman Gas Service(TM), H & S Gas(TM), Isch Gas(TM), Wilhoyte L.P. Gas(TM), Rural Natural Gas(TM), Pearl Gas(TM), Bay State-Arrow Gas(TM), Knowles L.P. Gas(TM) and Lowe Bros. & Dad. We do not have the right to use the trademark Star Gas(R) in the State of New York nor do we

have the right to use the Blue Flame(R) trademark in certain limited areas outside of our current area of propane operations. We market propane primarily in rural areas, but also include suburban areas where energy alternatives to propane such as natural gas are generally not available.

Our retail propane operations are located primarily in the Northeast and Midwest regions of the United States:

NORTHEAST	MIDWEST	
Connecticut	Indiana Akron	Michigan
Stamford	Batesville	Charlotte
Hartford	Bedford	Hillsdale
Maine Fairfield	Bluffton Coal	Somerset Center
Fryeburg	City College	Ohio Bowling
Skowhegan Wells	Corner Columbia	Green
Windham	CityDecatur	Cincinnati
	Ferdinand	Defiance
Massachusetts	Greencastle	Deshler Ft.
Belchertown	Jeffersonville	Recovery Hebron
Rochdale	Linton Madison	Ironton Kenton
Westfield	New Salisbury	Lancaster
Swansea	N. Manchester	Lewisburg
	N. Vernon N.	Lynchburg Macon
New Hampshire	Webster	Maumee McClure
(from Fryeburg,	Portland	Milford Mt.
ME)	Remington	Orab North Star
	Richmond Salem	Ripley Sabina
New Jersey	Seymour Sulphur	Waverly West
Maple Shade	Springs	Union
Tuckahoe	Versailles	West Virginia
New York Addison	Warren Waterloo	(from Ironton,
Poughkeepsie	Winamac	OH)
Washingtonville	Kentucky Dry	
	Ridge Glencoe	
Pennsylvania	Prospect	
Hazelton Wind	Shelbyville	
Gap		
Rhode Island		
Davisville		

From our branch locations, we also sell, install and service equipment related to our propane distribution business, including heating and cooking appliances and, at some locations, we rent water softeners. Typical branch locations consist of an office, an appliance showroom and a warehouse and service facilities, with one or more 12,000 to 30,000 gallon bulk storage tanks. Satellite facilities typically contain only storage tanks.

The distribution of propane at the retail level involves large numbers of small deliveries averaging 100 to 150 gallons each to the majority of our customer base. Retail deliveries of propane are usually made to customers by means of our fleet of bobtail and rack trucks. As of September 30, 1998, we had 280 bobtail and rack trucks. Propane is pumped from the bobtail truck, which generally holds 2,000 to 3,000 gallons, into a stationary storage tank at the customer's premises. The capacity of these tanks ranges from approximately 24 gallons to approximately 1,000 gallons. We also deliver propane to retail customers in portable cylinders, which typically are picked up and replenished at our distribution locations, then returned to the retail customer. To a limited extent, we also deliver propane to certain end users of propane in larger trucks known as transports. These trucks have an average capacity of approximately 9,000 gallons. End users receiving transport deliveries include industrial customers, large-scale heating accounts, such as local gas utilities that use propane as a supplemental fuel to meet peak demand requirements, and large agricultural accounts that use propane for crop drying and space heating.

Customers

During the fiscal year ended September 30, 1998, on a pro forma basis, approximately 80% of our propane sales by volume of gallons sold were to retail customers. These sales were comprised of approximately:

. 56% to residential customers;

. 18% to industrial/commercial customers;

. 19% to agricultural customers; and

. 7% to motor fuel customers.

Approximately 20% of our propane sales during the fiscal year ended September 30, 1998, on a pro forma basis, were to wholesale customers. Sales to residential customers in fiscal year 1998 accounted for 66% of our propane gross profit on propane sales, reflecting the higher-margin nature of this segment of the market.

A majority of our residential customers receive their propane supply under an automatic delivery system. Under the automatic delivery system, we deliver propane to our heating customers an average of approximately six times during the year. We determine the amount delivered based on weather conditions and historical consumption patterns. Thus, the automatic delivery system eliminates the customer's need to make an affirmative purchase decision. In addition, we provide emergency service 24 hours a day, seven days a week, 52 weeks a year. In excess of 95% of our retail propane customers lease their tanks from us. In most states, due to fire safety regulations, a leased tank may only be refilled by the propane distributor that owns that tank. The inconvenience associated with switching tanks greatly reduces a propane customer's tendency to change distributors.

Suppliers and Supply Arrangements

We obtain propane from over 30 sources, all of which are domestic or Canadian oil companies, including Amoco Canada Marketing Group, Bayway Refining Company, Domex, Inc., Enron Gas Liquids, Inc., Ferrell North America, Marathon Ashland Petroleum, LLC, Markwest Hydrocarbons, Mobil Oil Company, Petro Canada LPG Inc., Sea-3 Inc., Shell Canada Limited, Shell Oil Company, and Warren Gas Liquids, Inc. Supplies from these sources have traditionally been readily available, although we cannot assure that supplies of propane will be readily available in the future.

Substantially all of our propane supply for our Northeast retail operations is purchased under annual or longer term supply contracts that generally provide for pricing in accordance with market prices at the time of

delivery. Some of the contracts provide for minimum and maximum amounts of propane to be purchased. During the year ended September 30, 1998, none of our Northeast suppliers accounted for more than 10% of our volume.

We typically supply our Midwest retail and wholesale operations by a combination of:

(1) spot purchases from suppliers at Mont Belvieu, Texas, that are transported by pipeline to our 21 million gallon underground storage facility in Seymour, Indiana, and then delivered to the Midwest branches; and

(2) purchases from a number of Midwest refineries that are transported by truck to the branches either directly or via the Seymour facility.

Most of the refinery purchases are purchased under market based contracts.

The Seymour facility is located on the TEPPCO Partners, L.P. pipeline system. The pipeline is connected to the Mont Belvieu storage facilities and is one of the largest conduits of supply for the U.S. propane industry. The Seymour facility allows us to buy and store large quantities of propane during periods of low demand that generally occur during the summer months. We believe that this ability allows us to achieve cost savings to an extent generally not available to our competitors in our Midwest markets.

For fiscal 1998 our Midwest purchase volume was comprised of:

- 28% on the spot market from various Mont Belvieu, Texas sources;
- 27% from three refineries in Illinois, Kentucky and Michigan owned by Marathon Ashland Petroleum, LLC;
- 23% from three refineries in Illinois and Indiana owned by Amoco Canada Marketing Group; and
- the remaining propane from five other refineries.

We believe that our diversification of suppliers will enable us to purchase all of our supply needs at market prices if supplies are interrupted from any of the sources without a material disruption of our operations. See "Risk Factors--Risks Inherent in Our Business--We Are Dependent on Principal Suppliers and Carriers Increasing the Risk of an Interruption in Supply That Might Result in a Loss of Revenues and Customers."

Propane is generally transported from refineries, pipeline terminals and storage facilities, including our Seymour facility, and coastal terminals to our branch location bulk plants. We accomplish this by a combination of our own highway transport fleet, common carriers, owner-operators and railroad tank cars. Branches and their related satellites typically have one or more 12,000 to 30,000 gallon storage tanks.

Effect of Propane Price Volatility

Profits in the retail propane business are primarily based on margins, the cents-per-gallon difference between the purchase price and the sales price of propane. We generally purchase propane under market-based contracts and in the spot market, primarily from natural gas processors and major oil companies for our short-term requirements. Therefore, our supply costs fluctuate with market price fluctuations. Should wholesale propane prices decline in the future, margins on our retail propane distribution business would increase in the short-term because retail prices tend to change less rapidly than wholesale prices. Should the wholesale cost of propane increase, for similar reasons, retail margins and profitability would likely be reduced, at least for the short-term, until retail prices could be increased. The timing of those cost pass-throughs can significantly affect margins.

Competition

The propane business is highly competitive. However, long-standing customer relationships are typical of the retail propane industry. The ability to compete effectively within the propane industry depends on the reliability of service, responsiveness to customers and the ability to maintain competitive prices. We believe that our superior service capabilities and customer responsiveness differentiate us from many of our competitors. Branch operations offer emergency service 24 hours a day, seven days a week, 52 weeks a year.

Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service multi-state propane marketers, smaller local independent marketers and farm cooperatives. Based on industry publications, we believe that the ten largest multi-state marketers, including us, account for approximately 35% of the total retail sales of propane in the United States, and that no single marketer has a greater than 10% share of the total retail market in the United States. Most of our branches compete with five or more marketers or distributors. The principal factors influencing competition among propane marketers are price and service. Each retail distribution outlet operates in its own competitive environment, while retail marketers locate in close proximity to customers to lower the cost of providing service. The typical retail distribution outlet has an effective marketing radius of approximately 35 miles. See "Risk Factors--Risks Inherent in Our Business--Because of the Highly Competitive Nature of the Retail Propane and Home Heating Oil Businesses, We May Not Be Able to Maintain Existing Customers or Acquire New Customers, Which Would Have An Adverse Impact on Our Operating Results and Financial Condition."

In addition, propane competes primarily with electricity, natural gas and fuel oil as an energy source on the basis of price, availability and portability. In certain parts of the country, propane is generally less

expensive to use than electricity for space heating, water heating, clothes drying and cooking. Propane is generally more expensive than natural gas, but serves as an alternative to natural gas in rural and suburban areas where natural gas is unavailable or portability of product is required. The expansion of natural gas into traditional propane markets has historically been inhibited by the capital costs required to expand distribution and pipeline systems. Although the extension of natural gas pipelines tends to displace propane distribution in the areas affected, we believe that new opportunities for propane sales arise as more geographically remote areas are developed. Although propane is similar to fuel oil in space heating and water heating applications as well as in market demand and price, propane and fuel oil have generally developed their own distinct geographic markets. Because furnaces that burn propane will not operate on fuel oil, a conversion from one fuel to the other requires the installation of new equipment.

Properties

As of September 30, 1998, we owned 60 of our 74 branch locations and 36 of our 46 satellite storage facilities and leased the balance. In addition, Star Gas Partners owns the Seymour facility, in which it stores propane for itself and third parties. Our propane operations' corporate headquarters are leased in Stamford, Connecticut, while our office and training facilities are leased in the Midwest.

The transportation of propane requires specialized equipment. The trucks used for this purpose carry specialized steel tanks that maintain the propane in a liquefied state. As of September 30, 1998, Star Gas Partners had a fleet of 29 tractors, 37 transport trailers, 280 bobtail and rack trucks and 302 other service and pick-up trucks, the majority of which are owned. Our propane operations own 14 and lease 34 automobiles. As of September 30, 1998, our propane operations owned approximately:

.237 bulk storage tanks with typical capacities of 12,000 to 30,000 gallons;,

.206,000 stationary customer storage tanks with typical capacities of 24 to 1,000 gallons; and

.30,000 portable propane cylinders with typical capacities of 5 to 24 gallons.

Our obligations under our borrowings are secured by liens and mortgages on all of our real and personal property.

Home Heating Oil

General

Home heating oil is a primary source of home heat in the Northeast. The Northeast accounts for approximately two-thirds of the demand for home heating oil in the United States. During 1997, approximately 6.9 million homes, or approximately 36% of all homes in the Northeast, were heated by oil. In recent years, demand for home heating oil has been affected by conservation efforts and conversions to natural gas. In addition, as the number of new homes that use oil heat has not been significant, there has been virtually no

increase in the customer base due to housing starts. As a result, according to the most recent available data, residential home heating oil consumption in the Northeast has declined from approximately 5.3 billion gallons in 1982 to approximately 4.6 billion gallons in 1993.

The home heating oil distribution business is highly fragmented and characterized by numerous local fuel oil distributors, most of which have fewer than 20 employees and operate within a 25-mile radius from their distribution facility. According to the United States Bureau of Census, there were approximately 3,700 independently owned and operated home heating oil distributors in the Northeast at the end of 1997.

Operations

Our home heating oil operations serve approximately 340,000 customers in the Northeast and Mid-Atlantic states. In addition to selling home heating oil, we

install and repair heating equipment. To a limited extent, we also market other petroleum products, including diesel fuel and gasoline, to commercial customers. During the twelve months ended September 30, 1998, our total sales were comprised of approximately

- .83% from sales of home heating oil;
- .13% from the installation and repair of heating equipment, and
- . 4% from the sale of other petroleum products, including diesel fuel and gasoline, to commercial customers.

We provide home heating equipment repair service 24 hours a day, seven days a week, 52 weeks a year, generally within four hours of a request. We also regularly provide various service incentives to obtain and retain customers. Our home heating oil business is consolidating its operations under one brand name, which we are building by employing an upgraded, professionally trained and managed sales force, together with a professionally developed marketing campaign, including radio and print advertising media. Our home heating oil operations have a nationwide toll free telephone number, 1-800-OIL-HEAT, which we believe helps us to build customer awareness and brand identity.

As a result of a major strategic study, in 1996 we began to implement an operational restructuring program designed to take advantage of our size within the home heating oil industry. This program involves regionalization of our home heating oil operations into three profit centers, which allows us to operate more efficiently. In addition, this program enables us to access developments in communication and computer technology that are in use by other large distribution businesses, but are generally not used by other retail heating oil companies. This program is designed to reduce operating costs, improve customer service and establish a brand image among heating oil consumers.

As part of the implementation of this operational restructuring program, in April 1996 our home heating oil business opened a regional customer service center on Long Island, New York. This state-of-the-art facility currently conducts all activities that interface with our approximately 110,000 Long Island and New York City home heating oil customers, including sales, customer service, credit and accounting. Since we have this customer service center, eight full-function branches were consolidated into four strategically located delivery and service depots to serve our home heating oil business's customers more efficiently. Furthermore, in keeping with the focus of our operating strategy, late in 1997 we continued to reorganize select branch and corporate responsibilities in order to eliminate redundant functions and regionalize responsibilities where they can best serve customers and our home heating oil business.

Customers

Our home heating oil business currently serves approximately 340,000 customers in the following 26 markets:

New York	Massachusetts	New Jersey
Bronx, Queens and Kings Counties	Boston (Metropolitan)	Camden
Duchess County	Northeastern Massachusetts	Neptune
Staten Island	(Centered in Lawrence)	Newark (Metropolitan)
Eastern Long Island	Worcester	North Brunswick
Western Long Island		Rockaway
		Trenton

Connecticut	Pennsylvania	Rhode Island
Bridgeport--New Haven	Allentown	Providence

Litchfield County
Southern Fairfield Country
(Metropolitan)

Berks County
(Centered in Reading)
Bucks Country
(Centered in Southampton)
Lebanon Country
(Centered in Palmyra)

Newport

Maryland/Virginia/D.C.

Arlington
Baltimore
Washington, D.C. (Metropolitan)

During the twelve months ended September 30, 1998, approximately 85% of our heating oil sales were made to homeowners, with the remainder to industrial, commercial and institutional customers.

Our home heating oil business' net attrition of existing customers has been approximately 5% to 6% per year over the five years through 1997. This rate represents the net of our annual gross customer loss rate of approximately 15% to 16% offset by customer gains of approximately 10% per year. In 1998 net attrition approximated 3.4%, representing gains of approximately 11.4% and gross losses of 14.8%. Gross customer losses are the result of various factors, including customer relocation, price, natural gas conversions and credit problems. Customer gains are a result of our marketing and service programs and other incentives. While our home heating oil business often loses customers when they move from their homes, we are able to retain a majority of these homes by obtaining the new home purchaser as a customer.

In addition, approximately 90% of our customers receive their home heating oil under an automatic delivery system without the customer having to make an affirmative purchase decision. These deliveries are scheduled by computer, based upon each customer's historical consumption patterns and prevailing weather conditions. We deliver home heating oil approximately six times during the year to the average customer. Our practice is to bill customers promptly after delivery. In addition, approximately 40% of our customers are on our budget payment plan, whereby their estimated annual oil purchases and service contract are paid for in a series of equal monthly payments over a twelve month period.

Suppliers and Supply Arrangements

We obtain fuel oil in either barge or truckload quantities, and have contracts with over 80 terminals for the right to temporarily store our heating oil at facilities not owned by us. Purchases are made under supply contracts or on the spot market. Our home heating oil business has market price based contracts for substantially all our petroleum requirements with 11 different suppliers, the majority of which have significant

domestic sources for their product, and many of which have been our suppliers for over 10 years. Our current suppliers are: Amerada Hess Corporation; Citgo Petroleum Corp.; Coastal New York; Global Petroleum Corp.; Koch Refining Company, L.P.; Louis Dreyfus Energy Corp.; Mieco, Inc.; Mobil Oil Corporation; Sprague Energy; Sun Oil Company; and Tosco Refining Co. Supply contracts typically have terms of 12 months. All of the supply contracts provide for maximum and in some cases minimum quantities. In most cases our supply contracts do not establish the price at which we purchase fuel oil in advance. This price, like the price to most of our home heating oil customers, is based upon market prices at the time of delivery.

We believe that our policy of contracting for substantially all of our supply needs with diverse and reliable sources will enable us to obtain sufficient product should unforeseen shortages develop in worldwide supplies. We also believe that relations with our current suppliers are satisfactory.

Insulation from Oil Price Volatility

Although the price of crude oil can be volatile, historically this volatility has not materially affected our performance, since over the years we have added

a gross margin onto our wholesale costs. This addition was designed to offset the impact of inflation, account attrition and weather. As a result, variability in supply prices has affected net sales, but generally has not affected gross profit or net income, and as such, our margins are most meaningfully measured on a per gallon basis and not as a percentage of sales. While fluctuations in wholesale prices have not significantly affected demand to date, it is possible that significant wholesale price increases over an extended period of time could have the effect of encouraging conservation. If demand were reduced and we were unable to increase our gross profit margin or reduce our operating expenses, the effect of the decrease in volume would be to reduce net income.

Approximately 25% of our home heating oil total sales are made to individual customers under an agreement pre-establishing the maximum sales price of oil over a twelve month period. The maximum price at which oil is sold to these individual customers is renegotiated in April of each year in light of then current market conditions. We currently enter into forward purchase contracts and futures contracts for a substantial majority of the oil we sell to these capped-price customers in advance and at a fixed cost. This practice permits us to purchase oil at a fixed price in advance of our obligations to supply that oil. Should events occur after a capped-sales price is established that increases the cost of oil above the amount anticipated, margins for the capped-price customers whose oil was not purchased in advance would be lower than expected, while those customers whose oil was purchased in advance would be unaffected. Conversely, should events occur during this period that decrease the cost of oil below the amount anticipated, margins for the capped-price customers whose oil was purchased in advance could be lower than expected, while margins for those customers whose oil was not purchased in advance would be unaffected or higher than expected.

Our home heating oil business uses put options to hedge and reduce the risks associated with a substantial portion of the heating oil forward purchase contracts and futures contracts acquired as of December 31, 1998. Should the cost of heating oil significantly decline below the acquisition cost, these options would substantially offset the effects of that decline.

Competition

Like the propane industry, the home heating oil industry is highly competitive. Our home heating oil operations compete with heating oil distributors offering a broad range of services and prices, from full service distributors, like us, to those offering delivery only. Long-standing customer relationships are typical in the industry. Many companies in the industry, including us, deliver home heating oil to their customers based upon weather conditions and historical consumption patterns, without the customer making an affirmative purchase decision each time oil is needed. Like most companies in the home heating oil business, we provide home heating equipment repair service on a 24-hour a day basis. This tends to build customer loyalty. As a result of

the factors noted above, among others, it may be difficult for our home heating oil business to acquire new retail customers, other than through acquisitions. In addition, in some instances homeowners have formed buying cooperatives that seek to purchase fuel oil from distributors at a price lower than individual customers are otherwise able to obtain.

Our home heating oil business also competes for retail customers with suppliers of alternative energy products, principally natural gas. The rate of conversion from the use of home heating oil to natural gas is primarily affected by the relative prices of the two products and the cost of replacing an oil fired heating system with one that uses natural gas. We believe that approximately 1% of our home heating oil customer base annually converts from home heating oil to natural gas.

Other

Employees

Star Gas Partners itself has historically had no employees except for some employees of its corporate subsidiary, Stellar Propane Service Corp. As of September 30, 1998, Star Gas Corporation had 624 employees providing full time services to Star Gas Propane of whom:

. 44 were employed by the corporate office in Stamford, Connecticut; and

. 580 were located in branch offices.

In addition, at this time Star Gas Corporation had employees of whom:

. 177 were administrative;

. 286 were engaged in transportation and storage; and

. 117 were engaged in field servicing.

Approximately 78 of Star Gas Corporation's employees are represented by six different local chapters of labor unions. Management believes that its relations with both its union and non-union employees are satisfactory.

As of September 30, 1998, our home heating oil business had 1,729 employees, of whom:

. 471 were office, clerical and customer service personnel;

. 634 were heating equipment repairmen;

. 244 were oil truck drivers and mechanics;

. 199 were management and staff; and

. 181 were employed in sales.

Approximately 50 of these employees are seasonal and are rehired annually to support the requirements of the heating season. Approximately 700 employees are represented by 16 different local chapters of labor unions. Management believes that its relations with both its union and non-union employees are satisfactory.

Government Regulations

We are subject to various federal, state and local environmental, health and safety laws and regulations. Generally, these laws impose limitations on the discharge of pollutants and establish standards for the handling of solid and hazardous wastes. These laws include the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right to Know Act, the Clean Water Act and comparable state statutes. CERCLA, also known as the "Superfund" law, imposes joint and several liability without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release or threatened release of a hazardous substance into the environment. Propane is not a hazardous substance within the meaning of CERCLA. These laws and regulations could result in civil or

criminal penalties in cases of non-compliance or impose liability for remediation costs. To date, we have not been named as a party to any litigation in which we are alleged to have violated or otherwise incurred liability under any of the above laws and regulations.

For acquisitions that involve the purchase of real estate, we conduct a due diligence investigation to attempt to determine whether any substance has been sold from, or stored on, any of that real estate prior to its purchase. This due diligence includes questioning the seller, obtaining representations and warranties concerning the seller's compliance with environmental laws and performing site assessments. During this due diligence our employees, and, in certain cases, independent environmental consulting firms review historical records and data bases and conduct physical investigations of the property to look for evidence of hazardous substances, compliance violations and the existence of underground storage tanks.

National Fire Protection Association Pamphlets No. 54 and No. 58, which establish rules and procedures governing the safe handling of propane, or comparable regulations, have been adopted as the industry standard in all of the states in which we operate. In some states these laws are administered by state agencies, and in others they are administered on a municipal level.

Regarding the transportation of propane by truck, we are subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation. We conduct ongoing training programs to help ensure that our operations are in compliance with applicable regulations. We maintain various permits that are necessary to operate some of our facilities, some of which may be material to our operations. Management believes that the procedures currently in effect at all of our facilities for the handling, storage and distribution of propane are consistent with industry standards and are in compliance in all material respects with applicable laws and regulations.

On August 18, 1997, the U.S. Department of Transportation published its Final Rule for Continued Operation of the Present Propane Trucks. This final rule is intended to address perceived risks during the transfer of propane and required certain immediate changes in industry operating procedures, including retrofitting all propane delivery trucks. Star Gas Partners, as well as the National Propane Gas Association and the propane industry in general, believe that the Final Rule for Continued Operation of the Present Propane Trucks cannot practicably be complied with in its current form. On October 15, 1997, five of the principal multi-state propane marketers, all of whom were unrelated to Star Gas Partners, filed an action against the U.S. Department of Transportation in the United States District Court for the Western District of Missouri seeking to enjoin enforcement of the Final Rule for Continued Operation of the Present Propane Trucks. On February 13, 1998, the Court issued a preliminary injunction prohibiting the enforcement of this final rule pending further action by the Court. The National Propane Gas Association later filed a similar suit. Both suits are still pending. In addition, Congress passed, and on October 21, 1998, the President of the United States signed, the FY 1999 Transportation Appropriations Act, which included a provision restricting the authority of the U.S. Department of Transportation from enforcing specific provisions of the Final Rule for Continued Operation of the Present Propane Trucks. At this time, Star Gas Partners cannot determine the likely outcome of the litigation or the proposed legislation or what the ultimate long-term cost of compliance with the Final Rule for Continued Operation of the Present Propane Trucks will be to Star Gas Partners and the propane industry in general.

The United States Environmental Protection Agency has included propane in the list of substances subject to section 112(r)(3) of the Clean Air Act, which would require substantially all propane dealers and specified large commercial users of propane to develop a Risk Management Program and to file a Risk Management Plan. The Risk Management Plan would detail the worst and most likely case scenario in case of an accident at the dealer's or customer's facility, the methods of controlling such an accident. It also mandates training to protect against an event of this type. We are in substantial compliance with National Fire Protection Code Pamphlet 58, which covers most of the Risk Management Plan requirements and we do not anticipate material costs to fully comply, should the rule become effective. However, propane is the only product used as a fuel included in the Risk Management Plan and such inclusion could cause a negative impact on current and potential consumers resulting in switching to alternate fuels. The industry believes that propane should not be included and is presently working through legislative means to have propane removed from the program.

Future developments, such as stricter environmental, health or safety laws and regulations, could affect our operations. It is not anticipated that our compliance with or liabilities under environmental, health and safety laws and regulations, including CERCLA, will have a material adverse effect on us. To the extent that we do not know of any environmental liabilities, or environmental, health or safety laws, or regulations are made more stringent, there can be no assurance that our results of operations will not be materially and adversely affected.

Litigation

Our operations are subject to all operating hazards and risks normally incidental to handling, storing and transporting and otherwise providing for use by consumers of combustible liquids such as propane and home heating oil. As a result, at any given time we are a defendant in various legal proceedings and litigation arising in the ordinary course of business. We maintain insurance policies with insurers in amounts and with coverages and deductibles

as the general partner believes are reasonable and prudent. Star Gas LLC, the general partner following the merger, has informed us that it intends to maintain existing insurance policies. However, we cannot assure that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. In addition, the occurrence of an explosion may have an adverse effect on the public's desire to use our products.

MANAGEMENT

Star Gas Partners Management

General Partner

Upon completion of the transaction, our general partner and the general partner of Star Gas Propane will become Star Gas LLC. The membership interests in Star Gas LLC will be owned by Audrey L. Sevin, Irik P. Sevin, Hanseatic Corp. and Hanseatic Americas LDC.

The general partner manages and operates our activities. Unitholders do not directly or indirectly participate in our management or operation. The general partner owes a fiduciary duty to the unitholders. See "Risk Factors--Risks Inherent in an Investment in Star Gas Partners--The General Partner Has Conflicts of Interest and Limited Fiduciary Responsibilities Which May Permit the General Partner to Favor its Own Interests to the Detriment of Unitholders." Notwithstanding any limitation on obligations or duties, the general partner is liable, as our general partner, for all of our debts (to the extent not paid from our assets), except for indebtedness or other obligations that are made specifically non-recourse to the general partner. In addition, if Star Gas Propane defaults under the First Mortgage Notes or the bank credit facilities, the general partner will be liable for any deficiency remaining after foreclosure on Star Gas Propane assets.

As is commonly the case with publicly-traded limited partnerships, Star Gas Partners does not directly employ any of the persons responsible for our management or operation. Instead, Star Gas Partners is managed and operated by the directors and officers of our general partner.

Directors and Executive Officers of the General Partner

Upon completion of the transaction, it is expected that the Star Gas LLC board will consist of the following persons, all of whom currently serve as directors of Star Gas Corporation: Irik P. Sevin, Chairman of the Board; Audrey L. Sevin; William G. Powers, Jr.; Thomas J. Edelman; Paul Biddelman; Wolfgang Traber; and William P. Nicoletti. Elizabeth Lanier will withdraw as a director upon completion of the transaction, as a result of additional duties associated with a new job. She will be replaced by a director selected by the Star Gas LLC board, and the new director will not be an officer or employee of Star Gas LLC or any of its affiliates.

William P. Nicoletti and an independent director to be selected by the Star Gas LLC board, neither of whom are officers or employees of any affiliates of the general partner, will serve on the audit committee of the Star Gas LLC board. The audit committee has the authority to review specific matters that the general partner believes present a conflict of interest. The audit committee will determine if the resolution of the conflict proposed by the general partner is fair and reasonable to us. Any matters approved by the audit committee will be conclusively deemed to be:

- fair and reasonable to us;
- approved by all of our partners; and
- not a breach by the general partner of any duties it may owe us or our unitholders.

In addition, the audit committee:

- reviews our external financial reports;
- recommends engagement of our independent accountants; and

. reviews our procedure for internal auditing and the adequacy of our internal accounting controls.

In these additional matters, the audit committee may act on its own initiative to question the general partner and, absent the delegation of specific authority by the entire board of directors, its recommendations will be advisory.

Directors are elected for one-year terms. The following table shows certain information for the directors and executive officers of the general partner upon completion of the transaction.

Name	Age	Position with the General Partner
Irik P. Sevin(a)(b)(c)	51	Chairman of the Board and Chief Executive Officer
William G. Powers, Jr.(b)	45	Executive Vice President--Heating Oil and Member of the Office of President
Joseph P. Cavanaugh	61	Executive Vice President--Propane and Member of the Office of President
George Leibowitz	61	Treasurer
Richard F. Ambury	42	Vice President
James Bottiglieri	43	Vice President
Audrey L. Sevin	72	Secretary
Thomas J. Edelman	47	Director
Paul Biddelman(c)	52	Director
Wolfgang Traber(a)	54	Director
William P. Nicoletti(d)	53	Director

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(a) Member of the Compensation Committee
(b) Member of the Management Committee
(c) Member of the Distribution Committee
(d) Member of the Audit Committee

Irik P. Sevin has been the Chairman of the board of directors of Star Gas Corporation since December 1993. Mr. Sevin has been a director of Petro since its organization in October 1983 and Chairman of the Board of Petro since January 1993. Mr. Sevin has been President of Petro, Inc. (a predecessor of Petro) since November 1979 and was President of Petro from 1983 through January 1997. Mr. Sevin was an associate in the investment banking division of Kuhn Loeb & Co. and then Lehman Brothers Kuhn Loeb Incorporated from February 1975 to December 1978.

William G. Powers, Jr. has been a director of Star Gas Corporation since December 1997. Mr. Powers has been President of Petro since December 1997. Mr. Powers was President of Star Gas Corporation from December 1993 through November 1997. Prior to joining Star Gas Corporation, he was employed by Petro from 1984 to 1993 where he served in various capacities, including Regional Operations Manager and Vice President of Acquisitions. He has participated in over 90 acquisitions for Petro. From 1977 to 1983, he was employed by The Augsbury Corporation, a company engaged in the wholesale and retail distribution of fuel oil and gasoline throughout New York and New England and served as Vice President of Marketing and Operations.

Joseph P. Cavanaugh has been President and Chief Executive Officer of Star Gas Corporation since December 1997. Mr. Cavanaugh was Senior Vice President--Safety and Compliance of Petro from January 1993 through November 1997. From October 1985 to January 1993, Mr. Cavanaugh was Vice President of Petro. Mr. Cavanaugh was Controller of Petro, Inc. from 1973 to 1993 and of Petro from its organization until 1994. Mr. Cavanaugh has also taken an active role in assisting our management with the development of safety/compliance programs, assisting with acquisitions and their later integration into Star Gas Partners.

George Leibowitz has been Treasurer of Petro since April 1997. From November 1992 to March 1997, he was Senior Vice President--Finance and Corporate Development of Petro. From 1985 to 1992, Mr. Leibowitz was the Chief Financial Officer of Slomin's Inc., a retail heating oil dealer. From 1984 to 1985, Mr. Leibowitz was the President of Lawrence Energy Corp., a consulting and oil

trading company. From 1971 to 1984, Mr. Leibowitz was Vice President--Finance and Treasurer of Meenan Oil Co., Inc. Mr. Leibowitz is a certified public accountant.

Richard F. Ambury has been Vice President of Finance of Star Gas Corporation since February 1996. Prior to joining Star Gas Corporation, he was employed by Petro from 1983 through 1996 where he served in various accounting/finance capacities. Prior to joining Petro, Mr. Ambury was employed by a predecessor firm of KPMG Peat Marwick LLP. Mr. Ambury has been a certified public accountant since 1981.

James J. Bottiglieri has been Controller of Petro since 1994. He was Assistant Controller of Petro from 1985 to 1994 and was elected Vice President in December 1992. From 1978 to 1984, Mr. Bottiglieri was employed by a predecessor firm of KPMG Peat Marwick LLP, a public accounting firm. Mr. Bottiglieri has been a certified public accountant since 1980.

Audrey L. Sevin has been a director of Star Gas Corporation since December 1993 and the Secretary of Star Gas Corporation since June 1994. Mrs. Sevin has been a director and Secretary of Petro since its organization in October 1983. Mrs. Sevin was a director, executive officer and principal shareholder of A. W. Fuel Co., Inc. from 1952 until its purchase by Petro Inc. in May 1981.

Thomas J. Edelman has been a director of Star Gas Corporation since October 1995. He also served in that capacity from December 1993 through June 1995. Mr. Edelman has been a director of Petro since its organization in October 1983. Mr. Edelman has been the Chairman and Chief Executive Office of Patina Oil & Gas Corporation since its formation in 1996. Mr. Edelman also serves as Chairman of Range Resources Corporation (formerly Lomak Petroleum, Inc.). He co-founded Snyder Oil Corporation and was its President and a director from 1981 through early 1997. Prior to 1981, he was a Vice President of The First Boston Corporation. From 1975 through 1980, Mr. Edelman was with Lehman Brothers Kuhn Loeb Incorporated. Mr. Edelman also serves as a director of Paradise Music & Entertainment, Inc., and as a Trustee of The Hotchkiss School.

Paul Biddelman has been a director of Star Gas Corporation since October 1995. He also served in that capacity from December 1993 through June 1995. Mr. Biddelman has been a director of Petro since October 1994. Mr. Biddelman has been President of Hanseatic Corporation since December 1997. From April 1992 through December 1997, he was Treasurer of Hanseatic Corporation. Mr. Biddelman joined Hanseatic from Clements Taee Biddelman Incorporated, a merchant banking firm which he co-founded in 1991. From 1982 through 1990, he was a Managing Director in Corporate Finance at Drexel Burnham Lambert Incorporated. Mr. Biddelman also worked in corporate finance at Kuhn, Loeb & Co. from 1975 to 1979, and at Oppenheimer & Co. from 1979 to 1982. Mr. Biddelman is a director of Celadon Group, Inc., Electronic Retailing Systems International, Inc., Institution Technologies, Inc., Natural Gas Vehicle Systems, Inc. and Premier Parks, Inc.

Wolfgang Traber has been a director of Star Gas Corporation since October 1995. He also served in that capacity from December 1993 through June 1995. Mr. Traber has been a director of Petro since its organization in October 1983. Mr. Traber is Chairman of the Board of Hanseatic Corporation, a private investment corporation in New York, New York. Mr. Traber is a director of Deltec Asset Management Corporation, Blue Ridge Real Estate Company and M.M. Warburg & Co.

William P. Nicoletti has been a director of Star Gas Corporation since November 1995. Since March 1998, Mr. Nicoletti has been a managing director of McDonald Investments Inc., an investment banking firm. Previously, he was Managing Director of Nicoletti & Company Inc., a private investment bank serving clients in energy related industries. From 1988 through 1990, he was a Managing Director and head of the Energy and Natural Resources Group of PaineWebber Incorporated. From 1969 through 1987 he was with E.F. Hutton & Company Inc., where from 1980 through 1987 he was a Senior Vice President and head of the Energy and Natural Resources Group.

Audrey Sevin is the mother of Irik P. Sevin. There are no other familial relationships between any of the directors and executive officers.

Star Gas Propane

Upon completion of the transaction, the officers and employees of Star Gas Corporation who managed our operations and business will become officers and employees of Star Gas Propane.

It is expected that the following persons who comprise Star Gas Corporation's executive officers prior to the transaction will serve as executive officers of Star Gas Propane following the transaction:

.Irik P. Sevin, Chairman of the Board;

.Joseph P. Cavanaugh, President and Chief Executive Officer;

.David R. Eastin, Vice President--Operations;

.Richard F. Ambury, Vice President--Finance; and

.Audrey L. Sevin, Secretary.

Specific information relating to executive compensation, various benefit plans, including unit option plans, voting securities and the principal holders of these securities, specific relationships and related transactions and other related matters as to Star Gas Partners and Star Gas Corporation (as predecessor general partner to Star Gas Corporation) is incorporated by reference or described in our 1998 Annual Report on Form 10-K and is incorporated by reference in this prospectus. In order to obtain copies of these documents, you may contact us at our address or telephone number indicated under "Where You Can Find More Information."

Petro

Upon completion of the transaction, the officers and employees of Petro will continue to be employed by Petro.

We expect that the following persons who serve as executive officers of Petro before the transaction will serve as executive officers of our home heating oil business following the transaction:

.Irik P. Sevin, Chairman of the Board and Chief Executive Officer;

.William G. Powers, Jr., President;

.C. Justin McCarthy, Senior Vice President--Operations;

.Audrey L. Sevin, Secretary;

.George Leibowitz, Treasurer;

.James J. Bottiglieri, Controller;

.Matthew J. Ryan, Vice President--Supply;

.Angelo Catania, Vice President and General Manager--Mid Atlantic Region;

.John Ryan, Vice President--Sales and Marketing; and

.Peter B. Terenzio, Jr., Vice President--Human Resources.

Reimbursement of Expenses of the General Partner

The general partner does not receive any management fee or other compensation for its management of Star Gas Partners. The general partner is reimbursed at cost for all expenses incurred on our behalf, including the costs of compensation described in this prospectus properly allocable to Star Gas Partners. The partnership agreement provides that the general partner shall determine the expenses that are allocable to Star Gas Partners in any reasonable manner determined by the general partner in its sole discretion. In addition, the general partner and its affiliates may provide services to us for which we will be charged reasonable fees as determined by the general partner.

The general partner will be entitled to distributions on its general partner units and will be entitled to incentive distributions on those units, as described under "Cash Distribution Policy."

BENEFICIAL OWNERSHIP OF PRINCIPAL UNITHOLDERS AND MANAGEMENT

The following table shows the beneficial ownership upon completion of the transaction of common units, senior subordinated units, junior subordinated units and general partner units by:

(1) Star Gas LLC and certain beneficial owners and all of the directors of Star Gas LLC;

(2) each of the named executive officers of Star Gas Corporation and Petro; and

(3) all directors and executive officers of Star Gas Corporation and Petro as a group.

The address of each person is c/o Star Gas Partners, L.P. at 2187 Atlantic Street, Stamford, Connecticut 06912-0011. The asterisk in the percentage column refers to a percentage less than one percent.

	Common Units		Senior Subordinated Units		Junior Subordinated Units		General Partner Units	
Name	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Star Gas LLC.....	--	-- %	--	-- %	--	-- %	323,082	100%
Irik P. Sevin.....	--	--	--	--	68,035	15.8	323,082(c)	100
Audrey L. Sevin.....	--	--	--	--	192,572	44.7	323,082(c)	100
Wolfgang Traber.....	10,400(a)	*	1,062	*	169,788(b)	39.5	323,082(c)	100
Paul Biddelman.....	--	--	280	*	169,788(b)	39.5	323,082(c)	100
Thomas Edelman.....	--	--	91,986(d)	3.7	--	--	--	--
Richard F. Ambury.....	625	*	39	*	--	--	--	--
George Leibowitz.....	--	--	--	*	--	--	--	--
C. Justin McCarthy.....	--	--	--	--	--	--	--	--
Angelo Catania.....	--	--	294	*	--	--	--	--
David Eastin.....	--	--	--	--	--	--	--	--
Joseph G. Cavanaugh.....	--	--	58	--	--	--	--	--
William G. Powers.....	--	--	--	--	--	--	--	--
All officers and directors and Star Gas LLC as a group (14 persons).....	11,025	*	186,922	7.5%	--	100.0%	323,082	100.0%

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(a) Includes 10,000 common units owned by Mr. Traber's wife and 400 common units owned by Mr. Traber's daughter as to which he may be deemed to share beneficial ownership.

(b) Includes 169,788 junior subordinated units held by Hanseatic Americas LDC, a Bahamian limited duration company. The sole managing member of Hanseatic Americas is Hansabel Partners, LLC, a Delaware limited liability company. The sole managing member of Hansabel Partners is Hanseatic Corporation, a New York corporation. Messrs. Traber and Biddelman are executive officers of Hanseatic Corporation, and Mr. Traber holds in excess of a majority of the shares of capital stock of Hanseatic Corporation.

(c) Assumes each of Star Gas LLC and Messrs. Traber and Biddelman through their positions with the Hanseatic companies may be deemed to beneficially own all of Star Gas LLC's general partner units, however, they disclaim beneficial ownership of these units.

(d) Includes 8,936 senior subordinated units owned by Mr. Edelman's wife and trusts for the benefit of his minor children.

DESCRIPTION OF THE COMMON UNITS

The common units have been registered under the Exchange Act and we are subject to the reporting and certain other requirements of the Exchange Act. We are required to file periodic reports containing financial and other information with the SEC.

Purchasers of common units in this offering and later transferees of common units, or their brokers, agents or nominees on their behalf, will be required to execute transfer applications. The form of transfer application is included

as Annex A to this prospectus and is also shown on the reverse side of the certificate representing common units. Purchasers may hold common units in nominee accounts, provided that the broker, or other nominee, executes and delivers a transfer application and becomes a limited partner. We will be entitled to treat the nominee holder of a common unit as the absolute owner of that unit, and the beneficial owner's rights will be limited solely to those that it has against the nominee holder.

The Rights of Unitholders

Generally, the common units represent limited partner interests, which entitle the holders of those units to participate in our distributions and exercise the rights or privileges available to limited partners under the partnership agreement. For a description of the relative rights and preferences of holders of common units in and to our distributions, see "Cash Distribution Policy." For a description of the rights and privileges of limited partners under the partnership agreement, see "The Partnership Agreement."

Transfer Agent and Registrar

We have retained BankBoston N.A. as registrar and transfer agent for the common units. The transfer agent receives a fee from us for serving in these capacities. All fees charged by the transfer agent for transfers of common units will be borne by us and not by the holders of common units, except that fees similar to those customarily paid by stockholders for surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges, special charges for services requested by a holder of a common unit and other similar fees or charges will be borne by the unitholder. There will be no charge to holders for disbursements of cash distributions. We will indemnify the transfer agent, its agents and each of their shareholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities as transfer agent, except for any liability due to any negligence, gross negligence, bad faith or intentional misconduct of the indemnified person or entity.

The transfer agent may resign, or be removed by us. If no successor is appointed within 30 days, the general partner may act as the transfer agent and registrar until a successor is appointed.

Obligations and Procedures for the Transfer of Units

Until a common unit has been transferred on our books, we and the transfer agent, notwithstanding any notice to the contrary, may treat the record holder as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations. The transfer of the common units to persons that purchase directly from the underwriters will be accomplished through the completion, execution and delivery of a transfer application by that purchaser for that purchase. Any later transfers of a common unit will not be recorded by the transfer agent or recognized by us unless the transferee executes and delivers a transfer application. By executing and delivering a transfer application, the transferee of common units does the following:

- Becomes the record holder of those units and shall be constituted as an assignee until admitted into Star Gas Partners as a substituted limited partner;

- Automatically requests admission as a substituted limited partner in Star Gas Partners;

- Agrees to be bound by the terms and conditions of, and executes, the partnership agreement;

- Represents that the transferee has the capacity, power and authority to enter into the partnership agreement;

- Grants powers of attorney to the general partner and any liquidator of Star Gas Partners as specified in the partnership agreement; and

- Makes the consents and waivers contained in the partnership agreement.

An assignee will become a substituted limited partner of Star Gas Partners for the transferred common units upon satisfaction of the following two

conditions:

- The consent of the general partner, which may be withheld for any reason in its sole discretion.
- The recording of the name of the assignee on the books and records of Star Gas Partners.

Common units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in Star Gas Partners for the transferred common units. A purchaser or transferee of common units who does not execute and deliver a transfer application obtains only the following rights:

- The right to assign the common unit to a purchaser or other transferee.

- The right to transfer the right to seek admission as a substituted limited partner in Star Gas Partners for the transferred common units.

Thus, a purchaser or transferee of common units who does not execute and deliver a transfer application will not receive cash distributions, unless the common units are held in a nominee or "street name" account and the nominee or broker has executed and delivered a transfer application for those common units. In addition, such purchaser or transferee may not receive some federal income tax information or reports furnished to record holders of common units. The transferor of common units will have a duty to provide the transferee with all information that may be necessary to obtain registration of the transfer of the common units, but a transferee agrees, by acceptance of the certificate representing common units, that the transferor will not have a duty to insure the execution of the transfer application by the transferee and will have no liability or responsibility if the transferee neglects or fails to execute and forward the transfer application to the transfer agent. See "The Partnership Agreement--Rights and Status as Limited Partner or Assignee Upon Transfer of Interest."

THE PARTNERSHIP AGREEMENT

The agreements of limited partnership of Star Gas Partners and Star Gas Propane will be amended and restated at the completion of the transaction. The form of the Star Gas Partners partnership agreement is included in this prospectus as Annex C. The following discussion is a complete summary of the material provisions of the partnership agreement.

The following provisions of the partnership agreement are summarized elsewhere in this prospectus:

- With regard to various transactions and relationships of Star Gas Partners with the general partner and its affiliates, see "Conflicts of Interest of Star Gas Partners."

- With regard to our management, see "Management."

- With regard to the transfer of units, see "Description of the Common Units."

- With regard to distributions of Available Cash, see "Cash Distribution Policy."

- With regard to allocations of taxable income and taxable loss, see "Federal Income Tax Considerations."

Organization and Duration

Star Gas Partners and Star Gas Propane were organized in 1995 as Delaware limited partnerships. Star Gas Partners will dissolve on December 31, 2085, unless dissolved sooner under the terms of the partnership agreement.

Purpose

The purpose of Star Gas Partners is limited to serving as the limited partner of Star Gas Propane and engaging in other activities approved by the general partner. The general partner is authorized in general to perform all acts

deemed necessary to carry out those purposes and to conduct the business of Star Gas Partners. The general partner has the ability to cause Star Gas Partners and Star Gas Propane to engage in activities that may pose a greater risk to investors than the propane and home heating oil marketing business.

Power of Attorney

Each limited partner, and each person who acquires a unit from a unitholder and executes and delivers a transfer application, grants to the general partner and, if appointed, a liquidator, a power of attorney to, among other things, execute and file documents required for the qualification, continuance or dissolution of Star Gas Partners. The power of attorney also grants the authority for the amendment of, and to make consents and waivers under, the partnership agreement.

Restrictions on Authority of the General Partner Regarding Extraordinary Transactions

The authority of the general partner is sometimes limited under the partnership agreement. The general partner is prohibited, without the prior approval of a unit majority, from:

- selling, exchanging or otherwise disposing of all or substantially all of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other combination; or

- approving on our behalf the sale, exchange or other disposition of all or substantially all of the assets of Star Gas Propane.

However, we may mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without any unitholder approval. We may also sell all or substantially all of our assets in a foreclosure or other realization upon these encumbrances without unitholder approval.

Lack of Dissenters' Rights

The unitholders are not entitled to dissenters' rights of appraisal under the partnership agreement or applicable Delaware law if a merger or consolidation of Star Gas Partners or the sale, exchange or other disposition of substantially all of our assets or any other event should occur.

Withdrawal or Removal of the General Partner; Approval of Successor General Partner

Expect in the limited circumstances described below, the general partner has agreed not to voluntarily withdraw as general partner of Star Gas Partners and Star Gas Propane prior to December 31, 2005 without:

- obtaining the approval of a unit majority; and

- furnishing an opinion of counsel that the withdrawal and the selection of a successor general partner will not result in the loss of the limited liability of the limited partners of Star Gas Partners or cause us to be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes.

On or after December 31, 2005, the general partner may withdraw as general partner by giving 90 days written notice without obtaining approval from the unitholders. Withdrawal after this date will not constitute a violation of the partnership agreement.

Notwithstanding the above, the general partner may withdraw without unitholder approval upon 90 days notice to the limited partners if more than 50% of the outstanding units are held or controlled by one person and its affiliates, other than the general partner and its affiliates. In addition, the partnership agreement permits the general partner in limited instances to sell all of its general partner units. See "--Restriction on Transfer of General Partner Interest."

Upon the withdrawal of the general partner under any circumstances, other

than as a result of a transfer by the general partner of all or a part of its general partner units, the holders of a majority of the outstanding units may select a successor general partner. If the successor is not elected, or is elected but an opinion of counsel regarding the tax matters discussed above cannot be obtained, Star Gas Partners will be dissolved, wound up and liquidated, unless within 180 days after that withdrawal, a unit majority agrees in writing to continue the business of Star Gas Partners and to the appointment of a successor general partner. See "--Description of Termination and Dissolution of Star Gas Partners."

The general partner may not be removed unless:

- removal is approved by the vote of the holders of not less than 66 2/3% of the outstanding units owned by limited partners voting together as a single class, other than those of the general partner and its affiliates; and

- we receive an opinion of counsel that the removal will not result in a loss of limited liability to the limited partners or cause us to be treated as a corporation or otherwise taxed as an entity for federal income tax purposes.

Removal is also subject to the approval of a successor general partner by the vote of the holders of a unit majority.

If the general partner is removed as general partner other than for cause, the subordination period will end, any then-existing arrearages on the common units will be terminated, any senior subordinated units and junior subordinated units held by the general partner will immediately convert into Class B common units and the general partner units will no longer be subordinated; provided, however, that if the general partner is removed during the subordination period within 12 months after a six-quarter period in which the minimum quarterly distribution has not been made on the common units for more than one of those quarters, excluding for this

purpose the payment of any common unit arrearages, and the first quarter in that six-quarter period that the minimum quarterly distribution on the common units is not made occurs after March 31, 2001, then the subordination period will not end. If the general partner is removed and the subordination period does not end, the junior subordinated units shall convert into senior subordinated units on a one-for-one basis and the distribution rights on the general partner units with respect to the minimum quarterly distribution and liquidation will rank equally with the senior subordinated units.

Removal or withdrawal of the general partner of Star Gas Partners also constitutes removal or withdrawal, as the case may be, of the general partner as general partner of Star Gas Propane.

In the event the withdrawal of the general partner violates the partnership agreement or removal of the general partner by the limited partners under circumstances where cause exists, a successor general partner will have the option to purchase from the departing general partner the general partner units in Star Gas Partners and the general partner interests in Star Gas Propane for a cash payment equal to the fair market value. Under all other circumstances where the general partner withdraws or is removed by the limited partners, the departing general partner will have the right to require the successor general partner to purchase from the departing general partner the general partner units in Star Gas Partners and the general partner interest in Star Gas Propane for that amount. In each case, the fair market value will be determined by agreement between the departing general partner and the successor general partner, or if no agreement is reached, by an independent investment banking firm or other independent experts selected by the departing general partner and the successor general partner. If no expert can be agreed upon, the value will be determined by an expert chosen by agreement of the experts selected by each of them. In addition, Star Gas Partners will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities such as severance liabilities, incurred in the termination of the employees employed by the departing general partner.

If the above-described option is not exercised by either the departing general partner or the successor general partner, as applicable, the departing

general partner's general partner units in Star Gas Partners and the general partner interest in Star Gas Propane will be converted into common units equal to the fair market value of the interest as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph. If any Class B common units are outstanding, the departing general partner's general partner units in Star Gas Partners and the general partner interest in Star Gas Propane will be converted into Class A common units.

Restriction on Transfer of General Partner Interest

Except for the following two instances, the general partner may not transfer any or all of the general partner units to another person or entity prior to December 31, 2005, without the approval of holders of a unit majority.

- A transfer by the general partner of all, but not less than all, of its general partner units to an affiliate.

- The merger or consolidation of the general partner with or into another entity.

In each case the transferee of the general partner units must:

- assume the rights and duties of the general partner;

- agree to be bound by the provisions of the partnership agreement;

- furnish an opinion of counsel that the transfer will not result in a loss of limited liability to the limited partners or cause Star Gas Partners to be treated as an entity for federal income tax purposes; and

- agree to purchase the general partner's partnership interest in Star Gas Propane.

At any time, the members of Star Gas LLC may sell or otherwise transfer their membership interests in Star Gas LLC to a third party without the approval of the unitholders.

Reimbursement for Services of the General Partner

The general partner is not entitled to receive any compensation for its services as our general partner. The general partner is, however, entitled to be reimbursed on a monthly basis, or such other basis as the general partner may reasonably determine for:

- all direct and indirect expenses it incurs or payments it makes on our behalf; and

- all other necessary or appropriate expenses allocable to us or otherwise reasonably incurred by the general partner for the operation of our business, including expenses allocated to the general partner by its affiliates.

The general partner, in its sole discretion, shall determine the expenses that are allocable to us in any reasonable manner.

Rights and Status as Limited Partner or Assignee Upon Transfer of Interest

Except as described below under "--Potential Loss of Limited Liability by Unitholders," the units will be fully paid, and unitholders will not be required to make additional contributions to Star Gas Partners.

A person receiving a common unit after executing and delivering a transfer application, but before admission as a substituted limited partner or additional limited partner, has the right to share in allocations and distributions. The general partner will vote and exercise other powers attributable to common units or senior subordinated units owned by that person before admission as a substitute limited partner or additional limited partner at the written direction of that person. See "--Meetings of Limited Partners and Voting Rights." Persons who do not execute and deliver a transfer application will be treated neither as assignees nor as record holders of common units or senior subordinated units and will not receive:

. cash distributions;

. federal income tax allocations; or

. reports furnished to unitholders.

See "Description of the Common Units--Obligations and Procedures for the Transfer of Units."

Limitations on the Rights of Non-citizen Assignees and Redemption Rights of Star Gas Partners

If, because of the nationality, citizenship or other related status of any limited partner or assignee, we are or become subject to federal, state or local laws or regulations that, in the reasonable determination of the general partner, create a substantial risk of cancellation or forfeiture of any property in which we have an interest, we may redeem the units held by that limited partner or assignee at their Current Market Price. In order to avoid any cancellation or forfeiture, the general partner may require each limited partner or assignee to furnish information about his nationality, citizenship, residency or related status. If a limited partner or assignee fails to furnish information about his nationality, citizenship, residency or other related status within 30 days after a request for the information, that person may be treated as a non-citizen assignee. A non-citizen assignee does not have the right to direct the voting of his units and may not receive distributions in kind upon liquidation of Star Gas Partners.

Issuance of Additional Securities by Star Gas Partners

Except as discussed below, the general partner is authorized to cause us to issue an unlimited number of additional limited partner interests and other equity securities of Star Gas Partners for the consideration and on the terms and conditions established in its sole discretion, without the approval of any limited partners.

Except as described in (1) through (4) below, during the subordination period, we may not issue an aggregate of more than 2,500,000 additional common units or units on a parity with the common units without the prior approval of at least a majority of the outstanding common units, other than those held by the general partner and its affiliates.

(1) Common units in the transaction, including those issued in this offering.

(2) If the issuance occurs:

(a) for an acquisition or a capital improvement; or

(b) within 365 days of, and the net proceeds from the issuance are used to repay debt incurred for, an acquisition or a capital improvement;

in each case, where the acquisition or capital improvement involves assets that would have, on a pro forma basis, resulted in an increase in the amount of Adjusted Operating Surplus calculated on a per-unit basis for all outstanding units for each of the four most recently completed quarters.

(3) If the proceeds from the issuance are used exclusively to repay up to $20 million of indebtedness of Star Gas Partners, Star Gas Propane or any of its subsidiaries.

(4) The issuance of Class B common units upon the conversion of the senior subordinated units and junior subordinated units at the end of the subordination period.

In accordance with Delaware law and the provisions of the partnership agreement, the general partner, in its sole discretion, may cause us to issue additional Star Gas Partners interests that may have special voting rights.

The general partner has the right to purchase units from us on the same terms

that we issue the units to other persons, whenever necessary for the general partner and its affiliates to maintain the percentage of ownership interest that existed immediately prior to each issuance. Persons other than the general partner do not have preemptive rights to acquire additional common units or other Star Gas Partners interests.

Additional issues of units, including senior subordinated units and junior subordinated units or other equity securities of Star Gas Partners ranking junior to the common units, may reduce the likelihood and/or amount of, any distributions above the minimum quarterly distribution.

Limited Call Right on Outstanding Limited Partner Interests

If at any time:

(a) not more than 20% of the limited partner interests of any class are held by persons other than the general partner and its affiliates, the general partner will have the right, which it may assign and transfer in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the remaining limited partner interests of that class; or

(b) after the expiration of the subordination period and the earlier to occur of:

(1) the fifth anniversary of the completion of the transaction; or

(2) the issuance of 909,000 senior subordinated units and Class B common units in the aggregate,

We acquire, in a twelve-month period, 66 2/3% or more of the total Class B common units, we shall then have the right, to purchase all, but not less than all, of the remaining Class B common units during the following twelve-month period.

In the case of (a) or (b) above, the limited partners are entitled to at least 10 but not more than 60 days' notice. The purchase price if (a) or (b) above should occur shall be the greater of:

(x) the highest cash price paid by Star Gas Partners, the general partner or any of its affiliates for any limited partner interests of that class purchased within the 90 days preceding the date the notice is first mailed to limited partners; and

(y) the Current Market Price as of the date three days prior to the date the notice is mailed.

As a consequence of this right to purchase outstanding limited partner interests, a holder may have his limited partner interests purchased from him at a time and/or price that may be undesirable. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his units in the market. See "Federal Income Tax Considerations--Disposition of Units."

Amendment of the Partnership Agreement

Amendments to the partnership agreement may be proposed only by or with the consent of the general partner. In order to adopt a proposed amendment, the general partner is required to seek written approval of the holders of the number of units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment, except as described below.

Prohibited Amendments. No amendment may be made that would:

(1) enlarge the obligations of any limited partner, without its consent;

(2) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable to, the general partner, without its consent, which may be given or withheld in its sole discretion;

(3) change the term of Star Gas Partners;

(4) provide that Star Gas Partners is not dissolved upon expiration of its term; or

(5) give any person the right to dissolve Star Gas Partners other than the general partner's right to dissolve Star Gas Partners with the approval of holders of at least a unit majority.

No Unitholder Approval. The general partner may make amendments without the approval of any limited partner or assignee to reflect:

(1) a change in the name of Star Gas Partners, the location of the principal place of business of Star Gas Partners, the registered agent or the registered office of Star Gas Partners;

(2) admission, substitution, withdrawal or removal of partners in accordance with the partnership agreement;

(3) a change that, in the sole discretion of the general partner, is necessary or advisable to qualify or continue the qualification of Star Gas Partners as a partnership in which the limited partners have limited liability or that is necessary or advisable to ensure that Star Gas Partners and Star Gas Propane will not be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

(4) an amendment that is necessary, in the opinion of counsel to Star Gas Partners, to prevent Star Gas Partners or the general partner or its respective directors or officers from being subjected in any manner to the provisions of the Investment Company Act, the Investment Advisors Act, or the "plan asset" regulations adopted under ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;

(5) subject to the limitations on the issuance of additional Class A common units, Class B common units or other limited or general partner interests described above, an amendment that in the sole discretion of the general partner is necessary or advisable for the authorization of additional limited or general partner interests;

(6) any amendment expressly permitted in the partnership agreement to be made by the general partner acting alone;

(7) an amendment effected, necessitated or contemplated by a merger agreement that has been approved under the terms of the partnership agreement;

(8) any amendment that, in the sole discretion of the general partner, is necessary or advisable for the formation by Star Gas Partners of, or its investment in, any corporation, partnership or other entity as otherwise permitted by the partnership agreement;

(9) a change in the fiscal year and taxable year of Star Gas Partners; and

(10) any other amendments substantially similar to those listed above.

In addition, the general partner may make amendments without the approval of any limited partner or assignee if the amendments:

(1) do not adversely affect the limited partners in any material respect;

(2) are necessary or advisable, in the sole discretion of the general partner, to satisfy any requirements, conditions or guidelines contained in any opinion, directive, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;

(3) are necessary or advisable to facilitate the trading of the units or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the units are or will be listed for

trading, compliance with any of which the general partner deems to be in our best interests and those of unitholders; or

(4) are required or contemplated by the partnership agreement.

Opinion of Counsel and Unitholder Approval. The general partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the limited partners or result in Star Gas Partners being treated as an entity for federal income tax purposes if one of the amendments described above under "--No Unitholder Approval" should occur. No other amendments to the partnership agreement will become effective without the approval of at least 90% of the units unless we obtain an opinion of counsel that the amendment will not:

- affect the limited liability of any limited partner in Star Gas Partners or the limited partner of Star Gas Propane; or

- cause Star Gas Partners to be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes.

Any amendment that materially and adversely affects the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of holders of at least a majority of the outstanding units so affected, excluding, during the subordination period, any units held by the general partner and its affiliates.

Meetings of Limited Partners and Voting Rights

Record holders of units on the applicable record date will be entitled to notice of, and to vote at, meetings of limited partners and to act on matters as to which approvals may be solicited. The general partner shall vote units owned by an assignee who is a record holder but who has not yet been admitted as a limited partner at the written direction of the assignee. Absent this direction, those units will not be voted. However, in the case of units held by the general partner on behalf of non-citizen assignees, the general partner shall distribute the votes of these units in the same ratios as the votes of limited partners on other units are cast.

Any action that is required or permitted to be taken by the limited partners may be taken either at a meeting of the limited partners or without a meeting if consents in writing setting forth the action so taken are signed by holders of that number of limited partner interests necessary to authorize or take action at a meeting. Meetings of the limited partners may be called by the general partner or by limited partners owning at least 20% of the outstanding units of the class for which a meeting is proposed. Limited partners may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called shall constitute a quorum, unless the action requires approval by holders of a greater percentage of those units, in which case the quorum shall be the greater percentage.

Units held in a nominee or street name account will be voted by the broker or other nominee under the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise.

Indemnification Obligations of Star Gas Partners

In most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

(1) the general partner and its affiliates;

(2) any departing general partner and its affiliates;

(3) any person who is or was an officer, director, employee, partner, agent or trustee of the general partner or any departing general partner or any affiliate of the general partner or any departing general partner; or

(4) any person who is or was serving at the request of the general partner

or any departing general partner or any affiliate of the general partner or any departing general partner as an officer, director, employee, partner, agent or trustee of another person.

Any indemnification will only be out of the assets of Star Gas Partners. The general partner shall not have any obligation to contribute or loan funds to us to enable us to effectuate indemnification. We are authorized to purchase insurance against liabilities asserted against and expenses incurred by those persons for our activities, regardless of whether we would have the power to indemnify that person.

Potential Loss of Limited Liability by Unitholders

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and that he acts in conformity with the provisions of the partnership agreement, his liability will be limited to the amount of capital he is obligated to contribute to us, plus his share of any undistributed profits and assets. If it were determined that an action by a limited partner constituted "participation in the control" of our business for the purposes of the Delaware Act, then a limited partner could be held personally liable for our obligations, to the same extent as the general partner, to persons who transact business with us. In order for a limited partner to be liable for these obligations, the person who transacts business with the limited partner must reasonably believe, based on the limited partner's conduct, that the limited partner is a general partner.

Under the Delaware Act, a limited partnership may not make a distribution to a partner if after the distribution, all liabilities of the partnership, other than liabilities to partners on account of their partnership interests and nonrecourse liabilities, exceed the fair value of the assets of the limited partnership. Under the Delaware Act, a limited partner who receives a distribution and knew at the time that the distribution was in violation of the Delaware Act shall be liable for the amount of the distribution for three years. Under the Delaware Act, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except the assignee is not obligated for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the partnership agreement.

We conduct business in at least 13 states. Maintenance of limited liability may require compliance with legal requirements in those jurisdictions in which we conduct business, including qualifying us to do business in those jurisdictions. Limitations on the liability of limited partners for the obligations of a limited partnership have not been clearly established in many jurisdictions. We will operate in the manner as the general partner deems reasonable and necessary or appropriate to preserve the limited liability of unitholders.

Obligations of the General Partner to Provide Books and Reports to Limited Partners

The general partner is required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. The fiscal year of Star Gas Partners is October 1 to September 30.

As soon as practicable, but in no event later than 120 days after the close of each fiscal year, the general partner will furnish each record holder of units with an annual report containing audited financial statements prepared in accordance with generally accepted accounting principles. As soon as practicable, but in no event later than 90 days after the close of each quarter, except the last quarter of each fiscal year, the general partner will furnish each record holder of units a report containing unaudited financial statements and any other information as may be required by law.

The general partner will use all reasonable efforts to furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year in which our taxable year ends. This information is expected to be furnished in summary form so that certain complex calculations normally required of partners can be avoided. The general partner's ability to furnish summary information to unitholders will depend on the cooperation of those unitholders in supplying

certain information to the general partner. Every unitholder will receive information to assist him in determining his federal and state tax liability and filing his federal and state income tax returns.

Limited Partners' Right to Inspect Star Gas Partners Books and Records

A limited partner can, for a purpose reasonably related to a person's interest as a limited partner, upon reasonable demand and at his own expense, be furnished with:

(1) a current list of the name and last known address of each partner;

(2) a copy of our tax returns;

(3) information as to the amount of cash and a description and statement of the net agreed value of any other property or services, contributed or to be contributed by each partner and the date on which each became a partner;

(4) copies of the partnership agreement, the certificate of limited partnership, and powers of attorney;

(5) information regarding the status of our business and financial condition; and

(6) any other information regarding our affairs as is just and reasonable.

The general partner may, and intends to, keep the following confidential from the limited partners:

(a) trade secrets;

(b) other information the disclosure of which the general partner believes in good faith is not in our best interests; or

(c) information that is required by law or by agreements with third parties to be kept confidential.

Description of Termination and Dissolution of Star Gas Partners

Star Gas Partners will continue until December 31, 2085, unless terminated sooner upon:

(1) the election of the general partner to dissolve Star Gas Partners, if approved by holders of a unit majority,

(2) the sale, exchange or other disposition of all or substantially all of the assets and properties of Star Gas Partners and Star Gas Propane,

(3) the entry of a decree of judicial dissolution of Star Gas Partners or

(4) the withdrawal or removal of the general partner or any other event that results in its ceasing to be the general partner other than by reason of a transfer of its general partner units or withdrawal or removal following approval and admission of a successor.

Upon a dissolution under clause (4), the holders of at least a majority of the outstanding units may elect to reconstitute Star Gas Partners and continue its business by forming a new limited partnership. The new general partner would be a person or entity approved by the holders of at least a majority of the outstanding units, subject to receipt by Star Gas Partners of an opinion of counsel that this action will not affect its limited liabilities or result in Star Gas Partners being treated as corporation or an entity for federal income tax purposes.

Liquidation of Star Gas Partners and Distribution of Proceeds

Upon the dissolution of Star Gas Partners, unless Star Gas Partners is reconstituted and continued as a new limited partnership, the person authorized to wind up the affairs of Star Gas Partners will liquidate the assets and apply

the proceeds as provided in "Cash Distribution Policy--Distributions of Cash upon Liquidation During the Subordination Period" and "--Distributions of Cash upon Liquidation After the Subordination Period."

Registration Rights of the General Partner or its Affiliates

We have agreed:

(1) to register for resale under the Securities Act any units proposed to be sold by the general partner or its affiliates upon their request if an exemption from the registration requirements is not otherwise available; and

(2) to register for resale under the Securities Act the common units and senior subordinated units issued to affiliates of Petro in the transaction upon their request if an exemption from the registration requirements is not otherwise available.

We are obligated to pay all expenses incidental to the above registrations, excluding underwriting discounts and commissions.

CONFLICTS OF INTEREST

Conflicts of Interest May Arise as a Result of the Publicly-Traded Limited Partnership Structure

Conflicts of interest have arisen and could arise in the future as a result of relationships between the general partner and its affiliates, on the one hand, and Star Gas Partners or any of the limited partners, on the other hand. The directors and officers of the general partner have fiduciary duties to manage the general partner in a manner beneficial to its members. In general, the general partner has a fiduciary duty to manage Star Gas Partners in a manner beneficial to Star Gas Partners and the unitholders. The amended and restated partnership agreement contains provisions that allow the general partner to take into account the interests of parties in addition to Star Gas Partners in resolving conflicts of interest. In effect, these provisions limit its fiduciary duty to the unitholders. The partnership agreement also restricts the remedies available to unitholders for actions taken that without those limitations, constitute breaches of fiduciary duty. An audit committee of the Star Gas LLC board has been created, consisting of two directors who are not officers of the general partner. At the request of the general partner the audit committee will review conflicts of interest that may arise between the general partner or its affiliates, on the one hand, and Star Gas Partners, on the other. See "Management" and "--Fiduciary Duties Owed to Unitholders by the General Partner as Prescribed by Law and the Partnership Agreement."

Conflicts of interest could arise in the situations described below, among others:

Actions Taken by the General Partner May Affect the Amount of Cash Available for Distribution to Unitholders or Accelerate the Right to Convert Senior Subordinated Units and Junior Subordinated Units. The amount of cash that is available for distribution to unitholders is affected by decisions of the general partner regarding matters such as:

. cash expenditures;

. participation in capital expansions and acquisitions;

. borrowings;

. issuance of additional units; and

. establishment of reserves.

In addition, borrowings by Star Gas Partners do not constitute a breach of any duty owed by the general partner to the unitholders, including those borrowings that have the purpose or effect of:

. causing incentive distributions to be made; or

. hastening the expiration of the subordination period.

The partnership agreement provides that we may borrow funds from the general partner and its affiliates although the general partner and its affiliates may not borrow funds from us.

Star Gas Partners' Borrowings May Enable the General Partner to Permit Distributions on the Senior Subordinated Units, Junior Subordinated Units and General Partner Units. Typically the general partner must act as a fiduciary to Star Gas Partners and the unitholders, and therefore must consider our best interests. However, it is not a breach of the general partner's fiduciary duty under the partnership agreement if our borrowings are effected in a manner that, directly or indirectly, enables the general partner to permit the payment of distributions on the senior subordinated units, junior subordinated units and general partner units.

The General Partner Intends to Limit Its Liability with Respect to Star Gas Partners' Obligations. The general partner intends to limit our liability under contractual arrangements so that the other party has recourse only as to all or particular assets of Star Gas Partners, and not against the general partner or its assets. The partnership agreement provides that any action taken by the general partner to limit its liability, or that of Star Gas Partners, is not a breach of the general partner's fiduciary duties, even if we could have obtained more favorable terms without the limitation on liability.

Unitholders Have No Right to Enforce Obligations of the General Partner and Its Affiliates Under Agreements with Star Gas Partners. We will acquire services from, or provide services to, the general partner and its affiliates on an ongoing basis. The agreements relating to these arrangements will not grant to the unitholders, separate and apart from Star Gas Partners, the right to enforce the obligations of the general partner and its affiliates in favor of Star Gas Partners.

Contracts Between Star Gas Partners on the One Hand, and the General Partner and Its Affiliates on the Other Will Not Be the Result of Arm's-Length Negotiations. The partnership agreement allows the general partner to pay itself or its affiliates for any services rendered, provided these services are rendered on terms that are fair and reasonable to us. The general partner may also enter into additional contractual arrangements with any of its affiliates on our behalf. Neither the partnership agreement nor any of the other agreements, contracts and arrangements between Star Gas Partners, on the one hand, and the general partner and its affiliates, on the other, are or will be the result of arm's-length negotiations. All of these transactions entered into are required to be on terms that are fair and reasonable to us.

The General Partner's Affiliates May Compete with Star Gas Partners. Except for Irik P. Sevin, affiliates of the general partner are not prohibited from competing with us. Mr. Sevin's non-competition agreement with us provides that following the completion of the transaction he will not engage in the retail propane or retail home heating oil business in the United States so long as he:

- is a director, officer or employee of the general partner, Star Gas Partners or a subsidiary of Star Gas Partners; or

- has access to information that would put Star Gas Partners at a competitive disadvantage.

Further, Mr. Sevin is precluded from employing any person who was a managerial employee of the general partner, Star Gas Partners or a subsidiary of Star Gas Partners for the twelve-months after that employment so long as Mr. Sevin and his mother, Ms. Audrey Sevin, own in the aggregate more than a 10% voting interest in the general partner.

Fiduciary Duties Owed to Unitholders by the General Partner as Prescribed by Law and the Partnership Agreement

The general partner is accountable to us and the Star Gas Partners unitholders as a fiduciary. Consequently, the general partner must exercise good faith and integrity in handling our assets and affairs. In contrast to the relatively well-developed law concerning fiduciary duties owed by officers and directors to the common stockholders of a corporation, the law concerning the duties owed by general partners to other partners and to partnerships is

relatively undeveloped. Neither the Delaware Act nor case law defines with particularity the fiduciary duties owed by general partners to limited partners of a limited partnership. The Delaware Act does provide that Delaware limited partnerships may, in their partnership agreements, restrict or expand the fiduciary duties owed by general partners to limited partners and the partnership. Fiduciary duties are generally considered to include an obligation to act with the highest good faith, fairness and loyalty. Such duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally prohibit a general partner from taking any action or engaging in any transaction where a conflict of interest is present. In order to induce the general partner to manage the business of Star Gas Partners, the partnership agreement contains various provisions limiting the fiduciary duties that might otherwise be owed by the general partner. The partnership agreement also contains provisions that waive or consent to conduct by the general partner that might otherwise raise issues of compliance with fiduciary duties or applicable law.

In order to become a limited partner of Star Gas Partners, a unitholder is required to agree to be bound by its provisions, including the provisions discussed above. This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The Delaware Act also provides that a partnership agreement is enforceable even if not signed by a person being admitted as a limited partner or becoming an assignee of a limited partner interest in accordance with the terms of that agreement.

Whenever a conflict of interest arises between the general partner or its affiliates, on the one hand, and Star Gas Partners or any other partner, on the other, the general partner shall resolve this conflict. The general partner shall not be in breach of its obligations under the partnership agreement or its duties to Star Gas Partners or the unitholders if the resolution of this conflict is fair and reasonable to Star Gas Partners. Any resolution is fair and reasonable to Star Gas Partners if the resolution is:

(1) approved by the audit committee, although no party is obligated to seek approval and the general partner may adopt a resolution or course of action that has not received approval;

(2) on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or

(3) fair to us, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us.

DESCRIPTION OF INDEBTEDNESS

New Indebtedness

Petro Notes

On the closing of the transaction, Petro will issue approximately $90.0 million of 7.92% senior secured notes in three separate series in a private placement to institutional investors. It is currently expected that the senior secured notes will be guaranteed by Star Gas Partners and Petro Holdings and its subsidiaries. The notes have been assigned a preliminary private credit rating of "BBB" by Fitch rating service. In addition, the senior secured notes will be secured equally and ratably with Petro's existing senior debt and bank credit facilities by the cash, accounts receivable, notes receivable, inventory and customer lists of Petro Holdings and its subsidiaries, including Petro.

Each series of senior secured notes will be for $30.0 million and will mature seven, eight or ten years from the issuance date. In addition, each series will bear a fixed interest rate that will be determined at the time of pricing based upon the yield of specified United States treasury notes that equal the maturity of the series of notes plus a set percentage. Interest only on each series is due semiannually. On the last interest payment date for each series, the outstanding principal amount is due and payable in full.

The note agreement for the senior secured notes will contain various negative and affirmative covenants, including restrictions on payment of dividends or other distributions by Star Gas Partners on any partnership interest if the ratio of consolidated pro forma operating cash flow to consolidated pro forma interest expense, each as defined in the note agreement, is less than 1.75 to 1.0 for the period of the four most recent fiscal quarters ending on or prior to the date of the dividend or distribution or an event of default would exist.

Under the note agreement, Petro Holdings and its subsidiaries will be permitted to make cash distributions to Star/Petro Inc. if:

(a) The ratio of consolidated pro forma operating cash flow to consolidated pro forma interest expense is less than 1.75 to 1.0 for the period of the four most recent fiscal quarters ending on or prior to the date of the distribution.

(b) The total cash distributions for all quarters beginning January 1, 1999 do not exceed specified amounts in the note agreement.

(c) Star/Petro Inc. is the parent company of Petro Holdings Inc. and a wholly-owned subsidiary of Star Gas Propane.

If Petro fails to make any principal or interest payment, any noteholder may accelerate the maturity of the senior secured notes. If any event of default exists under the note agreement, holders of a majority of the outstanding principal amount of the senior secured notes may accelerate the maturity of the notes. The maturity of the senior secured notes is automatically accelerated if Petro, Star Gas Partners, Petro Holdings or any of their subsidiaries are generally unable to pay their debts as they become due or become subject to any bankruptcy or reorganization proceedings.

Petro Bank Facilities

On or before the closing of the transaction, Petro will enter into a bank facilities agreement for approximately $100.0 million in senior secured facilities with a group of commercial banks. The bank facilities will be guaranteed by Star Gas Partners and Petro Holdings and its subsidiaries. In addition, the bank facilities will be secured equally and ratably with Petro's new senior secured notes and existing institutionally owned senior debt by the cash, accounts receivable, notes receivable, inventory and customer lists of Petro and its subsidiaries.

The bank facilities will consist of three separate facilities--a $40 million working capital facility, a $10 million letter of credit facility and a $50 million acquisition facility. The working capital facility and letter of credit facility will expire on June 30, 2001. The acquisition facility will convert to a term loan on June 30, 2001 which will be payable in eight equal quarterly principal payments. Amounts borrowed under the working

capital facility are subject to a requirement to maintain a zero balance for 90 consecutive days during the period from April 1 to September 30 of each year. In addition, each facility will bear an interest rate that is based on either the London Interbank Offer Rate or another base rate plus a set percentage.

The bank facilities agreement will contain covenants and default provisions generally similar to those contained in the note agreement for the senior secured notes.

Existing Indebtedness

Description of First Mortgage Notes

Star Gas Propane currently has outstanding approximately $96 million of first mortgage notes. Star Gas Propane's obligations under the first mortgage note agreements and the first mortgage notes are secured equally and ratably with Star Gas Propane's obligations under its bank credit facilities by a mortgage on most of the real property and liens on most of the operating facilities, equipment and other assets. $85 million of the first mortgage notes have a final maturity of September 15, 2009 and $11 million of the first mortgage notes have a final maturity of September 15, 2010. The first mortgage notes require semiannual prepayments, without premium, of the principal beginning March 15, 2001. Under specified circumstances following the disposition of

assets, Star Gas Propane may be required to offer to prepay the first mortgage notes, in whole or in part.

The first mortgage note agreements contain various negative and affirmative covenants, including restrictions on payment of dividends or other distributions to any partnership interest if the pro forma ratio of consolidated cash flow to consolidated interest expense, each as defined in the first mortgage note agreements, is less than 1.75 to 1.0. Upon completion of the equity offering and after giving pro forma effect to the transaction, Star Gas Propane would be in compliance with the negative and affirmative covenants applicable under the first mortgage note agreements.

Under the first mortgage note agreements, so long as no default exists or would result, Star Gas Propane is permitted to make cash distributions to Star Gas Partners not more frequently than quarterly in an amount not to exceed available cash, as defined in the first mortgage note agreement, for the immediately preceding calendar quarter. If an event of default exists on the first mortgage notes, the noteholders may accelerate the maturity of the first mortgage notes and exercise other rights and remedies, including foreclosures upon the mortgaged property.

In connection with the closing of the transaction, Star/Petro, Inc. will become jointly and severally liable with Star Gas Propane under the first mortgage notes and the first mortgage note agreements.

Description of Star Gas Propane Bank Credit Facilities

In December 1995, Star Gas Propane entered into credit facilities with a group of commercial banks. The bank credit facilities consist of a $25.0 million acquisition facility and a $12.0 million working capital facility. At September 30, 1998, $9.0 million was outstanding under the acquisition facility and $4.8 million was outstanding under the working capital facility.

The agreement governing the bank credit facilities contains covenants and default provisions generally similar to those contained in the first mortgage note agreements.

The Star Gas Propane working capital facility will expire on June 30, 2000, but may be extended annually with the consent of the banks. The Star Gas Propane acquisition facility will revolve until June 30, 1999 after which time any outstanding loans must be reduced by equal quarterly principal payments over the period from September 30, 1999 through September 30, 2002.

Amounts borrowed under both facilities are due at maturity. However, no amount must be outstanding under the Star Gas Propane working capital facility for at least 30 consecutive days during each calendar year.

If Star Gas Propane exercises its option to convert the Star Gas Propane acquisition facility into a term loan, the outstanding principal balance under this facility will be amortized in equal quarterly installments.

Other Petro Debt

Petro has entered into private debt agreements with the holders of:

- its outstanding 10.90% Senior Notes due 2002 in the aggregate principal amount of $60 million; and
- its 14.1% Senior and Subordinated Notes due 2001 in the aggregate principal amount of $4.1 million.

Under the private debt agreements at the completion of the transaction:

- the holders of the 10.90% notes will exchange them for $63.1 million aggregate principal amount of 9.0% Senior Notes due 2002 of Petro; and
- the holders of the 14.10% notes will exchange those notes for $2.2 million aggregate principal amount of 10.25% Senior Notes due 2001 of Petro and $2.2 million principal amount of 10.25% Subordinated Notes due 2001 of Petro.

The new 9% notes and the new 10.25% notes will be guaranteed by Star Gas

Partners and Petro Holdings.

The agreements under which Petro will issue the new 9% and 10.25% notes will be substantially identical to the agreement under which the $90.0 million of senior secured notes will be issued, including negative and affirmative covenants.

Petro also had outstanding as of September 30, 1998 an aggregate of $14.3 million of notes, primarily in connection with the purchase of fuel oil dealers, which notes are due variously in monthly, quarterly and annual installments with interest at various rates ranging from 8% to 15%, maturing at various dates through 2004.

In addition, following the closing of the transaction, Petro will have outstanding $1.3 million of 10 1/8% Subordinated Debentures due 2003, $0.7 million of 9 3/8% Subordinated Notes due 2006 and $1.1 million of 12 1/4% Subordinated Notes due 2005. In October 1998, the indentures under which the 10 1/8%, 9 3/8% and 10 1/8% subordinated notes were issued were amended to eliminate substantially all of the covenant protection provided by the indentures.

UNITS ELIGIBLE FOR FUTURE SALE

As of the date of this prospectus after giving effect to the transaction, the general partner and the owners of Star Gas LLC would have held 430,395 junior subordinated units and 321,467 general partner units. The sale of units owned by the general partner and the owners of Star Gas LLC could have an adverse impact on the price of the common units.

The common units sold in this offering will generally be freely transferable without restriction or further registration under the Securities Act, except that any common units owned by an "affiliate", as that term is defined in the rules and regulations under the Securities Act, of ours may not be resold publicly except in compliance with the registration requirements of the Securities Act or under an exemption from the Securities Act under Rule 144 of the Securities Act or otherwise. Rule 144 permits securities acquired by an affiliate of the issuer in an offering to be sold into the market in an amount that does not exceed, during any three-month period, the greater of:

(1) 1% of the total number of those securities outstanding; or

(2) the average weekly reported trading volume of the common units for the four calendar weeks prior to that sale.

Sales under Rule 144 are also subject to specified manner of sale provisions, notice requirements and the availability of current public information about us. In addition, holders of restricted securities under Rule 144 may be subject to a one-year holding period. A person who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned his units for at least two years, would be entitled to sell those units under Rule 144 without regard to the public information requirements, volume limitations, manner of sale provisions or notice requirements of Rule 144.

Prior to the end of the subordination period, we may not issue equity securities ranking prior or senior to the common units or an aggregate of more than 2,500,000 additional common units or an equivalent amount of securities ranking on a parity with the common units, excluding common units issued upon conversion of senior subordinated units and junior subordinated units, or for certain capital improvements, acquisitions or to repay certain indebtedness, without the approval of the holders of at least a majority of the outstanding common units. The common units offered here are excluded from those 2,500,000 common units. After the subordination period, the general partner, without a vote of the unitholders, may cause us to issue additional common units or other equity securities on a parity with or senior to the common units. In this circumstance, the general partner will have specified preemptive rights. The partnership agreement does not impose any restriction on our ability to issue equity securities ranking junior to the common units at any time. Any issuance of additional units would result in a corresponding decrease in the proportionate ownership interest in Star Gas Partners represented by, and could adversely affect the cash distributions to and market price of, common units then outstanding. See "The Partnership Agreement--Issuance of Additional

Securities by Star Gas Partners."

Under the partnership agreement, the general partner and its affiliates have the right to cause Star Gas Partners to register under the Securities Act the offer and sale of any units held by that party. Subject to the terms and conditions of the partnership agreement, these registration rights allow the general partner and its affiliates, or their assignees, holding any units to require registration of any of these units and to include any of these units in a registration by us of other units, including units offered by us or by any unitholder. These registration rights will continue in effect for two years following any withdrawal or removal of Star Gas LLC as our general partner. Also, we have agreed to register for resale under the Securities Act and applicable state securities laws the common units and senior subordinated units issued to affiliates of Petro in the transaction upon their request, if an exemption from those registration requirements is not otherwise available for the proposed transaction. We have also agreed to use our best efforts to keep that registration statement effective for one year, subject to specified exceptions and to the requesting party providing necessary information. Regarding any of these registrations, we will indemnify each holder of units participating in that registration and its officers, directors and controlling persons from and against any liabilities under the Securities Act or any state securities laws arising from the registration statement or prospectus. We will bear the reasonable costs

of any registration of this type. In addition, the general partner and its affiliates may sell their units in private transactions at any time, in accordance with applicable law.

We, on behalf of ourselves and our affiliates, and specified executives and other persons have agreed that, for a period of 120 days from the date of this prospectus, that we will not, without the prior written consent of PaineWebber Incorporated directly or indirectly, offer, pledge, sell, contract to sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any common units or rights to acquire common units or any security convertible into or exercisable or exchangeable for common units, including, without limitation, common units that may be deemed to be beneficially owned in accordance with the rules and regulations of the SEC, other than the common units subject to the underwriters' over-allotment option, subject to certain limited exceptions.

FEDERAL INCOME TAX CONSIDERATIONS

This section is a summary of the material tax considerations that may be relevant to prospective unitholders and, to the extent described below under "--Legal Opinions and Advice," expresses the opinion of Andrews & Kurth L.L.P., special counsel to the General Partner and us, insofar as it relates to matters of law and legal conclusions. This section is based upon current provisions of the Internal Revenue Code, its existing and proposed regulations and current administrative rulings and court decisions, all of which are subject to change even with retroactive effect. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to us are references to both us and Star Gas Propane.

No attempt has been made in the following discussion to comment on all federal income tax matters affecting us or the unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, non-resident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts, REITs or mutual funds. Accordingly, each prospective unitholder should consult, and should depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences peculiar to him of the ownership or disposition of units.

Tax Consequences of Unit Ownership

Legal Opinions and Advice. Counsel is of the opinion that, based on the

representations and subject to the qualifications in the detailed discussion that follows, for federal income tax purposes:

(1) Star Gas Partners and Star Gas Propane have been and will each be treated as a partnership; and

(2) owners of units, with certain exceptions, as described in "Limited Partner Status" below, will be treated as partners of Star Gas Partners, but not Star Gas Propane.

In addition, all statements as to matters of law and legal conclusions contained in this section, unless otherwise noted, reflect the opinion of counsel.

No ruling has been or is expected to be requested from the IRS regarding our classification as a partnership for federal income tax purposes, whether our operations generate "qualifying income" under Section 7704 of the Code or any other matter affecting us or prospective unitholders. An opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Thus, no assurance can be provided that the opinions and statements made here would be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the units and the prices at which units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the unitholders and the general partner. Furthermore, no assurance can be given that the treatment of Star Gas Partners or an investment in Star Gas Partners will not be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, counsel has not rendered an opinion on the following specific federal income tax issues:

(1) the treatment of a unitholder whose units are loaned to a short seller to cover a short sale of units (see "--Tax Treatment of Unitholders--Treatment of Short Sales");

(2) whether a unitholder acquiring units in separate transactions must maintain a single aggregate adjusted tax basis in his units (see "--Disposition of Units--Recognition of Gain or Loss");

(3) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (see "--Disposition of Units--Allocations Between Transferors and Transferees");

(4) whether our method for depreciating Section 743 adjustments is sustainable (see "--Disposition of Units--Section 754 Election"); and

(5) whether the allocations of recapture income contained in the partnership agreement will be respected (see "Tax Treatment of Unitholders--Allocation of Star Gas Partners' Income, Gain, Loss and Deduction").

Partnership Status. A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner is required to take into account his allocable share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made. Distributions by a partnership to a partner are generally not taxable unless the amount of cash distributed is in excess of the partner's adjusted basis in his partnership interest.

No ruling has been or is expected to be sought from the IRS as to the status of Star Gas Partners or Star Gas Propane as a partnership for federal income tax purposes. Instead, we have relied on the opinion of counsel that, based upon the Code, its regulations, published revenue rulings and court decisions and representations described below, Star Gas Partners and Star Gas Propane have been and will each be classified as a partnership for federal income tax purposes.

In rendering its opinion, counsel has relied on factual representations made by Star Gas Partners and the general partner. Such factual matters for taxable years beginning before December 31, 1996 are as follows:

(a) For Star Gas Partners and Star Gas Propane, the general partner, at all times while acting as general partner of the relevant partnership, had a net worth, computed on a fair market value basis, excluding its interest in Star Gas Partners and Star Gas Propane and any notes or receivables due from such partnerships, equal to at least $6.0 million;

(b) Star Gas Partners has been operated in accordance with

(1) all applicable partnership statutes,

(2) the partnership agreement and

(3) its description in this prospectus;

(c) Star Gas Propane has been operated in accordance with

(1) all applicable partnership statutes,

(2) the limited partnership agreement for Star Gas Propane and

(3) its description in this prospectus;

(d) The general partner has at all times acted independently of the limited partners; and

(e) For each taxable year, less than 10% of the gross income of Star Gas Partners has been derived from sources other than

(1) the exploration, development, production, processing, refining, transportation or marketing of any mineral or natural resource, including oil, gas or products thereof, or

(2) other items of qualifying income within the meaning of Section 7704(d) of the Code.

These factual matters for taxable years beginning after December 31, 1996 are as follows:

(a) Neither Star Gas Partners nor Star Gas Propane has elected, or will elect, to be treated as an association or corporation;

(b) Star Gas Partners has been and will be operated in accordance with

(1) all applicable partnership statutes,

(2) the partnership agreement of Star Gas Partners as it may be amended or restated, and

(3) its description in this prospectus;

(c) Star Gas Propane has been and will be operated in accordance with

(1) all applicable partnership statutes,

(2) the Star Gas Propane partnership agreement, and

(3) its description in this prospectus; and

(d) For each taxable year, more than 90% of the gross income of Star Gas Partners has been and will be

(1) derived from the exploration, development, production, processing, refining, transportation or marketing of any mineral or natural resource, including oil, gas or its products or

(2) other items of "qualifying income" within the meaning of Section 7704(d) of the Code.

Section 7704 of the Code provides that publicly-traded partnerships will, as

a general rule, be taxed as corporations. However, an exception (the "Qualifying Income Exception") exists with respect to publicly-traded partnerships, 90% or more of whose gross income for every taxable year consists of "qualifying income." Qualifying income includes interest from other than a financial business, dividends and income and gains from the transportation and marketing of crude oil, natural gas, and products thereof, including the retail and wholesale marketing of propane and the transportation of propane and natural gas liquids. Based upon the representations of Star Gas Partners and the general partner and a review of the applicable legal authorities, counsel is of the opinion that at least 90% of our gross income will constitute qualifying income. We estimate that less than 6.0% of our gross income for each taxable year will not constitute qualifying income.

If we fail to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and is cured within a reasonable time after discovery, we will be treated as if we had transferred all of our assets (subject to liabilities) to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the partners in liquidation of their interests in Star Gas Partners. This contribution and liquidation should be tax-free to unitholders and Star Gas Partners, so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

If Star Gas Partners or Star Gas Propane were treated as an association taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, its items of income, gain, loss and deduction would be reflected only on its tax return rather than being passed through to the unitholders, and its net income would be taxed to Star Gas Partners or Star Gas Propane at corporate rates. In addition, any distribution made to a unitholder would be treated as either taxable dividend income, to the extent of Star Gas Partners' current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder's tax basis in his units, or taxable capital gain, after the unitholder's tax basis in the units is reduced to zero. Accordingly, treatment of either Star Gas Partners or Star Gas Propane as an association taxable as a corporation would result in a material reduction in a unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

The discussion below is based on the assumption that we will be classified as a partnership for federal income tax purposes.

Tax Treatment of Unitholders

Limited Partner Status. Unitholders who have become limited partners of Star Gas Partners will be treated as partners of Star Gas Partners for federal income tax purposes. Counsel is of the opinion that (a) assignees who have executed and delivered transfer applications, and are awaiting admission as limited partners and (b) Star Gas Partners unitholders whose units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their units will be treated as partners of Star Gas Partners for federal income tax purposes. As there is no direct authority addressing assignees of units who are entitled to execute and deliver transfer applications and thereby become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, Andrews & Kurth's opinion does not extend to these persons. Furthermore, a purchaser or other transferee of units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of units unless the units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those units.

A beneficial owner of units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to such units for federal income tax purposes. See "--Treatment of Short Sales." Income, gain, deductions or losses would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by this unitholder would therefore be fully taxable as ordinary income. These holders should consult

their own tax advisors with respect to their status as partners in Star Gas Partners for federal income tax purposes.

Flow-through of Taxable Income. No federal income tax will be paid by Star Gas Partners. Instead, each Star Gas Partners unitholder who is a partner for federal income tax purposes will be required to report on his income tax return his allocable share of the income, gains, losses and deductions of Star Gas Partners without regard to whether corresponding cash distributions are received by that unitholder. Consequently, a unitholder may be allocated income from Star Gas Partners even if he has not received a cash distribution. Each unitholder will be required to include in income his allocable share of Star Gas Partners income, gain, loss and deduction for the taxable year of Star Gas Partners ending with or within the taxable year of the unitholder.

Although it is not expected that Petro and its affiliates will pay significant federal income tax for several years, Petro and its affiliates expect to generate earnings and profits during that time making a portion of the distributions from them to Star Gas Partners taxable dividend income to Star Gas Partners and thus, to the unitholders. Such dividend income cannot be offset by past or future losses generated by our propane activities.

Treatment of Partnership Distributions. Distributions by Star Gas Partners to a unitholder generally will not be taxable to him for federal income tax purposes to the extent of the tax basis he has in his units immediately before the distribution. Our cash distributions in excess of a Star Gas Partners unitholder's tax basis generally will be considered to be gain from the sale or exchange of the units, taxable in accordance with the rules described under "Disposition of Units" below. Any reduction in a unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, known as "nonrecourse liabilities", will be treated as a distribution of cash to that unitholder. To the extent our distributions cause a unitholder's "at risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. See "-- Limitations on Deductibility of Star Gas Partners Losses."

A decrease in a unitholder's percentage interest in us because of our issuance of additional units will decrease his share of our nonrecourse liabilities, and will result in a corresponding deemed distribution of cash. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of the tax basis he has in his units, if such distribution reduces his share of our "unrealized receivables", including depreciation recapture, and/or substantially appreciated "inventory items", both as defined in Section 751 of the Code, and collectively, "Section 751 Assets". To that extent, he will be treated as having received a

distribution of his proportionate share of the Section 751 Assets and having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in a unitholder's realization of ordinary income under Section 751(b) of the Code. That income will equal the excess of (1) the non-pro rata portion of that distribution over (2) the Star Gas Partners unitholder's tax basis for the share of such Section 751 Assets deemed relinquished in the exchange.

Ratio of Taxable Income to Distributions. We estimate that a holder who acquires common units in the transaction and holds those units through December 31, 2001, will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 20% of the cash distributed for that period. Star Gas Partners further estimates that for taxable years after the taxable year ending December 31, 2001, the taxable income allocable to a unitholder will constitute a significantly higher percentage of cash distributed to him. These estimates are based upon the assumption that gross income from operations will approximate the amount required to make the minimum quarterly distribution on all units and other assumptions regarding capital expenditures, cash flow and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, the estimates are based on current tax law and tax reporting positions that we have adopted or intend to adopt and with which the IRS could disagree. Accordingly, no assurance can be given that these estimates will prove to be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower, and any differences could be material and could materially affect the value of the

units.

Tax Rate. The top marginal income tax rate for individuals for 1999 is 39.6%. Net capital gains of an individual are generally subject to a maximum 20% tax rate if the asset was held for more than 12 months at the time of disposition.

Alternative Minimum Tax. Each unitholder will be required to take into account his distributive share of any items of our income, gain, deduction, or loss for purposes of the alternative minimum tax. The minimum tax rate for non-corporate taxpayers is 26% on the first $175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective unitholders should consult with their tax advisors as to the impact of an investment in units on their liability for the alternative minimum tax.

Basis of Units. A unitholder will have an initial tax basis for his units equal to the price he paid for them. His basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. That basis will be decreased, but not below zero, by distributions from Star Gas Partners and by the unitholder's share of Star Gas Partners' losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A limited partner will have no share of our debt that is recourse to the general partner, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. See "--Disposition of Units--Recognition of Gain or Loss."

Limitations on Deductibility of Star Gas Partners Losses. The deduction by a Star Gas Partners unitholder of his share of our losses will be limited to the tax basis in his units and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of its stock is owned directly or indirectly by five or fewer individuals or tax-exempt organizations, to the amount for which the unitholder is considered to be "at risk" regarding our activities, if that is less than his tax basis. A unitholder must recapture losses deducted in previous years to the extent that distributions made to him cause his "at risk" amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that his tax basis or "at risk" amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above such gain previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by any amount of money he borrows to acquire or hold his units, if the lender of such borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder's at risk amount will increase or decrease as the tax basis of his units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities.

The passive loss limitations generally provide that individuals, estates, trusts and some closely held corporations and personal service corporations can deduct losses from passive activities, which are generally, activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately for each publicly-traded partnership. Consequently, any passive losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including other publicly-traded companies, interest and dividend income generated by us, such as dividends from Petro and its affiliates, or salary or active business income. Passive losses that are not deductible because they exceed a unitholder's income generated by us may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions such as the at risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly-traded companies. The IRS has announced that Treasury Regulations will be issued that characterize net passive income from a publicly-traded partnership as investment income for purposes of the limitations on the deductibility of investment interest.

Limitations on Interest Deductions. The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of such taxpayer's "net investment income." As noted, a unitholder's share of our net passive income will be treated as investment income for this purpose. In addition, the unitholder's share of our portfolio income will be treated as investment income. Investment interest expense includes:

(1) interest on indebtedness properly allocable to property held for investment;

(2) our interest expense attributed to portfolio income; and

(3) the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment.

Allocation of Star Gas Partners Income, Gain, Loss and Deduction. In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the general partner and the unitholders in accordance with their percentage interests in us. At any time that distributions are made to the common units and not to the senior subordinated units or junior subordinated units, or that incentive distributions are made to holders of senior subordinated units, junior subordinated units or general partner units or to holders of senior subordinated units and not to junior subordinated units or general partner units, gross income will be allocated to the recipients to the extent of those distributions. If we have a net loss, our items of income, gain, loss and deduction will generally be allocated first, to the general partner and the unitholders in accordance with their percentage interests to the extent of their positive capital accounts, as maintained under our partnership, agreement, and, second, to the general partner.

As required by Section 704(c) of the Code and as permitted by its Regulations, some items of our income, deduction, gain and loss will be allocated in a manner to account for the difference between the tax basis and fair market value of property that is contributed or deemed contributed to us by a partner ("Contributed Property"). The effect of these allocations to a noncontributing unitholder will be essentially the same as if the tax basis of the Contributed Property were equal to its fair market value at the time of contribution or deemed contribution. In addition, specified items of recapture income will be allocated to the extent possible to the partner who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by some unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner sufficient to eliminate the negative balance as quickly as possible.

Regulations provide that an allocation of items of Star Gas Partners income, gain, loss or deduction, other than an allocation required by Section 704(c) of the Code to eliminate the difference between a partner's "book" capital account, credited with the fair market value of Contributed Property, and "tax" capital account, credited with the tax basis of Contributed Property, (the "Book-Tax Disparity"), will generally be given effect for federal income tax purposes in determining a partner's distributive share of an item of income,

gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's distributive share of an item will be determined on the basis of the partner's interest in Star Gas Partners, which will be determined by taking into account all the facts and circumstances, including the partner's relative contributions to Star Gas Partners, the interests of the partners in economic profits and losses, the interest of the partners in cash flow and other nonliquidating distributions and rights of the partners to distributions of capital upon liquidation.

Counsel is of the opinion that allocations under our partnership agreement, with the possible exception of the allocation of recapture income discussed above, will be given effect for federal income tax purposes in determining a partner's distributive share of an item of income, gain, loss or deduction.

Entity-Level Collections. If we are required or elect under applicable law to pay any federal, state or local income tax on behalf of any unitholder or any general partner or any former unitholder, Star Gas Partners is authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the partner on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, we are authorized to treat the payment as a distribution to current Star Gas Partners unitholders. We are authorized to amend the partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under the partnership agreement is maintained as nearly as is practicable. Payments by Star Gas Partners as described above could give rise to an overpayment of tax on behalf of an individual partner in which event the partner could file a claim for credit or refund.

Treatment of Short Sales. A Star Gas Partners unitholder whose units are loaned to a "short seller" to cover a short sale of units may be considered as having disposed of ownership of those units. If so, he would no longer be a partner for those units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period, any of our income, gain, deduction or loss for those units would not be reportable by the unitholder, any cash distributions received by the unitholder for those units would be fully taxable and all of these distributions would appear to be treated as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of partnership interests. See also "--Disposition of Units--Recognition of Gain or Loss."

Tax-exempt Organizations and Other Investors.

Ownership of units by employee benefit plans, other tax-exempt organizations, nonresident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to such persons and, as described below, may have substantially adverse tax consequences. Employee benefit plans and most other organizations that are exempt from federal income tax, including individual retirement accounts and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of the taxable income derived by such an organization from the ownership of a unit will be unrelated business taxable income and thus will be taxable to that unitholder.

A regulated investment company or "mutual fund" is required to derive 90% or more of its gross income from interest, dividends and gains from the sale of stocks or securities or foreign currency or certain related sources. It is not anticipated that any significant amount of our gross income will include that type of income at least in the next few years.

Under current rules applicable to publicly-traded partnerships, we are required to withhold as taxes 39.6% of any cash distributions made to foreign unitholders. A foreign unitholder may claim a credit for those taxes. If that tax exceeds the taxes due from the foreign unitholder, he may claim a refund. Each foreign unitholder must obtain a taxpayer identification number from the IRS and submit that number to our transfer agent on a Form W-8 in order to obtain a credit for the taxes withheld. A change in applicable law may require

us to change these procedures. In addition, non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States on account of ownership of those units. As a consequence, they will be required to file federal tax returns for their share of our income, gain, loss or deduction and pay federal income tax at regular rates on any net income or gain.

Because a foreign corporation that owns units will be treated as engaged in a United States trade or business, such a corporation may be subject to United States branch profits tax a rate of 30%, in addition to regular federal income tax, on its share of our income and gain, as adjusted for changes in the foreign corporation's "U.S. net equity", which are effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a "qualified resident." In addition, such a unitholder is subject to special information reporting requirements under Section 6038C of the Code.

Under a ruling of the IRS, a foreign unitholder who sells or otherwise disposes of a unit will be subject to federal income tax on gain realized on the disposition of that unit to the extent that this gain is effectively connected with a United States trade or business. Except to the extent the ruling applied, as to which counsel has not opined, a foreign unitholder will not be taxed or subject to withholding upon the disposition of a unit if he has owned less than 5% in value of the units during the five-year period ending on the date of the disposition and if the units are regularly traded on an established securities market at the time of the disposition.

Tax Treatment of Operations

Accounting Method and Taxable Year. We use the year ending December 31 as our taxable year and we have adopted the accrual method of accounting for federal income tax purposes. Each Star Gas Partners unitholder will be required to include in income his allocable share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his allocable share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to report in income for his taxable year his share of more than one year of our income, gain, loss and deduction. See "--Disposition of Units--Allocations Between Transferors and Transferees."

Initial Tax Basis, Depreciation and Amortization. The tax basis of our assets will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of such assets. The federal income tax burden associated with the difference between the fair market value of property contributed and the tax basis established for such property will be borne by the contributors of such property. See "--Tax Treatment of Unitholders--Allocation of Our Income, Gain, Loss and Deduction."

To the extent allowable, we may elect to use the depreciation and cost recovery methods that will result in the largest deductions being taken in the early years after assets are placed in service. We will not be entitled to any amortization deductions for goodwill conveyed to us on formation. Property subsequently acquired or constructed by us may be depreciated using accelerated methods permitted by the Code.

If we dispose of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously deducted and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a partner who has taken cost recovery or depreciation deductions for our property may be required to recapture such deductions as ordinary income upon a sale of his interest in us. See "--Tax Treatment of Unitholders--Allocation of Star Gas Partners' Income, Gain, Loss and Deduction" and "--Disposition of Units--Recognition of Gain or Loss."

Uniformity of Units. Because we cannot match transferors and transferees of units, uniformity of the economic and tax characteristics of the units to a purchaser of these units must be maintained. In the absence of uniformity,

compliance with a number of federal income tax requirements, both statutory and regulatory, could be substantially diminished. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed Treasury Regulation Section 1.197-2(g)(3). Any non-uniformity could have a negative impact on the value of the units. See "--Disposition of Units--Section 754 Election."

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of contributed property or adjusted property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the basis of such property, or treat that portion as nonamortizable, to the extent attributable to property the basis of which is not amortizable consistent with the proposed regulations under Section 743, but despite its inconsistency with Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed Treasury Regulation Section 1.197-2(g)(3), neither of which is expected to directly apply to a material portion of the Partnership's assets. See "--Disposition of Units--Section 754 Election." To the extent such Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the regulations and legislative history. If we determine that such a position cannot reasonably be taken, we may adopt a depreciation and amortization convention under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our property. If such an aggregate approach is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to certain unitholders and risk the loss of depreciation and amortization deductions not taken in the year that such deductions are otherwise allowable. This convention will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization convention to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this type of challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. See "--Disposition of Units--Recognition of Gain or Loss."

Valuation of Star Gas Partners Property and Basis of Properties. The federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values, and determinations of the initial tax bases, of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or determinations of basis are later found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by Star Gas Partners unitholders might change, and unitholders might be required to adjust their tax liability for prior years.

State and Local Tax Considerations. For a discussion of the state and local tax considerations arising from an investment in units, see "--State and Local Tax Considerations" at the end of this section.

Administrative Matters

Information Returns and Audit Procedures. We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes each unitholder's share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will generally not be reviewed by counsel, we will use various accounting and reporting conventions, some of which have been mentioned earlier, to determine the unitholder's share of income, gain, loss and deduction. There is no assurance that any of those conventions will yield a result that conforms to the requirements of the Code, regulations or administrative interpretations of the IRS. Neither we nor counsel can assure

prospective Star Gas Partners unitholders that the IRS will not successfully contend in court that such accounting and reporting conventions are impermissible. Any such challenge by the IRS could negatively affect the value of the units.

The IRS may audit our federal income tax information returns. Adjustments resulting from any audit of this kind may require each unitholder to adjust a prior year's tax liability, and possibly may result in an audit of that unitholder's own return. Any audit of a unitholder's return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Code provides for one partner to be designated as the "Tax Matters Partner" for these purposes. The amended and restated partnership agreement appoints the general partner as the Tax Matters Partner of Star Gas Partners.

The Tax Matters Partner will make specified elections on our behalf and on behalf of unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against unitholders for items in our returns. The Tax Matters Partner may bind a Star Gas Partners unitholder with less than a 1% profits interest in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give such authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, such review may be sought by any unitholder having at least a 1% interest in profits and by the unitholders having in the aggregate at least a 5% profits interest. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate. If Star Gas Partners elects to be treated as a large partnership, which we do not currently intend to do, a unitholder will not have the right to participate in settlement conferences with the IRS or to seek a refund.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of the consistency requirement may subject a unitholder to substantial penalties. However, if we elect to be treated as a large partnership, which it does not currently intend to do, the unitholders would be required to treat all partnership items in a manner consistent with our return.

Each partner in an electing large partnership takes into account separately a number of items determined at the partnership level. In addition, miscellaneous itemized deductions of an electing large partnership are not passed through to the partners and 30% of such deductions are used at the partnership level.

A number of changes have recently been made to the tax compliance and administrative rules relating to electing large partnerships. Adjustments relating to partnership items for a previous taxable year are generally taken into account by those persons who were partners in the previous taxable year. Each partner in an electing large partnership, however, must take into account his share of any adjustments to partnership items in the year those adjustments are made. Alternatively, an electing large partnership could elect, or in some circumstances could be required to, directly pay the tax resulting from any adjustments of this kind. In either case, therefore, unitholders could bear significant costs associated with tax adjustments relating to periods predating their acquisition of units. Although we are authorized under our partnership agreement to do so, we do not expect to elect to have the large partnership provisions apply to us because of the cost of their application.

Nominee Reporting. Persons who hold an interest in us as a nominee for another person are required to furnish to us:

(a) the name, address and taxpayer identification number of the beneficial owner and the nominee;

(b) whether the beneficial owner is;

(1) a person that is not a United States person,

(2) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing, or

(3) a tax-exempt entity.

(c) the amount and description of units held, acquired or transferred for the beneficial owner; and

(d) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on units they acquire, hold or transfer for their own account. A penalty of $50 per failure, up to a maximum of $100,000 per calendar year, is imposed by the Code for failure to report this information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

Registration as a Tax Shelter. The predecessor general partner, as our organizer, has registered us as a tax shelter with the Secretary of the Treasury in the absence of assurance that we will not be subject to tax shelter registration and in light of the substantial penalties which might be imposed if registration is required and not undertaken.

The IRS has issued the following tax shelter registration number to Star Gas Partners: 96026000016. Issuance of this Registration Number does not indicate that investment in Star Gas Partners or the claimed tax benefits have been reviewed, examined or approved by the IRS.

We must furnish the registration number to the unitholders, and a unitholder who sells or otherwise transfers a unit in a later transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a unit to furnish the registration number to the transferee is $100 for each failure. The unitholders must disclose the tax shelter registration number of Star Gas Partners on Form 8271 to be attached to the tax return on which any deduction, loss or other benefit generated by Star Gas Partners is claimed or income of Star Gas Partners is included. A unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for that failure, will be subject to a $250 penalty for each failure. Any penalties discussed are not deductible for federal income tax purposes.

Accuracy-related Penalties. An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Code. No penalty will be imposed, however, for portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith regarding that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or $5,000, $10,000 for most corporations. The amount of any understatement subject to penalty generally is reduced if any portion of the understatement is attributable to a position adopted on the return (1) for which there is, or was, "substantial authority" or (2) as to which there is a reasonable basis and the pertinent facts of such position are disclosed on the return. More stringent rules apply to "tax shelters," a term that in this context does not appear to include Star Gas Partners. If any Star Gas Partners item of income, gain, loss or deduction included in the distributive shares of unitholders might result in such an "understatement" of income for which no "substantial authority" exists, we must disclose the pertinent facts on its return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 200% or more of the amount determined to be the correct amount of that valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds $5,000, $10,000 for most corporations. If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

Disposition of Units

Recognition of Gain or Loss. Gain or loss will be recognized on a sale of units equal to the difference between the amount realized and the unitholder's tax basis in the units that were sold. The amount realized by the unitholder will be measured by the sum of the cash or the fair market value of other property received plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder's share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from such sale.

Prior distributions from us in excess of cumulative net taxable income for a unit that decreased a unitholder's tax basis in that unit will, in effect, become taxable income if the unit is sold at a price greater than the unitholder's tax basis in that unit, even if the price is less than his original cost.

Should the IRS successfully contest our convention to amortize only a portion of the Section 743(b) adjustment, described under "--Disposition of Units--Section 754 Election", attributable to an amortizable Section 197 intangible after a sale by the general partner of units, a unitholder could realize additional gain from the sale of units than if that convention had been respected. In that case, the unitholder may have been entitled to additional deductions against income in prior years but may be unable to claim them, resulting in greater overall taxable income allocable to him than appropriate. Counsel is unable to opine as to the validity of the convention but believes such a contest by the IRS is unlikely because a successful contest could result in substantial additional deductions to other unitholders.

Gain or loss recognized by a unitholder, other than a "dealer" in units, on the sale or exchange of a unit held for more than one year will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held more than 12 months will generally be taxed a maximum rate of 20%. A portion of this gain or loss, which could be substantial, however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Code to the extent attributable to assets giving rise to

depreciation recapture or other "unrealized receivables" or to "inventory items" owned by us. The term "unrealized receivables" includes potential recapture items, including depreciation recapture. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of the unit and may be recognized even if there is a net taxable loss realized on the sale of the unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a disposition of units. Net capital loss may offset no more than $3,000 of ordinary income in the case of individuals and may only be used to offset capital gain in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis. Upon a sale or other disposition of less than all of such interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method. The ruling is unclear as to how the holding period of these interests is determined once they are combined. If this ruling is applicable to the holders of units, a unitholder will be unable to select high or low basis units to sell as would be the case with corporate stock. It is not clear whether the ruling applies to us, because, as is the case with corporate stock, interests in us are evidenced by separate certificates. Accordingly, counsel is unable to opine as to the effect this ruling will have on the unitholders. A unitholder considering the purchase of additional units or a sale of units purchased in separate transactions should consult his tax advisor as to the possible consequences of this ruling.

Specific provisions of the Code affect the taxation of certain financial

products and securities, including partnership interests, by treating a taxpayer as having sold an "appreciated" partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) into:

(1)a short sale;

(2)an offsetting notional principal contract; or

(3)a futures or forward contract for the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract for a partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related party then acquires the partnership interest or substantially identical property. The Secretary of Treasury is also authorized to issue regulations that treat a taxpayer who or that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

Allocations Between Transferors and Transferees. In general, our taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them as of the opening of the principal national securities exchange on which the units are then traded on the first business day of the month (the "Allocation Date"). However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units in the open market may be allocated income, gain, loss and deduction accrued after the date of transfer.

The use of this allocation method may not be permitted under existing Treasury Regulations. Accordingly, counsel is unable to opine on the validity of this method of allocating income and deductions between the transferors and the transferees of units. If this method is not allowed under the Treasury Regulations, or only applies to transfers of less than all of the unitholder's interest, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between transferors and transferees, as well as among partners whose interests otherwise vary during a taxable period, to conform to a method permitted under future Treasury Regulations.

A unitholder who owns units any time during a quarter and who disposes of these units prior to the record date set for a cash distribution for that quarter will be allocated items of our income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

Section 754 Election. We have made the election permitted by Section 754 of the Code, which generally permits us to adjust a unit purchaser's tax basis in our assets ("inside basis") under Section 743(b) of the Code to reflect his purchase price. That election is irrevocable without the consent of the IRS. The Section 743(b) adjustment belongs to the purchaser and not to other unitholders. For purposes of this discussion, a unitholder's inside basis in our assets will be considered to have two components: (1) his share of our tax basis in such assets ("Basis") and (2) his Section 743(b) adjustment to that basis.

Proposed Treasury regulations under Section 743 of the Code would require a portion of the Section 743(b) adjustment attributable to recovery property to be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Nevertheless, the proposed regulations under Section 197 indicate that the Section 743(b) adjustment attributable to an amortizable Section 197 intangible should be treated as a newly-acquired asset placed in service in the month when the purchaser acquires the unit. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance

method. Although the proposed regulations under Section 743 will likely eliminate many of the problems if finalized in their current form, the depreciation and amortization methods and useful lives associated with the Section 743(b) adjustment may differ from the methods and useful lives generally used to depreciate the basis in these properties. Under our partnership agreement, the general partner is authorized to adopt a convention to preserve the uniformity of units even if that convention is not consistent with specified Treasury Regulations. See "--Tax Treatment of Operations--Uniformity of Units."

Although counsel is unable to opine as to the validity of an approach of this type, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized Book-Tax Disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the Basis of such property, or treat that portion as non-amortizable to the extent attributable to property the Basis of which is not amortizable. This method is consistent with the proposed regulations under Section 743 but is arguably inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed Treasury Regulation Section 1.197-2(g)(3), neither of which is expected to directly apply to a material portion of our assets. To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, we will apply the rules described in the Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation or amortization convention under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to Basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. Such an aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to specified unitholders. See "--Tax Treatment of Operations--Uniformity of Units."

The allocation of the Section 743(b) adjustment must be made in accordance with the Code. The IRS may seek to reallocate some or all of any Section 743(b) adjustment not so allocated by us to goodwill which, as an intangible asset, would be amortizable over a longer period of time than our tangible assets.

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than those units' share of the aggregate tax basis to us of our assets immediately prior to the transfer. In such a case, as a result of the election, the transferee would have a higher tax basis in his share of our assets for purposes of calculating, among other items, his depreciation and depletion deductions and his share of any gain or loss on a sale of our assets. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in his units is lower than those unit's share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or adversely by the election.

The calculations involved in the Section 754 election are complex and we will make them on the basis of assumptions as to the value of our assets and other matters. We cannot assure that our determinations will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If such permission is granted, a subsequent purchaser of Star Gas Partners units may be allocated more income than he would have been allocated had the election not been revoked.

Notification Requirements. A Star Gas Partners unitholder who sells or exchanges units is required to notify us in writing of that sale or exchange within 30 days after the sale or exchange and in any event by no later than January 15 of the year following the calendar year in which the sale or exchange occurred. We are required to notify the IRS of that transaction and to furnish certain information to the transferor and transferee. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker. Additionally, a transferor and a transferee of a unit will be required to furnish statements to the IRS, filed with their income tax returns for the taxable year in which the sale or exchange occurred, that describe the amount of the consideration received for the unit that is allocated to our goodwill or

going concern value. Failure to satisfy these reporting obligations may lead to the imposition of substantial penalties.

Constructive Termination. Star Gas Partners and Star Gas Propane will be considered to have been terminated if there is a sale or exchange of 50% or more of the total interests in Star Gas Partners capital and profits within a 12-month period. A termination of Star Gas Partners will cause a termination of Star Gas Propane. A termination of Star Gas Partners will result in the closing of Star Gas Partners' taxable year for all Star Gas Partners unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of the tax year of Star Gas Partners may result in more than 12 months' taxable income or loss of Star Gas Partners being includable in his taxable income for the year of termination. Tax elections required to be made by Star Gas Partners, including a new election under Section 754 of the Code, must be made after a termination and a termination could result in a deferral of Star Gas Partners deductions for depreciation. A termination could also result in penalties if Star Gas Partners were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject Star Gas Partners to, any tax legislation enacted before the termination.

State, Local and Other Tax Considerations

In addition to federal income taxes, a unitholder will be subject to other taxes, such as state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which he or she resides or in which we do business or own property. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in Star Gas Partners. A unitholder will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of the various jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. Star Gas Corporation anticipates that substantially all of our income will be generated in the following states: Connecticut, Indiana, Kentucky, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, and West Virginia. Each of these states currently imposes a personal income tax; however, New Hampshire's tax only applies to interest and dividend income. Some of them may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the state. A unitholder will be required to file state income tax returns and to pay state income taxes in some or all of these states and may be subject to penalties for failure to comply with those requirements. In some states, tax losses may not produce a tax benefit in the year incurred and also may not be available to offset income in subsequent taxable years. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the state, generally does not relieve the non-resident unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to

unitholders for purposes of determining the amounts distributed by us. See "--Tax Treatment of Unitholders--Entity-Level Collections." Based on current law and our estimate of our future operations, we do not anticipate that any amounts required to be withheld will be material.

It is the responsibility of each unitholder to investigate the legal and tax consequences of his investment in us, under the laws of pertinent states and localities. Accordingly, each prospective unitholder should consult, and must depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all U.S. federal, state and local, tax returns that may be required. Counsel has not rendered an opinion on the state or local tax consequences of an investment in us.

INVESTMENT IN STAR GAS PARTNERS BY EMPLOYEE BENEFIT PLANS AND INDIVIDUAL RETIREMENT ACCOUNTS

An investment in Star Gas Partners by an employee benefit plan is subject to specified additional considerations because the investments of those plans are subject to the fiduciary responsibility and prohibited transaction provisions

of the Employee Retirement Income Security Act of 1974, as amended, and restrictions imposed by Section 4975 of the Code. As used in this prospectus, the term "employee benefit plan" includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or IRAs established or maintained by an employer or employee organization. Among other things, consideration should be given to:

(a) whether such investment is prudent under Section 404(a)(1)(B) of ERISA;

(b) whether in making this investment, that plan will satisfy the diversification requirements of Section 404(a)(1)(C) of ERISA; and

(c)(1) the fact that this investment could result in recognition of unrelated business taxable income by the plan even if there is no net income,

(2) the effect of an imposition of income taxes on the potential investment return for an otherwise tax exempt investor, if gross income is $1,000 or more, and

(3) the requirement on an investor plan of this kind of filing an additional federal income tax return.

The person with investment discretion regarding the assets of an employee benefit plan, often called a fiduciary, should determine whether an investment in Star Gas Partners is authorized by the appropriate governing instrument and is a proper investment for that plan.

Section 406 of ERISA and Section 4975 of the Code, which also applies to IRAs that are not considered part of an employee benefit plan, prohibit an employee benefit plan from engaging in specified transactions involving "plan assets" with parties that are "parties in interest" under ERISA or "disqualified persons" under the Code.

In addition to considering whether the purchase of common units is a prohibited transaction, a fiduciary of an employee benefit plan should consider whether that plan will, by investing in Star Gas Partners, be deemed to own an undivided interest in our assets, with the result that the general partner also would be a fiduciary of that plan and our operations would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Code.

The Department of Labor regulations provide guidance regarding whether the assets of an entity in which employee benefit plans acquire equity interests would be deemed "plan assets" under specific circumstances. Under these regulations, an entity's assets would not be considered to be "plan assets" if, among other things,

(a) the equity interests acquired by employee benefit plans are publicly offered securities--i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, freely transferable and registered under certain provisions of the federal securities laws,

(b) the entity is an "operating company," i.e., it is primarily engaged in the production or sale of a product or service other than the investment of capital either directly or through a majority-owned subsidiary or subsidiaries or

(c) there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest, disregarding certain interests held by the General Partner, its affiliates, and certain other persons, is held by the employee benefit plans referred to above, IRAs and other employee benefit plans not subject to ERISA.

Our assets should not be considered "plan assets" under these regulations because it is expected that the investment will satisfy the requirements in (a) and (b) above and may also satisfy the requirements in (c).

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated , 1999, the underwriters named below, for whom PaineWebber Incorporated, CIBC Oppenheimer Corp., Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, Donaldson, Lufkin & Jenrette Securities Corporation, A.G. Edwards & Sons, Inc., Lehman Brothers Inc. and Prudential Securities Incorporated, are acting as representatives, have agreed to purchase from us and we have agreed to sell, the following number of common units:

Underwriter	Number of Common Units
PaineWebber Incorporated	
CIBC Oppenheimer Corp	
Dain Rauscher Wessels, a division of Dain Rauscher Incorporated	
Donaldson, Lufkin & Jenrette Securities Corporation	
A.G. Edwards & Sons, Inc.	
Lehman Brothers Inc.	
Prudential Securities Incorporated	
Total	8,947,368

The underwriters propose to offer the common units at the offering price shown on the cover page of this prospectus, and in part to specified securities dealers, who may include the underwriters, at a price less a concession not in excess of per common unit, and the underwriters and those dealers may reallot to specified dealers a discount not in excess of per common unit. The common units are offered subject to receipt and acceptance by the underwriters, and to other conditions, including the right to reject orders in whole or in part.

We have granted the underwriters an option to purchase up to 1,342,000 additional common units exercisable for 30 days after the date of this prospectus to cover over-allotments, if any, at the offering price less the underwriting discount and commissions. The underwriters may purchase those common units only to cover over-allotments made for this offering. If the underwriters exercise this option, each underwriter will be committed, subject to specified conditions, to purchase an additional number of common units proportionate to that underwriter's initial commitment.

We have agreed to indemnify the underwriters against specified civil liabilities, including liabilities under the federal securities laws, or to contribute to payments that the underwriters may be required to make for those liabilities.

Star Gas Partners, on behalf of itself and its affiliates, and certain executives and other persons have agreed, for a period of 120 days from the date of this prospectus, not to, without the prior written consent of PaineWebber Incorporated directly or indirectly, offer, pledge, sell, contract to sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any common units or rights to acquire common units or any security convertible into or exercisable or exchangeable for common units, including, without limitation, common units that may be deemed to be beneficially owned in accordance with the rules and regulations of the SEC, other than the common units subject to the underwriters' over-allotment option, subject to specified limited exceptions.

PaineWebber Incorporated, Donaldson, Lufkin & Jenrette Securities Corporation, A.G. Edwards & Sons, Inc., Lehman Brothers Inc. and Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, have in the past performed investment banking, broker dealing, lending and financial advisory services for Star Gas Partners and Petro and may continue to perform, investment banking, broker dealer, lending and financial advisory services for us, and have

received customary compensation for these services.

In January 1998, A.G. Edwards & Sons, Inc. served as placement agent for $11,000,000 of Star Gas Propane's 7.17% First Mortgage Notes due September 15, 2010. They received customary compensation for their services.

A.G. Edwards & Sons, Inc. was hired by Star Gas Propane's special committee as financial advisor for the potential transaction with Petro. As compensation for these financial advisory services, Star Gas Propane agreed to pay A.G. Edwards & Sons, Inc. a fee of $575,000, of which $325,000 has been paid and $250,000 will be due upon the closing of the transaction.

Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, was hired by Petro as financial advisor for the potential transaction with Star Gas Partners. As compensation for these financial advisory services, Petro paid Dain Rauscher Wessels an engagement fee of $50,000 plus $375,000 upon receipt of a fairness opinion. Additionally, Petro reimbursed Dain Rauscher Wessels for approximately $31,000 of expenses.

For this offering, the underwriters may purchase and sell common units in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover syndicate short positions created for this offering. Stabilizing transactions consist of certain bids or purchases for the purpose of preventing or retarding a decline in the market price of the common units; and syndicate short positions involve the sale by the underwriters of a greater number of common units than they are required to purchase from us in this offering. The underwriters may also impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker-dealers in respect of the common units sold in this offering for their account, may be reclaimed by the syndicate if those common units are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the common units, which may be higher than the price that might otherwise prevail in the open market; and these activities, if commenced, may be discontinued at any time without notice. These transactions may be effected on the New York Stock Exchange or otherwise.

Neither we nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common units. In addition, neither we nor the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once begun, will not be discontinued without notice.

VALIDITY OF COMMON UNITS

The validity of the common units will be passed upon for Star Gas Partners by Phillips Nizer Benjamin Krim & Ballon LLP, New York, New York. Certain tax matters will be passed upon for Star Gas Partners by Andrews & Kurth L.L.P., New York, New York. Certain legal matters regarding the common units will be passed upon for the underwriters by Latham & Watkins, New York, New York.

EXPERTS

The consolidated financial statements and schedule of Star Gas Partners, and its subsidiary and the Star Gas Group (Predecessor) as of September 30, 1997 and 1998 and for the fiscal years ended September 30, 1996, 1997 and 1998, incorporated by reference in this prospectus, have been incorporated by reference in reliance upon the report of KPMG LLP, independent certified public accountants, incorporated by reference and upon the authority of that firm as experts in accounting and auditing.

The consolidated financial statements and schedule of Petro as of December 31, 1996 and 1997 and for the fiscal years ended December 31, 1995, 1996 and 1997, have been incorporated by reference in this prospectus in reliance upon the report of KPMG LLP, independent certified public accountants, incorporated by reference and upon the authority of that firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other

information with the SEC. You may read our SEC filings over the Internet at the SEC's website at http://www.sec.gov. You may also read and copy documents at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Full addresses: Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549; 7 World Trade Center, New York, New York, 10038; Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

We have filed with the SEC a registration statement on Form S-3, regarding the common units offered by this prospectus. The SEC allows us to "incorporate by reference" the information we file with them, which means we can disclose important information to you by referring you to those documents. Regarding Star Gas Partners and the common units offered by this prospectus, we refer you to that registration statement on Form S-3 and its related exhibits and schedules for further information.

FORWARD-LOOKING STATEMENTS

Many of the statements contained in this prospectus, including, without limitation, statements regarding our business strategy, plans and objectives of our management for future operations and statements made under "Cash Available for Distribution" are forward-looking within the meaning of the federal securities laws. These statements use forward-looking words, such as "anticipate," "continue," "expect," "may," "will," "estimate," "believe" or other similar words. These statements discuss future expectations or contain projections. Although we believe that the expectations reflected in the forward-looking statements are reasonable, actual results may differ from those suggested by the forward-looking statements for various reasons, including:

- the effect of weather conditions on our financial performance;
- our ability to obtain new customers and retain existing customers;
- the price and supply of propane and home heating oil;
- our ability to successfully identify and close strategic acquisitions and make cost saving changes in operations;
- the effect of national and regional economic conditions;
- the condition of the capital markets in the U.S.; and
- the political and economic stability of the oil producing regions of the world.

When considering forward-looking statements, you should keep in mind the risk factors referred to in this prospectus. The risk factors could cause our actual results to differ materially from those contained in any forward-looking statement. We disclaim any obligation to update the above list or to announce publicly the result of any revisions to any of the forward-looking statements to reflect future events or developments.

You should consider the above information when reading any forward-looking statement in:

- this prospectus; or
- documents incorporated by reference in this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by Star Gas Partners with the SEC (File No. 33-98490) are incorporated by reference in this prospectus:

.Star Gas Partners' 1998 Annual Report on Form 10-K/A.

.Star Gas Partners' Current Report on Form 8-K, dated November 20, 1998.

.Star Gas Partners' Current Report on Form 8-K, dated February 18, 1999.

.Star Gas Partners' Quarterly Report on Form 10-Q, dated February 12, 1999.

In addition, all other reports and documents, we have filed under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and before this offering shall be deemed incorporated by reference in this prospectus from the date of filing of those reports and documents. If information in incorporated documents conflicts with information in this prospectus you should rely on the most recent information. If information in an incorporated document conflicts with information in another incorporated document, you should rely on the most recent incorporated document.

This prospectus incorporates documents by reference that are not included with this prospectus. These documents, excluding exhibits to the documents, are available without charge, upon oral or written request by any person to whom this prospectus is delivered. For documents relating to Star Gas Partners, contact Star Gas Corporation, 2187 Atlantic Street, Stamford, Connecticut 06902, Attention: Richard F. Ambury, Vice President--Finance, telephone (203) 328-7313. To ensure timely delivery of the documents, any request should be made by , 1999.

UNAUDITED PRO FORMA CONDENSED

CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information gives effect to the acquisition of Petro by Star Gas Partners, the transaction, including this offering, the debt offering and the application of the net proceeds from these offerings as described in "Summary--Financial Information--Estimated Uses of Funds of This Offering and Debt Offering." The information presented is derived from, should be read in conjunction with, and is qualified in its entirety by, reference to the historical financial statements, and related notes, appearing elsewhere and incorporated by reference in this prospectus.

The unaudited pro forma condensed consolidated balance sheet was prepared as if the transaction had occurred on December 31, 1998. The unaudited pro forma condensed consolidated statement of operations for the twelve months ended September 30, 1998 was prepared as if the transaction had occurred on October 1, 1997. The unaudited pro forma condensed consolidated statement of operations for the three months ended December 31, 1998 was prepared as if the transaction had occurred on October 1, 1998.

The pro forma adjustments are based upon currently available information and certain estimates and assumptions described below, and therefore, the actual adjustments may differ from the unaudited pro forma adjustments. However, management believes that the assumptions provide a reasonable basis for representing the significant effects of the transaction as contemplated and that the unaudited pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma condensed consolidated financial information. The unaudited pro forma condensed consolidated balance sheet and statement of operations are not necessarily indicative of the financial position or results of operations of Star Gas Partners if the transaction had actually occurred on the dates indicated above. Likewise, the unaudited pro forma condensed consolidated financial information is not necessarily indicative of future financial combined position or future results of combined operations of Star Gas Partners.

Star Gas Partners, L.P. and Subsidiaries

Pro Forma Condensed Consolidated Balance Sheet (unaudited)

December 31, 1998

(In thousands)

	Star Gas Partners L.P.	Petro	Pro Forma Adjustments	Pro Forma Combined	The Offerings	Partners, L.P. Adjusted Pro Forma
ASSETS						
Current assets:						
Cash	$ 5,831	$ 2,004		$ 7,835	$ 87,915 (g)	$ 11,287
					159,900 (h)	
					(244,363)(o)	
Restricted cash		4,900		4,900		4,900
Accounts receivable	9,153	56,845		65,998		65,998
Inventories	9,898	17,534		27,432		27,432
Prepaid expenses and other current assets	632	7,023		7,655		7,655
Total current assets	25,514	88,306		113,820	3,452	117,272
Cash collateral account		6,900		6,900		6,900
Property and equipment, net	109,475	28,124	$ 11,985 (f)	149,584		149,584
Intangible and other assets, net	50,414	76,201	274,963 (f)	401,578	2,085 (g)	403,663
Total assets	$185,403	$ 199,531	$286,948	$671,882	$ 5,537	$677,419
LIABILITIES AND PARTNERS' CAPITAL						
Current liabilities:						
Current debt and preferred stock	$ 1,384	$ 12,188		$ 13,572	$ (9,797)(o)	$ 3,775
Bank credit facility borrowings	10,720	--		10,720		10,720
Accounts payable	3,608	10,129		13,737		13,737
Unearned service contract revenue		15,430		15,430		15,430
Accrued expenses and income taxes	2,500	31,652	$ 4,600 (d)	42,254	(3,502)(o)	38,752
			3,502 (e)			
Accrued interest and dividends	2,390	--	648 (a)	3,038		3,038
Customer credit balances	4,684	27,884		32,568		32,568
Total current liabilities	25,286	97,283	8,750	131,319	(13,299)	118,020
Long-term debt	103,616	278,731	2,844 (b)	385,191	90,000 (g)	271,727
					(203,464)(o)	
Deferred income taxes		--	46,000 (d)	46,000		46,000
Other long-term liabilities	53	10,764	(3,500)(d)	7,317		7,317
Redeemable and exchangeable preferred stock		28,578	(978)(b)	27,600	(27,600)(o)	--
Partners' capital						
Common unitholders	57,347		1,953 (c)	59,300	159,900 (h)	219,200
Subordinated unitholders	(962)		46,165 (f)	13,861		13,861
			(31,342)(f)			
General partner	63		4,313 (f)	1,294		1,294
			(3,082)(f)			
Petro's stockholders' deficiency		(215,825)	(648)(a)			
			(1,866)(b)			
			(1,953)(c)			
			(47,100)(d)			
			(3,502)(e)			
			270,894 (f)			
Total partners' capital	56,448	(215,825)	233,832	74,455	159,900	234,355
Total liabilities and partners' capital	$185,403	$ 199,531	$286,948	$671,882	$ 5,537	$677,419

Star Gas Partners, L.P. and Subsidiaries

Pro Forma Condensed Consolidated Statement of Operations

(unaudited)

Twelve Months Ended September 30, 1998

(In thousands, except per unit data)

	Star Gas Partners, L.P.	Propane Acquisitions(i)	Combined Propane Operations	Petro(j)	Pro Forma Adjustments	Pro Forma Combined	The Offerings	Star Gas Partners, L.P. Adjusted Pro Forma
Sales	$111,685	$4,386	$116,071	$452,765	$(2,681)(k)	$566,155		$566,155
Costs and expenses:								
Cost of sales	49,498	1,972	51,470	299,987	(1,985)(k)	349,472		349,472
Operating expenses	43,281	1,090	44,371	117,849	(669)(k)	161,551		161,551
Restructuring charges				2,085		2,085		2,085
Transaction expenses				1,029		1,029		1,029
Corporate identity expenses				1,100		1,100		1,100
Provision for supplemental benefits				409		409		409
Depreciation and amortization	11,462	548	12,010	27,514	(87)(k) (2,766)(l)	36,671		36,671
Net gain (loss) on sales of assets	(271)		(271)	11,507	(11,284)(k)	(48)	--	(48)
Operating income	7,173	776	7,949	14,299	(8,458)	13,790		13,790
Interest (income) expense, net	7,927	427	8,354	30,803		39,157	$(15,110)(p)	24,047
Amortization of debt issuance costs	176	--	176	1,432	--	1,608	(1,188)(n)	420
Income (loss) before income taxes	(930)	349	(581)	(17,936)	(8,458)	(26,975)	16,298	(10,677)
Income tax expense	25		25	475		500		500
Income before equity interest in Star Gas Corporation				(18,411)				
Share of income (loss) of Star Gas Corporation				(317)	317 (m)			--
Net income (loss)	$ (955)	$ 349	$ (606)	$(18,728)	$(8,141)	$(27,475)	$ 16,298	$(11,177)
General partner's interest in net income (loss)	$ (19)							$ (224)
Limited partners' interest in net income (loss)	$ (936)							$(10,953)
Basic and diluted net income (loss) per limited partner unit	$ (0.16)							$ (0.69)(q)
Weighted average number of limited partner units outstanding	6,035	220	6,255		103 (c) (2,396)(f) 430 (f) 2,492 (f)	6,884	8,947 (h)	15,831 (q)

Star Gas Partners, L.P. and Subsidiaries

Pro Forma Condensed Consolidated Statement of Operations

(unaudited)

Three Months Ended December 31, 1998

(In thousands, except per unit data)

	Star Gas Partners, L.P.	Petro(j)	Pro Forma Adjustments	Pro Forma Combined	The Offerings	Star Gas Partners, L.P. Adjusted Pro Forma
Sales	$30,237	$116,540		$146,777		$146,777
Costs and expenses:						
Cost of sales	11,978	74,018		85,996		85,996
Operating expenses	11,724	30,123		41,847		41,847
Transaction expenses	--	3,794		3,794		3,794
Provision for supplemental benefits		90		90		90
Depreciation and amortization	3,008	6,166	$ (1)(l)	9,173		9,173
Net gain (loss) on sales of assets	(4)	(15)		(19)		(19)
Operating income	3,523	2,334	1	5,858		5,858
Interest expense, net	2,178	7,820		9,998	$(3,778)(p)	6,220
Amortization of debt issuance costs	45	335		380	(274)(n)	106
Income (loss) before income taxes	1,300	(5,821)	1	(4,520)	4,052	(468)
Income tax expense	6	75		81		81
Income before equity interest in Star Gas Corporation		(5,896)				
Share of income (loss) of Star Gas Corporation		770	(770)(m)			
Net income (loss)	$ 1,294	$ (5,126)	$ (769)	$ (4,601)	$ 4,052	$ (549)
General partner's interest in net income (loss)	$ 26					$ (11)
Limited partners' interest in net income (loss)	$ 1,268					$ (538)
Basic and diluted net income (loss) per limited partner unit	$ 0.20					$ (0.03)
Weighted average number of limited partner units outstanding	6,255		103 (c) (2,396)(f) 430 (f) 2,492 (f)		8,947 (h)	15,831

Star Gas Partners, L.P. and Subsidiaries

Notes to Pro Forma Condensed Consolidated Financial Information

The following pro forma adjustments give effect to

(1) the offering of 809,000 common units by Star Gas Partners on December 16, 1997,

(2) the acquisition of Petro,

(3) the debt offering and

(4) this offering, as if each transaction had taken place on December 31, 1998, in the case of the pro forma condensed consolidated balance sheet, or as of October 1, 1997, in the case of the pro forma condensed consolidated statement of operations for the twelve months ended September 30, 1998, or as of October 1, 1998, in the case of the pro forma condensed consolidated statement of operations for the three months ended December 31, 1998.

The pro forma adjustments are based upon currently available information, estimates and assumptions and a preliminary determination and allocation of the total purchase price for Petro and therefore the actual results may differ from the pro forma results. However, management believes that the assumptions provide a reasonable basis for presenting the significant effects of the transactions as contemplated, and that the pro forma adjustments give appropriate effect to those assumptions and are properly applied in the pro forma financial information.

Transaction Related Adjustments

(a) Reflects the accrued dividends payable on Petro's 1989 preferred stock and 12 7/8% preferred stock

(b) Reflects the negotiated discount of approximately $1.0 million to redeem Petro's 12 7/8% preferred stock and the negotiated premium of approximately $2.8 million to refinance Petro's public debt

(c) Reflects the issue of 0.8 million shares of junior preferred stock of Petro, which will be converted into 0.1 million common units upon completion of the transaction at an assumed value of $19.00 per unit. The junior preferred stock was issued to the holders of Petro's 9 3/8% subordinated debentures, 10 1/8% subordinated notes, and 12% subordinated debentures, and 12 7/8% preferred stock as consideration for consenting to the early redemption of those securities.

The Transaction (Merger and Exchange)

(d) Represents:

(1) the estimated amount of current federal and state taxes to be incurred of $4.6 million

(2) the estimated amount of deferred federal and state income taxes to be recognized of $46.0 million, and

(3) the elimination of the tax liability associated with the Pearl Gas conveyance of $3.5 million.

(e) Reflects the estimated additional amount of $3.5 million to be recorded by Petro for legal, professional and advisory fees incurred by Petro and Star Gas Partners in the transaction. Total estimated expenses are $8.3 million. As of September 30, 1998 Petro has recorded $1.1 million in transaction expenses. For the three months December 31, 1998, Petro has recorded $3.8 million in transaction expenses.

(f) Represents the exchange of 26.5 million shares of Petro's Class A common stock and Class C common stock valued at $50.5 million for 2.5 million Star Gas Partners senior subordinated units valued at $40.4 million, 0.4 million Star Gas Partners junior subordinated units valued at $5.8 million and 0.3 million general partner units valued at $4.3 million. The 2.4 million Star Gas Partners subordinated units outstanding prior to the transaction will be contributed to Star Gas Partners by Petro. The value assigned to Petro's Class A

common stock is $45.5 million or $1.91 per share and the value assigned to Petro's Class C common stock is $5.0 million or $1.91 per share. The method used to determine the fair market value of Petro's Class A and Class C common stock was based on an implied unit analysis. The method used to determine the fair market value of Star Gas Partners' senior subordinated units, junior subordinated units and general partner units was based on an implied unit analysis. See page 68 of the joint proxy statement and prospectus of Star Gas Partners, L.P. and Petroleum Heat and Power Co., Inc. dated February 10, 1999

for a description of the implied unit analysis method.

The table below summarizes the preliminary allocation by Star Gas Partners of the excess of purchase price over book value related to the acquisition of Petro. The allocation of the purchase price is based on the results of a preliminary appraisal of property, plant and equipment, customer lists and the December 31, 1998 recorded values for tangible assets and liabilities. The anticipated closing date of the transaction is March 31, 1999. This purchase price allocation will be updated for changes in current assets and liabilities based on Petro's operating results from January 1, 1999 to the anticipated closing date. From January 1, 1999 to the closing date, it is expected that Petro will generate net income and positive cash flows and that working capital will increase. As a result, the amount of goodwill to be recorded on the closing date will decrease. Subject to Petro's operating results which could be impacted by weather, among other factors, it is estimated that the increase in working capital for Petro from January 1, 1999 to the closing date will range between $35 million to $40 million.

The preliminary allocation is as follows (In thousands):

Consideration given for the exchange of Petro shares	$ 50,478
Transaction expenses (1)	6,954
Total consideration	57,432
Fair market value of Petro's asset and liabilities as of December 31, 1998:	
Current assets	(91,758)
Cash collateral account	(6,900)
Property, plant and equipment (2)	(40,109)
Value of Petro's investment in Star Gas	(34,424)
Current liabilities	97,283
Accrued income taxes	4,600
Accrued preferred dividends	648
Long-term debt	281,575
Deferred income taxes	46,000
Other liabilities	7,264
Preferred stock	27,600
Junior preferred stock	1,953
Subtotal	293,732
Total value assigned to intangibles and other assets	351,164
Carrying amount of intangibles and other assets	(76,201)
Allocation of excess purchase price to intangibles	$274,963
Consisting of:	
Customer lists	$ 95,000
Goodwill	255,199
Other assets	965
Total intangibles and other assets	$351,164

- --------

(1)Transaction expenses include legal, accounting, investment advisory and asset appraisal costs.

(2)Includes fair market value adjustment of $12.0 million.

The fair market value for property plant and equipment, excluding real estate, was established using the cost approach method. The market approach was used in valuing the real estate. The value assigned to customer

lists was derived using a discounted cash flow analysis. The cash flows attributable to the customer lists were discounted back at an equity risk

adjusted cost of capital to the net present value. Any excess was attributable to goodwill.

The Debt Offering and This Offering

(g) Reflects the estimated net proceeds to Petro of $87.9 million from the $90.0 million debt offering, net of underwriting discounts and commissions estimated to be $1.1 million and offering expenses estimated to be $1.0 million. These costs are being amortized over the term of the related debt which is 8.5 years.

(h) Reflects the estimated net proceeds to Star Gas Partners of $159.9 million from the issuance and sale of 8.9 million common units in this offering at an assumed offering price of $19.00 per common unit, net of underwriting discounts and commissions estimated to be $8.5 million and offering expenses estimated to be $1.6 million.

The Propane Acquisitions

(i) Represents the results of certain propane distributors acquired by Star Gas Partners in fiscal 1998 from October 1, 1997 to their dates of acquisition. Results of these distributors from the dates of acquisition to September 30, 1998 are included in Star Gas Partners' twelve months ended September 30, 1998 results adjusted for:

(1) cost savings of $0.3 million, primarily executive compensation and legal expenses relating to selling shareholders;

(2) additional depreciation and amortization of $0.5 million; and

(3) additional interest expense of $0.4 million.

There were no propane acquisitions completed in the three months ended December 31, 1998.

The Transaction (Acquisition of Petro)

(j) Represents the results of operations of Petro for the twelve months ended September 30, 1998 or the three months ended December 31, 1998. Estimated expenses of $8.3 million to be incurred by Petro as a direct result of its acquisition by Star Gas Partners will be included in Petro's actual statement of operations. For the twelve months ended September 30, 1998, Petro has recorded $1.1 million of these expenses. For the three months ended December 31, 1998, Petro has recorded $3.8 million of these expenses.

(k) Adjustment to reflect the disposition of Petro's Hartford, Connecticut operations in November 1997. Petro received cash proceeds of $15.6 million and recorded a gain of $11.3 million. The carrying value of these assets at the time of sale was $4.3 million.

(l) Adjustment to depreciation and amortization expense attributable to the acquisition of Petro.

Star Gas Partners believes that the amortization periods assigned to the assets below are appropriate. However, if the final amortization periods assigned to the tangible and intangible assets were of shorter duration, the amount of depreciation and amortization would increase and reduce net income. For the twelve months ended September 30, 1998, the following table summarizes the effect on depreciation and amortization of the acquisition of Petro.

	Net Book Value Amount per Petro's Financials			Amount per Appraisal			Difference
Property and equipment, net	Asset(1)	Life	Depreciation(2)	Asset(1)	Life	Depreciation(2)	Depreciation
Land	$ 2,092		$ --	$ 3,300		$ --	$ --
Buildings	4,788	20-45 years	419	4,300	30 years	143	(276)
Fleet	5,908	5 to 7 years	2,866	12,800	6 years	2,135	(731)
Leasehold	4,270	term of leases	562	5,900	term of leases	457	(105)
Computer, furniture and fixtures	7,377	5 to 7 years	2,491	9,700	5 to 7 years	1,661	(830)

Service & other equipment.....	3,689	5 to 13 years	692	4,109	5 to 13 years	557	(135)
Total property and equipment.....	$28,124		$ 7,030	$ 40,109		$ 4,953	$(2,077)

Intangible and other assets, net	Asset(1)	Life	Amortization(2)	Asset(1)	Life	Amortization(2)	Amortization
Customer list.....	$52,596	6.5 years	$17,364	$ 95,000	10 years	$ 9,500	$(7,864)
Goodwill.....	9,013	25 years	1,129	255,199	25 years	10,208	9,079
Covenants not to compete.....	2,855	5 to 7 years	1,904	--		--	(1,904)
Other assets.....	965		--	965		--	--
Total intangible and other assets.....	$65,429		$20,397	$351,164		$19,708	$ (689)
Totals.....			$27,427			$24,661	$(2,766)

- -------

(1) As of December 31, 1998.

(2) For the twelve months ended September 30, 1998.

Petro's property, plant and equipment is being depreciated using a historical cost which is approximately $80 million. The fair market value of these assets is $40.1 million. When depreciation expense is calculated based on the fair market value, this expense is $2.1 million lower than historical depreciation. Pro forma depreciation is less than historical depreciation due to decline in the asset base being depreciated and an extension of the useful lives of those assets. The remaining lives assigned to property, plant and equipment were determined by an independent appraisal firm. All property, plant and equipment is depreciated using the straight-line method.

Pro forma customer list amortization is less than historical amortization due to a longer life and a lower amortization asset. The original cost used to amortize historical customer list was approximately $120 million. The longer life represents Petro's improved retention rate as well as the retention of customers obtained through internal marketing, which have a higher retention rate than for customers acquired through acquisition. Petro's previous acquisitions represented the acquisition of customers. The acquisition of Petro by Star Gas Partners is an acquisition of an on-going business. The appraisal assigned a greater allocation to goodwill than what was previously allocated by Petro in their purchase of a 188 relatively small fuel oil dealers. This resulted in approximately $9.1 million of additional amortization, largely offsetting the $7.9 million of less customer list amortization. Restrictive covenants were not assigned a value under the pro forma intangibles due to the minimal amount of the asset value expected at closing. Intangibles are amortized on a straight-line basis.

For the three months ended December 31, 1998, the following table summarizes the effect on depreciation and amortization of the acquisition of Petro.

	Net Book Value Amount per Petro's Financials			Amount per Appraisal			Difference
Property and equipment, net	Asset(1)	Life	Depreciation(2)	Asset(1)	Life	Depreciation(2)	Depreciation
Land.....	$ 2,092		$ --	$ 3,300		$ --	$ --
Buildings.....	4,788	20-45 years	76	4,300	30 years	36	(40)
Fleet.....	5,908	5 to 7 years	676	12,800	6 years	534	(142)
Leasehold.....	4,270	term of leases	148	5,900	term of leases	114	(34)
Computer, furniture and fixtures.....	7,377	5 to 7 years	655	9,700	5 to 7 years	415	(240)
Service & other equipment.....	3,689	5 to 13 years	219	4,109	5 to 13 years	139	(80)
Total property and equipment.....	$28,124		$1,774	$ 40,109		$1,238	$ (536)

Intangible and other assets, net	Asset(1)	Life	Amortization(2)	Asset(1)	Life	Amortization(2)	Amortization
Customer list.....	$52,596	6.5 years	$3,703	$ 95,000	10 years	$2,375	$(1,328)
Goodwill.....	9,013	25 years	248	255,199	25 years	2,552	2,304
Covenants not to compete.....	2,855	5 to 7 years	441	--		--	(441)
Other assets.....	965		--	965		--	--

Total intangible and other assets.....	$65,429	$4,392	$351,164	$4,927	$ 535
Totals.....		$6,166		$6,165	$ (1)

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(1) As of December 31, 1998.

(2) For the three months ended December 31, 1998.

(m) Reflects the elimination of Petro's equity interest in Star Gas Partners.

The Offerings

(n) Reflects the net adjustment for the twelve months ended September 30, 1998 to amortization of debt issuance costs of $1.2 million attributable to the debt offering and the acquisition of Petro. Amortization of debt issuance costs is decreased by $1.4 million relating to the repayment of Petro debt and is increased by $0.2 million relating to the 7.92% notes. For the three months ended December 31, 1998, amortization of debt issuance costs is decreased by $0.3 million relating to the repayment of Petro debt and is increased by $0.1 million relating to the 7.92% notes.

(o) Reflects the use of the net proceeds from this offering and, the debt offering to repay $84.1 million of Petro's 12 1/4% Senior Subordinated Debentures due 2005 including $2.8 million of premiums, to repay $50.0 million of Petro's 10 1/8% Senior Subordinated Notes due 2003, to repay $75.0 million of Petro's 9 3/8% Senior Subordinated Debentures due 2006, to retire $27.6 million of Petro's 12 7/8% Exchangeable Preferred Stock, to retire $4.1 million of Petro's 14.33% Exchangeable Preferred Stock and to pay $3.5 million of transaction expenses. As of December 31, 1998 Petro had paid $4.8 million in transaction expenses.

(p) Reflects the net reduction to interest expense of $15.1 million for the twelve months ended September 30, 1998. This amount reflects $7.1 million of additional interest expense annually on the $90.0 million in principal amount of the notes at an interest rate of 7.92%. This amount also reflects an annual reduction in interest expense of $22.2 million due to the repayment of $206.3 million of Petro public debt with the proceeds of this offering and the debt offering.

The following table summarizes the effect on interest expense of the transaction for the twelve months ended December 31, 1998:

	Amount	Interest Rate	Interest Expense
Debt Repaid			
Petro 12 1/4% senior subordinated debentures(1)....	$81,250	12.25%	$ 9,953
Petro 10 1/8% senior subordinated notes.....	50,000	10.125%	5,063
Petro 9 3/8% snior subordinated debentures.....	75,000	9.375%	7,031
Lower letter of credit fees on acquisition notes...			191
Total reductions to interest expense.....			$22,238

	Amount	Interest Rate	Interest Expense
New Debt Issued			
Petro 7.92% notes.....	$90,000	7.92%	$(7,128)
Net reduction to interest expense.....			$15,110

- --------

(1) Excludes prepayment premium of $2.8 million.

The following table summarizes the effect on interest expense of the transaction for the three months ended December 31, 1998:

	Amount	Interest Rate	Interest Expense
Debt Repaid			
Petro 12 1/4% senior subordinated debentures(1)	$81,250	12.25%	$ 2,488
Petro 10 1/8% senior subordinated notes	50,000	10.125%	1,266
Petro 9 3/8% senior subordinated debentures	75,000	9.375%	1,758
Lower letter of credit fees on acquisition notes			48
Total reductions to interest expense			$ 5,560

	Amount	Interest Rate	Interest Expense
New Debt Issued			
Petro 7.92% notes	$90,000	7.92%	$(1,782)
Net reduction to interest expense			$ 3,778

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(1) Excludes prepayment premium of $2.8 million.

(q) The partnership agreement provides that for each non-overlapping four quarter period that occurs after the first anniversary of the transaction, but before the fifth anniversary of the transaction, in which the dollar amount of Petro Adjusted Operating Surplus per Petro Unit equals or exceeds $2.90. Star Gas Partners will issue 303,000 senior subordinated units, pro rata, or 303,000 Class B common units, pro rata, if such issuance occurs after the end of the subordination period. These additional senior subordinated units will be issued to the current holders of the senior subordinated units, junior subordinated units and the general partner units. Star Gas Partners may not issue more than an aggregate of 909,000 senior subordinated units or Class B common units under this provision. The issuance of these senior subordinated units will not generate any additional proceeds to Star Gas Partners. When these units are issued, an additional amount of goodwill will be recorded. Assuming 303,000 senior subordinated units are issued, the amount of goodwill to be recorded will be $4.9 million. As a result, annual amortization expense would increase by $0.2 million and would decrease net income per limited partner unit by $0.01 per unit. If these senior subordinated units are issued and they are converted into Class B common units, the Class A common units would be diluted in terms of available cash to be used for payment of the quarterly distributions.

ANNEX A--APPLICATION FOR TRANSFER OF COMMON UNITS

No transfer of the Common Units evidenced here will be registered on the books of the Partnership, unless the certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set shown or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

APPLICATION FOR TRANSFER OF COMMON UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Common Units evidenced hereby.

The Assignee

(a) requests admission as a Substituted Limited Partner and agrees to comply with and be bound by, and hereby executes, the Amended and Restated Agreement of Limited Partnership of Star Gas Partners, L.P. (the "Partnership"), as amended, supplemented or restated to the date hereof (the "Partnership Agreement"),

(b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement,

(c) appoints the General Partner and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any of its amendment, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement,

(d) gives the powers of attorney provided for in the Partnership Agreement and

(e) makes the waivers and gives the consents and approvals contained in the Partnership Agreement. Capitalized terms not defined here have the meanings assigned to those terms in the Partnership Agreement.

Date: _____

Signature of Assignee

- ---

Social Security or other identifying number of Assignee

Name and Address of Assignee

- ---

Purchase Price including commissions, if any

Type of Entity (check one):

[_] Individual [_] Partnership [_] Corporation

[_] Trust [_] Other (specify) _____

Nationality (check one):

[_] U.S. Citizen, Resident or Domestic Entity

[_] Foreign Corporation [_] Non-resident Alien

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended, the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person.

To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete Either A or B:

A. Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. income taxation.

2. My U.S. taxpayer identification number (Social Security Number) is _____.

3. My home address is _____.

B. Partnership, Corporation or Other Interestholder

1. _____ is not a foreign
(Name of Interestholder)
corporation, foreign partnership, foreign trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).

2. The interestholder's U.S. employer identification number is _____.

3. The interestholder's office address and place of incorporation (if applicable) is _____

_____.

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person.

The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and believe it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

---
(Name of Interestholder)

Signature and Date

Title (if applicable)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Common Units shall be made to the best of the Assignee's knowledge.

ANNEX B--GLOSSARY OF TERMS

Adjusted Operating Surplus: For any period, Operating Surplus generated during that period as adjusted to:

(a) decrease Operating Surplus by;

(1)any net increase in working capital borrowings during that period, and

(2) any net reduction in cash reserves for Operating Expenditures during that period not relating to an Operating Expenditure made during that period; and

(b) increase Operating Surplus by;

(1) any net decrease in working capital borrowings during that

period; and

(2) any net increase in cash reserves for Operating Expenditures during that period required by any debt instrument for the repayment of principal, interest or premium.

Adjusted Operating Surplus does not include that portion of Operating Surplus included in clause (a)(1) of the definition of Operating Surplus.

Available Cash: For any quarter prior to liquidation:

(a) the sum of:

(1) all cash and cash equivalents of the Star Gas Partners and its subsidiaries on hand at the end of that quarter; and

(2) all additional cash and cash equivalents of Star Gas Partners and its subsidiaries on hand on the date of determination of Available Cash for that quarter resulting from Working Capital Borrowings after the end of that quarter;

(b) less the amount of cash reserves that is necessary or appropriate in the reasonable discretion of the general partner to:

(1) provide for the proper conduct of the business of Star Gas Partners and its subsidiaries (including reserves for future capital expenditures) after that quarter;

(2) provide funds for minimum quarterly distributions and cumulative common unit arrearages for any one or more of the next four quarters; or

(3) comply with applicable law or any debt instrument or other agreement or obligation to which any member of Star Gas Partners and its subsidiaries is a party or its assets are subject;

provided, however, that the general partner may not establish cash reserves for distributions to the senior subordinated units unless the general partner has determined that in its judgment the establishment of reserves will not prevent Star Gas Partners from distributing the minimum quarterly distribution on all common units and any common unit arrearages thereon for the next four quarters; and,

provided further, that disbursements made by Star Gas Partners and its subsidiaries or cash reserves established, increased or reduced after the end of that quarter but on or before the date of determination of Available Cash for that quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within that quarter if the general partner so determines.

Capital Account: The capital account maintained for a partner under the amended and restated partnership agreement. The Capital Account for a common unit, a subordinated unit, a junior subordinated unit, a general partner unit or any other specified interest in Star Gas Partners shall be the amount which that Capital Account would be if that common unit, subordinated unit, junior subordinated unit, general partner unit or other interest in Star Gas Partners were the only interest in Star Gas Partners held by a partner.

Capital Surplus: All Available Cash distributed by Star Gas Partners from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since the commencement of Star Gas Partners equals the Operating Surplus as of the end of the quarter before that distribution. Any excess Available Cash will be deemed to be Capital Surplus.

Closing Price: The last sale price on a day, regular way, or in case no sale takes place on that day, the average of the closing bid and asked prices on that day, regular way. In either case, as reported in the principal consolidated transaction reporting system for securities listed or admitted to trading on the principal national securities exchange on which the units of that class are listed or admitted to trading. If the units of that class are not listed or admitted to trading on any national securities exchange, the last

quoted price on that day. If no quoted price exists, the average of the high bid and low asked prices on that day in the over-the-counter market, as reported by the Nasdaq Stock Market or any other system then in use. If on any day the units of that class are not quoted by any organization of that type, the average of the closing bid and asked prices on that day as furnished by a professional market maker making a market in the units of the class selected by the board of directors of the general partner. If on that day no market maker is making a market in the units of that class, the fair value of such units on that day as determined reasonably and in good faith by the board of directors of the general partner.

Current Market Price: With respect to any class of units listed or admitted to trading on any national securities exchange as of any date, the average of the daily Closing Prices for the 20 consecutive trading days immediately prior to such date.

Interim Capital Transactions:

(a) borrowings, refinancings or refundings of indebtedness and sales of debt securities (other than Working Capital Borrowings and other than for items purchased on open account in the ordinary course of business) by any member of Star Gas Partners and its subsidiaries;

(b) sales of equity interests (including common units sold to the underwriters in the exercise of their over-allotment option) by any member of Star Gas Partners and its subsidiaries; and

(c) sales or other voluntary or involuntary dispositions of any assets of any member of Star Gas Partners and its subsidiaries (other than sales or other dispositions of inventory in the ordinary course of business, sales or other dispositions of other current assets, including, without limitation, receivables and accounts, in the ordinary course of business and sales or other dispositions of assets as a part of normal retirements or replacements), in each case before the dissolution and liquidation of Star Gas Partners.

Operating Expenditures: All expenditures of Star Gas Partners and its subsidiaries including taxes, reimbursements of the general partner, debt service payments, and capital expenditures, subject to the following:

(a) Payments (including prepayments) of principal and premium on a debt shall not be an Operating Expenditure if the payment is;

(1) required for the sale or other disposition of assets or

(2) made for the refinancing or refunding of indebtedness with the proceeds from new indebtedness or from the sale of equity interests. For purposes of the foregoing, at the election and in the reasonable discretion of the general partner, any payment of principal or premium shall be deemed to be refunded or refinanced by any indebtedness incurred or to be incurred by Star Gas Partners and its subsidiaries within 180 days before or after that payment to the extent of the principal amount of that indebtedness.

(b) Operating Expenditures shall not include;

(1) capital expenditures made for acquisitions or for capital improvements (as opposed to capital expenditures made to maintain assets);

(2) payment of transaction expenses relating to Interim Capital Transactions;

(3) payment of transaction expenses related to the merger and the transactions contemplated by the merger; or

(4) distributions to partners. Where capital expenditures are made in part for acquisitions or capital improvements and in part for other purposes, the general partner's good faith allocation between the amounts paid for each shall be conclusive.

Operating Surplus: As to any period before liquidation:

(a) the sum of:

(1) $20,071,225 plus all cash of Star Gas Partners and its subsidiaries on hand as of the close of business on the closing date of the initial public offering;

(2) all the cash receipts of Star Gas Partners and its subsidiaries for the period beginning on the closing date of the initial public offering and ending with the last day of that period, other than cash receipts from Interim Capital Transactions (except to the extent specified in the amended and restated partnership agreement; and

(3) all cash receipts of Star Gas Partners and its subsidiaries after the end of that period but on or before the date of determination of Operating Surplus for the period resulting from borrowings for working capital purposes; less

(b) the sum of:

(1) Operating Expenditures for the period beginning on the date of the closing of the initial public offering and ending with the last day of that period; and

(2) the amount of cash reserves that is necessary or advisable in the reasonable discretion of the general partner to provide funds for future Operating Expenditures; provided, however, that disbursements made (including contributions to Star Gas Partners or any of its subsidiaries or disbursements on behalf of Star Gas Partners or any of its subsidiaries) or cash reserves established, increased or reduced after the end of that period but on or before the date of determination of Available Cash for that period shall be deemed to have been made, established, increased or reduced, for purposes of determining Operating Surplus, within that period if the general partner so determines.

Notwithstanding the foregoing, "Operating Surplus" for the quarter in which the liquidation date occurs and any later quarter shall equal zero.

subordination period: The subordination period will extend from the date of the closing of the initial public offering until the first to occur of the following:

(a) the first day of any quarter beginning on or after October 1, 2002 for which;

(1) distributions of Available Cash from Operating Surplus on each of the outstanding common units, senior subordinated units, junior subordinated units and general partner units equaled or exceeded the sum of the minimum quarterly distribution on all of the outstanding common units and junior subordinated units for each of the three non-overlapping four-quarter periods immediately preceding that date;

(2) the Adjusted Operating Surplus, generated during each of the three immediately preceding, non-overlapping four quarter periods equaled or exceeded the sum of minimum quarterly

distribution on all of the common units, senior subordinated units, junior subordinated units and general partner units that were outstanding during those periods on a fully diluted basis for employee options or other employee incentive compensation (i.e., taking into account for purposes of that determination all outstanding common units, senior subordinated units, junior subordinated units and general partner units and all common units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest before the end of the quarter immediately following the quarter for which determination is made, and all units that have, as of

the date of determination, been earned by but not yet issued to management of Star Gas Partners for incentive compensation); and

(3) there are no arrearages in payment of the minimum quarterly distribution on the common units.

(b) the date on which the general partner is removed as general partner of Star Gas Partners upon the requisite vote by limited partners under circumstances where cause does not exist; provided, however, that if the general partner is removed during the subordination period within 12 months after the end of a six-quarter period in which the minimum quarterly distribution was not made on the common units for more than one of those quarters (excluding for this purpose the payment of any common unit arrearages) and the first quarter of that six-quarter period that the minimum quarterly distribution on common units was not made occurs after March 31, 2001, then the subordination period will not end. In the event that the general partner is removed under the circumstances described above, the junior subordinated units shall convert into senior subordinated units on a one-for-one basis and the distribution rights on the general partner units will rank equally with the senior subordinated units.

Working Capital Borrowings: Borrowings under to a facility or other arrangement requiring all of its borrowings to be reduced to a relatively small amount each year for an economically meaningful period of time. Borrowings that are not intended exclusively for working capital purposes shall not be treated as Working Capital Borrowings.

ANNEX C--PARTNERSHIP AGREEMENT

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AMENDED AND RESTATED

AGREEMENT OF LIMITED PARTNERSHIP

OF

STAR GAS PARTNERS, L.P.

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AMENDED AND RESTATED
AGREEMENT OF LIMITED PARTNERSHIP OF
STAR GAS PARTNERS, L.P.

THIS AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF STAR GAS PARTNERS, L.P., dated as of , 1999, is entered into by and among STAR GAS LLC, a Delaware limited liability company, as the General Partner, and those Persons who are or become Partners in the Partnership or parties hereto as provided herein. In consideration of the covenants, conditions and agreements contained herein, the parties hereto hereby agree as follows:

R E C I T A L S:

WHEREAS, Star Gas Corporation, a Delaware corporation and the initial general partner of the Partnership (the "Initial General Partner"), and certain other parties organized the Partnership as a Delaware limited partnership pursuant to an Agreement of Limited Partnership dated as of December 20, 1995 (the "Original Agreement"); and

WHEREAS, the Partnership, the Operating Partnership, Petro and Mergeco have entered into that Merger Agreement dated as of October 22, 1998, as amended and restated as of February 3, 1999 (the "Petro Merger Agreement"), providing for the merger (the "Merger") of Mergeco with and into Petro; and

WHEREAS, in order to effect the transactions contemplated by the Merger Agreement, it is necessary to amend this Agreement as provided herein; and

WHEREAS, the Petro Merger Agreement and the transactions contemplated thereby (including, without limitation, the form of this Agreement and the amendments effected hereby and the withdrawal of the Initial General Partner as the general partner of the Partnership and the Operating Partnership and the election of Star Gas LLC as the successor general partner of the Partnership and the Operating Partnership) have been submitted to, and approved by the requisite vote of, the Limited Partners; and

WHEREAS, the General Partner has the authority to adopt certain amendments to this Agreement without the approval of any Limited Partner or Assignee to reflect, among other things: (i) subject to the terms of Section 4.4, any change that is necessary or desirable in connection with the authorization for issuance of any class or series of Partnership Securities pursuant to Section 4.4 and (ii) a change that, in the sole discretion of the General Partner, does not adversely affect the Limited Partners in any material respect.

NOW, THEREFORE, the Original Agreement is hereby amended and, as so amended, is restated in its entirety as follows:

ARTICLE I

ORGANIZATIONAL MATTERS

Section 1.1 Formation and Continuation.

The Initial General Partner and the Organizational Limited Partner previously formed the Partnership as a limited partnership pursuant to the provisions of the Delaware Act. The General Partner and the Limited Partners hereby amend and restate this Agreement in its entirety to continue the Partnership as a limited partnership pursuant to the provisions of the Delaware Act and to set forth the rights and obligations of the Partners and certain matters related thereto. This amendment and restatement shall become effective on the date of this

Agreement. Except as expressly provided to the contrary in this Agreement, the rights and obligations of the Partners and the administration, dissolution and termination of the Partnership shall be governed by the Delaware Act. All Partnership Interests shall constitute personal property of the owner thereof for all purposes.

Section 1.2 Name.

The name of the Partnership is "Star Gas Partners, L.P." The Partnership's business may be conducted under any other name or names deemed necessary or appropriate by the General Partner, including the name of the General Partner. The words "Limited Partnership," "L.P.," "Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purpose of complying with the laws of any jurisdiction that so requires. The General Partner in its sole discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partners of such change in the next regular communication to the Limited Partners.

Section 1.3 Registered Office; Principal Office.

Unless and until changed by the General Partner, the registered office of the Partnership in the State of Delaware shall be located at 32 Loockerman Square, Suite L-100, Dover, Delaware 19904, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be The Prentice-Hall Corporation System, Inc. The principal office of the Partnership shall be located at, and the address of the General Partner shall be, 2187 Atlantic Street, Stamford, Connecticut 06902, or such other place as the General Partner may from time to time designate by notice to the Limited Partners. The Partnership may maintain offices at such other place or places within or outside the State of Delaware as the General Partner deems necessary or appropriate.

Section 1.4 Power of Attorney.

(a) Each Limited Partner and each Assignee hereby constitutes and appoints each of the General Partner and, if a Liquidator shall have been selected pursuant to Section 14.3, the Liquidator, severally (and any successor to either thereof by merger, transfer, assignment, election or otherwise) and each of their authorized officers and attorneys-in-fact, with full power of substitution, as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead, to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (A) all certificates, documents and other instruments (including this Agreement and the Certificate of Limited Partnership and all amendments or restatements thereof) that the General Partner or the Liquidator deems necessary or appropriate to form, qualify or continue the existence or qualification of the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and in all other jurisdictions in which the Partnership may conduct business or own property; (B) all certificates, documents and other instruments that the General Partner or the Liquidator deems necessary or appropriate to reflect, in accordance with its terms, any amendment, change, modification or restatement of this Agreement; (C) all certificates, documents and other instruments (including conveyances and a certificate of cancellation) that the General Partner or the Liquidator deems necessary or appropriate to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement; (D) all certificates, documents and other instruments relating to the admission, withdrawal, removal or substitution of any Partner pursuant to, or other events described in, Article XI, XII, XIII or XIV; (E) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of any class or series of Partnership Securities issued pursuant to Section 4.4; and (F) all certificates, documents and other instruments (including agreements and a certificate of merger) relating to a merger or consolidation of the Partnership pursuant to Article XVI; and

(ii) execute, swear to, acknowledge, deliver, file and record all ballots, consents, approvals, waivers, certificates, documents and other instruments necessary or appropriate, in the sole discretion of the General Partner or the Liquidator, to make, evidence, give, confirm or ratify any

vote, consent, approval, agreement or other action that is made or given by the Partners hereunder or is consistent with the terms of this Agreement or is necessary or appropriate, in the sole discretion of the General Partner or the Liquidator, to effectuate the terms or intent of this Agreement; provided, that when required by Section 15.3 or any other provision of this Agreement that establishes a percentage of the Limited Partners or of the Limited Partners of any class or series required to take any action, the General Partner or the

Liquidator may exercise the power of attorney made in this Section 1.4(a)(ii) only after the necessary vote, consent or approval of the Limited Partners or of the Limited Partners of such class or series, as applicable.

Nothing contained in this Section 1.4(a) shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XV or as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive and not be affected by the subsequent death, incompetency, disability, incapacity, dissolution, bankruptcy or termination of any Limited Partner or Assignee and the transfer of all or any portion of such Limited Partner's or Assignee's Partnership Interest and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee hereby agrees to be bound by any representation made by the General Partner or the Liquidator acting in good faith pursuant to such power of attorney; and each such Limited Partner or Assignee hereby waives any and all defenses that may be available to contest, negate or disaffirm the action of the General Partner or the Liquidator taken in good faith under such power of attorney. Each Limited Partner or Assignee shall execute and deliver to the General Partner or the Liquidator, within 15 days after receipt of the General Partner's or the Liquidator's request therefor, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator deems necessary to effectuate this Agreement and the purposes of the Partnership.

Section 1.5 Term.

The Partnership commenced upon the filing of the Certificate of Limited Partnership in accordance with the Delaware Act and shall continue in existence until the close of Partnership business on December 31, 2085, or until the earlier dissolution of the Partnership in accordance with the provisions of Article XIV.

Section 1.6 Possible Restrictions on Transfer.

The General Partner may impose restrictions on the transfer of Partnership Interests if a subsequent Opinion of Counsel determines that such restrictions are necessary to avoid a significant risk of the Partnership's or the Operating Partnership's becoming taxable as a corporation or otherwise as an entity for federal income tax purposes. The restrictions may be imposed by making such amendments to this Agreement as the General Partner in its sole discretion may determine to be necessary or appropriate to impose such restrictions; provided, however, that any amendment that the General Partner believes, in the exercise of its reasonable discretion, could result in the delisting or suspension of trading of any class of Units on any National Securities Exchange on which such class of Units is then traded must be approved by the holders of at least a majority of the Outstanding Units of such class.

ARTICLE II

DEFINITIONS

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

"Acquisition" means any transaction in which any Group Member acquires (through an asset acquisition, merger, stock acquisition or other form of investment) control over all or a portion of the assets, properties or business of another Person for the purpose of increasing the operating capacity of the Partnership Group from the operating capacity of the Partnership Group existing

immediately prior to such transaction.

"Additional Book Basis" means the portion of any remaining Carrying Value of an Adjusted Property that is attributable to positive adjustments made to such Carrying Value as a result of Book-Up Events. For purposes of determining the extent to which Carrying Value constitutes Additional Book Basis:

(i) Any negative adjustment made to the Carrying Value of an Adjusted Property as a result of either a Book-Down Event or a Book-Up Event shall first be deemed to offset or decrease that portion of the Carrying Value of such Adjusted Property that is attributable to any prior positive adjustments made thereto pursuant to a Book-Up Event or Book-Down Event.

(ii) If Carrying Value that constitutes Additional Book Basis is reduced as a result of a Book-Down Event and the Carrying Value of other property is increased as a result of such Book-Down Event, an allocable portion of any such increase in Carrying Value shall be treated as Additional Book Basis; provided that the amount treated as Additional Book Basis pursuant hereto as a result of such Book-Down Event shall not exceed the amount by which the Aggregate Remaining Net Positive Adjustments after such Book-Down Event exceeds the remaining Additional Book Basis attributable to all of the Partnership's Adjusted Property after such Book-Down Event (determined without regard to the application of this clause (ii) to such Book-Down Event).

"Additional Book Basis Derivative Items" means any Book Basis Derivative Items that are computed with reference to Additional Book Basis. To the extent that the Additional Book Basis attributable to all of the Partnership's Adjusted Property as of the beginning of any taxable period exceeds the Aggregate Remaining Net Positive Adjustments as of the beginning of such period (the "Excess Additional Book Basis"), the Additional Book Basis Derivative Items for such period shall be reduced by the amount that bears the same ratio to the amount of Additional Book Basis Derivative Items determined without regard to this sentence as the Excess Additional Book Basis bears to the Additional Book Basis as of the beginning of such period.

"Additional Limited Partner" means a Person admitted to the Partnership as a Limited Partner pursuant to Section 12.4 and who is shown as such on the books and records of the Partnership.

"Adjusted Capital Account" means the Capital Account maintained for each Partner as of the end of each fiscal year of the Partnership, (a) increased by any amounts that such Partner is obligated to restore under the standards set by Treasury Regulation Section 1.704-1(b)(2)(ii)(c) (or is deemed obligated to restore under Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5)) and (b) decreased by (i) the amount of all losses and deductions that, as of the end of such fiscal year, are reasonably expected to be allocated to such Partner in subsequent years under Sections 704(e)(2) and 706(d) of the Code and Treasury Regulation Section 1.751-1(b)(2)(ii), and (ii) the amount of all distributions that, as of the end of such fiscal year, are reasonably expected to be made to such Partner in subsequent years in accordance with the terms of this Agreement or otherwise to the extent they exceed offsetting increases to such Partner's Capital Account that are reasonably expected to occur during (or prior to) the year in which such distributions are reasonably expected to be made (other than increases as a result of a minimum gain chargeback pursuant to Section 5.1(d)(i) or 5.1(d)(ii)). The foregoing definition of Adjusted Capital Account is intended to comply with the provisions of Treasury Regulation Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith. The "Adjusted Capital Account" in respect of Common Unit, Senior Subordinated Unit, Junior Subordinated Unit, a General Partner Unit or any other specified interest in the Partnership shall be the amount which such Adjusted Capital Account would be if such Common Unit, a Senior Subordinated Unit, a Junior Subordinated Unit, a General Partner Unit or other interest in the Partnership were the only interest in the Partnership held by a Partner.

"Adjusted Operating Surplus" for any period means Operating Surplus generated during such period as adjusted to (a) decrease Operating Surplus by (i) any net increase in Working Capital Borrowings during such period and (ii) any net reduction in cash reserves for Operating Expenditures during such period not relating to an Operating Expenditure made during such period, and (b) increase Operating Surplus by (i) any net decrease in Working Capital Borrowings during such period and (ii) any net increase in cash reserves for Operating

Expenditures during such period required by any debt instrument for the repayment of principal, interest or premium. Adjusted Operating Surplus does not include that portion of Operating Surplus included in clause (a)(i) of the definition of Operating Surplus.

"Adjusted Property" means any property the Carrying Value of which has been adjusted pursuant to Section 4.9(d)(i) or 4.9(d)(ii).

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"Aggregate Remaining Net Positive Adjustments" means as of the end of any taxable period, the sum of the Remaining Net Positive Adjustments of all the Partners.

"Agreed Allocation" means any allocation, other than a Required Allocation, of an item of income, gain, loss or deduction pursuant to the provisions of Section 5.1, including, without limitation, a Curative Allocation (if appropriate to the context in which the term "Agreed Allocation" is used).

"Agreed Value" of any Contributed Property means the fair market value of such property or other consideration at the time of contribution as determined by the General Partner using such reasonable method of valuation as it may adopt. Subject to Section 4.9(c)(i), the General Partner shall, in its sole discretion, use such method as it deems reasonable and appropriate to allocate the aggregate Agreed Value of Contributed Properties contributed to the Partnership in a single or integrated transaction among each separate property on a basis proportional to the fair market value of each Contributed Property.

"Agreement" means this Amended and Restated Agreement of Limited Partnership of Star Gas Partners, L.P., as it may be amended, supplemented or restated from time to time.

"Assignee" means a Non-citizen Assignee or a Person to whom one or more Units representing a Limited Partner Interest have been transferred in a manner permitted under this Agreement and who has executed and delivered a Transfer Application as required by this Agreement, but who has not become a Substituted Limited Partner.

"Associate" means, when used to indicate a relationship with any Person, (a) any corporation or organization of which such Person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting stock or other voting interest; (b) any trust or other estate in which such Person has at least a 20% beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (c) any relative or spouse of such Person, or any relative of such spouse, with the same residence as such Person.

"Audit Committee" means a committee of the Board of Directors of the General Partner composed entirely of two or more directors who are neither members, officers nor employees of the General Partner or members, stockholders (other than holders of Common Units or Senior Subordinated Units), officers, directors or employees of any Affiliate of the General Partner.

"Available Cash," as to any Quarter ending before the Liquidation Date, means

(a) the sum of (i) all cash and cash equivalents of the Partnership Group on hand at the end of such Quarter and (ii) all additional cash and cash equivalents of the Partnership Group on hand on the date of determination of Available Cash with respect to such Quarter resulting from Working Capital Borrowings subsequent to the end of such Quarter, less

(b) the amount of cash reserves that is necessary or appropriate in the reasonable discretion of the General Partner to (i) provide for the proper conduct of the business of the Partnership Group (including reserves for future capital expenditures) subsequent to such Quarter, (ii) provide funds for distributions under Sections 5.4(a)(i), (ii) and (iii) or 5.4(b)(i) in respect of any one or more of the next four Quarters, or (iii) comply with

applicable law or any debt instrument or other agreement or obligation to which any member of the Partnership Group is a party or its assets are subject; provided, however, that the General Partner may not establish cash reserves for distributions pursuant to Section 5.4(a)(iii) unless the General Partner has determined that in its judgment the establishment of reserves will not prevent the Partnership from distributing the Minimum Quarterly Distribution on all Common Units and any Common Unit Arrearages thereon with respect to the next four Quarters.

Notwithstanding the foregoing, "Available Cash" with respect to the Quarter in which the Liquidation Date occurs and any subsequent Quarter shall equal zero.

"Book Basis Derivative Items" means any item of income, deduction, gain, or loss included in the determination of Net Income, Net Loss, Net Termination Gain or Net Termination Loss that is computed with reference to the Carrying Value of an Adjusted Property (e.g., depreciation, depletion, or gain or loss with respect to an Adjusted Property).

"Book-Down Event" means an event which triggers a negative adjustment to the Capital Accounts of the Partners pursuant to Section 4.9(d).

"Book-Tax Disparity" means with respect to any item of Contributed Property or Adjusted Property, as of the date of any determination, the difference between the Carrying Value of such Contributed Property or Adjusted Property and the adjusted basis thereof for federal income tax purposes as of such date. A Partner's share of the Partnership's Book-Tax Disparities in all of its Contributed Property and Adjusted Property will be reflected by the difference between such Partner's Capital Account balance as maintained pursuant to Section 4.9 and the hypothetical balance of such Partner's Capital Account computed as if it had been maintained strictly in accordance with federal income tax accounting principles.

"Book-Up Event" means an event which triggers a positive adjustment to the Capital Accounts of the Partners pursuant to Section 4.9(d).

"Business Day" means Monday through Friday of each week, except that a legal holiday recognized as such by the government of the United States or the states of New York or Connecticut shall not be regarded as a Business Day.

"Capital Account" means the capital account maintained for a Partner pursuant to Section 4.9. The "Capital Account" in respect of a Common Unit, a Senior Subordinated Unit, a Junior Subordinated Unit, a General Partner Unit or any other specified interest in the Partnership shall be the amount which such Capital Account would be if such Common Unit, Senior Subordinated Unit, Junior Subordinated Unit, General Partner Unit or other interest in the Partnership were the only interest in the Partnership held by a Partner.

"Capital Contribution" means any cash, cash equivalents or the Net Agreed Value of Contributed Property that a Partner contributes or has contributed to the Partnership pursuant to this Agreement and the Conveyance and Contribution Agreements.

"Capital Improvements" means (a) additions or improvements to the capital assets owned by any Group Member or (b) the acquisition of existing or the construction of new capital assets (including retail distribution outlets, propane tanks, pipeline systems, storage facilities and related assets), made to increase the operating capacity of the Partnership Group from the operating capacity of the Partnership Group existing immediately prior to such addition, improvement, acquisition or construction.

"Capital Surplus" has the following meaning: all Available Cash distributed by the Partnership from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since the commencement of the Partnership equals the Operating Surplus as of the end of the Quarter prior to such distribution. Any excess Available Cash will be deemed to be Capital Surplus.

"Carrying Value" means (a) with respect to a Contributed Property, the Agreed Value of such property reduced (but not below zero) by all depreciation, amortization and cost recovery deductions charged to the Partners' and Assignees' Capital Accounts in respect of such Contributed Property, and (b)

with respect to any other Partnership property, the adjusted basis of such property for federal income tax purposes, all as of the time of determination. The Carrying Value of any property shall be adjusted from time to time in accordance with Sections 4.9(d)(i) and 4.9(d)(ii) and to reflect changes, additions or other adjustments to the Carrying Value for dispositions and acquisitions of Partnership properties, as deemed appropriate by the General Partner.

"Cause" means a court of competent jurisdiction has entered a final, non-appealable judgment finding the General Partner liable for actual fraud, gross negligence or willful or wanton misconduct in its capacity as general partner of the Partnership.

"Certificate" means a certificate, (a) substantially in the form of Exhibit A hereto with respect to Common Units and Exhibit B hereto with respect to Senior Subordinated Units, (b) issued in global form in accordance with the rules and regulations of the Depositary, or (c) in such other form as may be adopted by the General Partner in its sole discretion, issued by the Partnership evidencing ownership of one or more Common Units or Senior Subordinated Units, as the case may be, or a certificate, in such form as may be adopted by the General Partner in its sole discretion, issued by the Partnership evidencing ownership of one or more other Units.

"Certificate of Limited Partnership" means the Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware as referenced in Section 6.2, as such Certificate of Limited Partnership may be amended, supplemented or restated from time to time.

"Citizenship Certification" means a properly completed certificate in such form as may be specified by the General Partner by which an Assignee or a Limited Partner certifies that he (and if he is a nominee holding for the account of another Person, that to the best of his knowledge such other Person) is an Eligible Citizen.

"Claim" has the meaning assigned to such term in Section 6.13(c).

"Class A Common Unit" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Class A Common Units in this Agreement; no Class A Common Units shall be outstanding until the expiration of the Subordination Period, at which time all Common Units Outstanding immediately prior to the expiration of the Subordination Period shall be redesignated as Class A Common Units.

"Class B Common Unit" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Class B Common Units in this Agreement; no Class B Common Units shall be outstanding until the expiration of the Subordination Period, at which time each Outstanding Senior Subordinated Unit and Junior Subordinated Unit shall convert into one Class B Common Unit.

"Closing Price" for any day means the last sale price on such day, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the principal National Securities Exchange (other than the Nasdaq Stock Market) on which the Units of such class are listed or admitted to trading or, if the Units of such class are not listed or admitted to trading on any National Securities Exchange (other than the Nasdaq Stock Market), the last quoted price on such day or, if not so quoted, the average of the high bid and low asked prices on such day in the over-the-counter market, as reported by the Nasdaq Stock Market or such other system then in use, or, if on any such day the Units of such class are not quoted by any such organization, the average of the closing bid and asked prices on such day as furnished by a professional market maker making a market in the Units of such class selected by the Board of Directors of the General Partner, or if on any such day no market maker is making a market in the Units of such class, the fair value of such Units on such day as determined reasonably and in good faith by the Board of Directors of the General Partner.

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section or sections of the

Code shall be deemed to include a reference to any corresponding provision of future law.

"Combined Interest" has the meaning assigned to such term in Section 13.3(a).

"Commission" means the Securities and Exchange Commission.

"Common Unit" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Common Units in this Agreement. All references herein to Common Units after the expiration of the Subordination Period shall be deemed to be references to both Class A Common Units and Class B Common Units, unless otherwise indicated.

"Common Unit Arrearage" means, with respect to any Common Unit, whenever issued, and as to any Quarter within the Subordination Period, the excess, if any, of (a) the Minimum Quarterly Distribution then in effect with respect to such Common Unit over (b) the sum of all Available Cash distributed with respect to such Common Unit in respect of such Quarter pursuant to Section 5.4(a)(i).

"Contributed Property" means each property or other asset, in such form as may be permitted by the Delaware Act, but excluding cash, contributed to the Partnership (or deemed contributed to the Partnership on termination and reconstitution thereof pursuant to Section 708 of the Code). Once the Carrying Value of a Contributed Property is adjusted pursuant to Section 4.9(d), such property shall no longer constitute a Contributed Property, but shall be deemed an Adjusted Property.

"Conveyance and Contribution Agreements" means collectively, (a) that certain Conveyance and Contribution Agreement, dated as of the Effective Time, among the Partnership, the Operating Partnership, Petro and the General Partner and (b) that certain Conveyance and Contribution Agreement among the Partnership, the Operating Partnership, Petro and Petro Holdings, together with the additional conveyance documents and instruments contemplated or referenced thereunder.

"Cumulative Common Unit Arrearage" means, with respect to any Common Unit, whenever issued, and as of the end of any Quarter, the excess, if any, of (a) the sum resulting from adding together the Common Unit Arrearage as to a Unit issued in the Initial Offering for each of the Quarters within the Subordination Period ending on or before the last day of such Quarter over (b) the sum of any distributions theretofore made pursuant to Section 5.4(a)(ii) with respect to such Common Unit (including any distributions to be made in respect of the last of such Quarters).

"Curative Allocation" means any allocation of an item of income, gain, deduction, loss or credit pursuant to the provisions of Section 5.1(d)(xi).

"Current Market Price" as of any date of any class of Units listed or admitted to trading on any National Securities Exchange means the average of the daily Closing Prices per Unit of such class for the 20 consecutive Trading Days immediately prior to such date.

"Delaware Act" means the Delaware Revised Uniform Limited Partnership Act, 6 Del C. (S)17-101, et seq., as amended, supplemented or restated from time to time, and any successor to such statute.

"Departing Partner" means a former General Partner from and after the effective date of any withdrawal or removal of such former General Partner pursuant to Section 13.1 or 13.2, including the Initial General Partner from and after the Initial Closing.

"Debt Offering" means the private offering and sale by Petro of $90 million Senior Secured Notes due .

"Depositary" means with respect to the Units issued in global form, The Depositary Trust Company and its successors and permitted assigns.

"Economic Risk of Loss" has the meaning set forth in Treasury Regulation Section 1.752-2(a).

"Effective Time" means the effective time of the Merger, which shall be the later to occur of (a) the filing in the office of the Secretary of State of the State of Delaware of a properly executed certificate of merger and (b) the filing with the Department of State of Minnesota of properly executed articles of merger, or such later date and time as may be set forth in such certificate of merger and articles of merger.

"Eligible Citizen" means a Person qualified to own interests in real property in jurisdictions in which any Group Member does business or proposes to do business from time to time, and whose status as a Limited Partner or Assignee does not or would not subject such Group Member to a significant risk of cancellation or forfeiture of any of its properties or any interest therein.

"Equity Offering" means the offering and sale by the Partnership of Common Units to the public, as described in the Equity Registration Statement.

"Equity Registration Statement" means the Registration Statement on Form S-3 (Registration No. 333-68329), as it has been or as it may be amended or supplemented from time to time, filed by the Partnership with the Commission under the Securities Act to register the offering and sale of the Common Units in the Equity Offering.

"Event of Withdrawal" has the meaning assigned to such term in Section 13.1(a).

"First Liquidation Target Amount" has the meaning assigned to such term in Section 5.1(c)(i)(E).

"First Target Distribution" means $0.604 per Unit, subject to adjustment in accordance with Sections 5.6 and 5.8.

"General Partner" means Star Gas LLC, a Delaware limited liability company, and its successor as general partner of the Partnership.

"General Partner Interest" means the ownership interest of the General Partner in the Partnership (in its capacity as a general partner without reference to any Limited Partner Interest held by it) which is evidenced by General Partner Units and includes any and all benefits to which the General Partner is entitled as provided in this Agreement, together with all obligations of the General Partner to comply with the terms and provisions of this Agreement.

"General Partner Unit" means a Unit representing a fractional part of the General Partner Interest and having the rights and obligations specified with respect to the General Partner Interest.

"Group" means a Person that with or through any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent given to such Person in response to a proxy or consent solicitation made to 10 or more Persons) or disposing of any Partnership Securities with any other Person that beneficially owns, or whose Affiliates or Associates beneficially own, directly or indirectly, Partnership Interests.

"Group Member" means a member of the Partnership Group.

"Holder" has the meaning assigned to such term in Section 6.13(a).

"includes" means includes, without limitation, and "including" means including, without limitation.

"Indemnified Persons" has the meaning assigned to such term in Section 6.13(c).

"Indemnitee" means (a) the General Partner, any Departing Partner, any Person who is or was an Affiliate of the General Partner or any Departing Partner, (b) any Person who is or was an officer, director, employee, partner, agent or trustee of the General Partner or any Departing Partner or any such Affiliate, or (c) any Person

who is or was serving at the request of the General Partner or any Departing Partner or any such Affiliate as a director, officer, employee, partner, agent, fiduciary or trustee of another Person; provided, that a Person shall not be an Indemnitee pursuant to this clause (c) by reason of providing, on a fee-for-services basis, trustee, fiduciary or custodial services.

"Initial Closing Date" means December 20, 1995.

"Initial Common Units" means the Common Units sold in the Initial Offering.

"Initial General Partner" means Star Gas Corporation, a Delaware corporation.

"Initial Limited Partners" means Star Gas, Silgas, Inc. and Silgas of Illinois, Inc. and the Initial Underwriters, in each case admitted to the Partnership in accordance with Section 12.1.

"Initial Offering" means the initial offering and sale of Common Units to the public on December 20, 1995, as described in the Initial Registration Statement.

"Initial Overallotment Closing Date" means January 18, 1996.

"Initial Registration Statement" means the Registration Statement on Form S-1 (Registration No. 33-98490), as amended or supplemented from time to time, filed by the Partnership with the Commission under the Securities Act to register the offering and sale of the Initial Common Units in the Initial Offering.

"Initial Underwriters" means each person named as an underwriter in the Initial Offering.

"Initial Unit Price" means (a) with respect to each Common Unit, Senior Subordinated Unit, Junior Subordinated Unit and General Partner Unit, $22.00 or (b) with respect to any other class or series of Units, the price per Unit at which such class or series of Units is initially sold by the Partnership, as determined by the General Partner, in each case adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Units.

"Interim Capital Transactions" means the following transactions if they occur prior to the Liquidation Date: (a) borrowings, refinancings or refundings of indebtedness and sales of debt securities (other than Working Capital Borrowings and other than for items purchased on open account in the ordinary course of business) by any Group Member; (b) sales of equity interests (including Common Units sold to the Underwriters pursuant to the exercise of the Overallotment Option) by any Group Member; and (c) sales or other voluntary or involuntary dispositions of any assets of any Group Member other than (x) sales or other dispositions of inventory in the ordinary course of business, (y) sales or other dispositions of other current assets, including receivables and accounts in the ordinary course of business, and (z) sales or other dispositions of assets as part of normal retirements or replacements.

"Junior Subordinated Unit" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees and having the rights and obligations specified with respect to Junior Subordinated Units in this Agreement.

"Limited Partner" means, unless the context otherwise requires, (a) the Organizational Limited Partner, each Initial Limited Partner, each Substituted Limited Partner, each Additional Limited Partner and any Departing Partner upon the change of its status from General Partner to Limited Partner pursuant to Section 13.3; and (b) solely for purposes of Articles IV, V, VI and IX and Sections 14.3 and 14.4, each Assignee.

"Limited Partner Interest" means the ownership interest of a Limited Partner in the Partnership which is evidenced by Common Units, Senior Subordinated Units and Junior Subordinated Units or other Partnership Securities and includes any and all benefits to which a Limited Partner is entitled as provided in this

Agreement, together with all obligations of a Limited Partner to comply with the terms and provisions of this Agreement.

"Liquidation Date" means (a) in the case of an event giving rise to the dissolution of the Partnership of the type described in clauses (a) and (b) of the first sentence of Section 14.2, the date on which the applicable time period during which the holders of Outstanding Units have the right to elect to reconstitute the Partnership and continue its business has expired without such an election being made, and (b) in the case of any other event giving rise to the dissolution of the Partnership, the date on which such event occurs.

"Liquidator" means the General Partner or other Person approved pursuant to Section 14.3 who performs the functions described therein.

"Mergeco" has the meaning assigned to such term in the introductory paragraph to this Agreement.

"Merger" has the meaning assigned to such term in the introductory paragraph to this Agreement.

"Merger Agreement" has the meaning assigned to such term in Section 16.1.

"Minimum Quarterly Distribution" means, (a) for the period from the Initial Closing Date through March 31, 1996, $0.6225 per Common Unit and Old Subordinated Unit, (b) for the period April 1, 1996 through December 31, 1998, $0.55 per Common Unit and Old Subordinated Unit per Quarter and (c) for each Quarter thereafter, $0.575 per Unit, subject to adjustment in accordance with Sections 5.6 and 5.8.

"National Securities Exchange" means an exchange registered with the Commission under Section 6(a) of the Securities Exchange Act of 1934, as amended, supplemented or restated from time to time, and any successor to such statute, or the Nasdaq Stock Market or any successor thereto.

"Net Agreed Value" means, (a) in the case of any Contributed Property, the Agreed Value of such property reduced by any liabilities either assumed by the Partnership upon such contribution or to which such property is subject when contributed, and (b) in the case of any property distributed to a Partner or Assignee by the Partnership, the Partnership's Carrying Value of such property (as adjusted pursuant to Section 4.9(d)(ii)) at the time such property is distributed, reduced by any indebtedness either assumed by such Partner or Assignee upon such distribution or to which such property is subject at the time of distribution, in either case, as determined under Section 752 of the Code.

"Net Income" means, for any taxable year, the excess, if any, of the Partnership's items of income and gain (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year over the Partnership's items of loss and deduction (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year. The items included in the calculation of Net Income shall be determined in accordance with Section 4.9(b) and shall not include any items specially allocated under Section 5.1(d); provided that the determination of the items that have been specially allocated under Section 5.1(d) shall be made as if Section 5.1(d)(xii) were not in the Agreement.

"Net Loss" means, for any taxable year, the excess, if any, of the Partnership's items of loss and deduction (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year over the Partnership's items of income and gain (other than those items taken into account in the computation of Net Termination Gain or Net Termination Loss) for such taxable year. The items included in the calculation of Net Loss shall be determined in accordance with Section 4.9(b) and shall not include any items specially allocated under Section 5.1(d); provided that the determination of the items that have been specially allocated under Section 5.1(d) shall be made as if Section 5.1(d)(xii) were not in the Agreement.

"Net Positive Adjustments" means, with respect to any Partner, the excess, if

any, of the total positive adjustments over the total negative adjustments made to the Capital Account of such Partner pursuant to Book-Up and Book-Down Events.

"Net Termination Gain" means, for any taxable year, the sum, if positive, of all items of income, gain, loss or deduction recognized by the Partnership (including, without limitation, such amounts recognized through the Operating Partnership) after the Liquidation Date. The items included in the determination of Net Termination Gain shall be determined in accordance with Section 4.9(b) and shall not include any items of income, gain or loss specially allocated under Section 5.1(d).

"Net Termination Loss" means, for any taxable period, the sum, if negative, of all items of income, gain, loss or deduction recognized by the Partnership (including, without limitation, such amounts recognized through the Operating Partnership) after the Liquidation Date. The items included in the determination of Net Termination Loss shall be determined in accordance with Section 4.9(b) and shall not include any items of income, gain or loss specially allocated under Section 5.1(d).

"Non-citizen Assignee" means a Person whom the General Partner has determined in its sole discretion does not constitute an Eligible Citizen and as to whose Partnership Interest the General Partner has become the Substituted Limited Partner, pursuant to Section 11.5.

"Non-competition Agreement" means that certain non-competition agreement among Irik. P. Sevin, the Partnership and the Operating Partnership.

"Nonrecourse Built-in Gain" means with respect to any Contributed Properties or Adjusted Properties that are subject to a mortgage or pledge securing a Nonrecourse Liability, the amount of any taxable gain that would be allocated to the Partners pursuant to Sections 5.2(b)(i)(1), 5.2(b)(ii)(1) and 5.2(b)(iii) if such properties were disposed of in a taxable transaction in full satisfaction of such liabilities and for no other consideration.

"Nonrecourse Deductions" means any and all items of loss, deduction or expenditures (including, without limitation, any expenditures described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(b), are attributable to a Nonrecourse Liability.

"Nonrecourse Liability" has the meaning set forth in Treasury Regulation Section 1.752-1(a)(2).

"Notice of Election to Purchase" has the meaning assigned to such term in Section 17.1(b).

"Old Subordinated Units" means the Subordinated Units issued to the Initial General Partner on the Initial Closing Date.

"Operating Expenditures" means all Partnership Group expenditures, including taxes, reimbursements of the General Partner, debt service payments, and capital expenditures, subject to the following:

(a) Payments (including prepayments) of principal and premium on a debt shall not be an Operating Expenditure if the payment is (i) required in connection with the sale or other disposition of assets or (ii) made in connection with the refinancing or refunding of indebtedness with the proceeds from new indebtedness or from the sale of equity interests. For purposes of the foregoing, at the election and in the reasonable discretion of the General Partner, any payment of principal or premium shall be deemed to be refunded or refinanced by any indebtedness incurred or to be incurred by the Partnership Group within 180 days before or after such payment to the extent of the principal amount of such indebtedness.

(b) Operating Expenditures shall not include (i) capital expenditures made for Acquisitions or for Capital Improvements, (ii) payment of transaction expenses relating to Interim Capital Transactions, (iii) payment of transaction expenses related to the Merger and the transactions contemplated thereby or (iv) distributions to Partners. Where capital expenditures are made in part for Acquisitions or Capital

Improvements and in part for other purposes, the General Partner's good faith allocation between the amounts paid for each shall be conclusive.

"Operating Partnership" means Star Gas Propane, L.P., a Delaware limited partnership, and any successors thereto.

"Operating Partnership Agreement" means the Amended and Restated Agreement of Limited Partnership of the Operating Partnership, as it may be amended, supplemented or restated from time to time.

"Operating Surplus," as to any period ending before the Liquidation Date, means

(a) the sum of (i) $[20,071,225] plus all cash of the Partnership Group on hand as of the close of business on the Initial Closing Date, (ii) all the cash receipts of the Partnership Group for the period beginning on the Initial Closing Date and ending with the last day of such period, other than cash receipts from Interim Capital Transactions (except to the extent specified in Section 5.5) and (iii) all cash receipts of the Partnership Group after the end of such period but on or before the date of determination of Operating Surplus with respect to such period resulting from Working Capital Borrowings, less

(b) the sum of (i) Operating Expenditures for the period beginning on the Initial Closing Date and ending with the last day of such period, and (ii) the amount of cash reserves that is necessary or advisable in the reasonable discretion of the General Partner to provide funds for future Operating Expenditures; provided, however, that disbursements made (including contributions to a Group Member or disbursements on behalf of a Group Member) or cash reserves established, increased or reduced after the end of such period but on or before the date of determination of Available Cash with respect to such period shall be deemed to have been made, established, increased or reduced, for purposes of determining Operating Surplus, within such period if the General Partner so determines.

Notwithstanding the foregoing, "Operating Surplus" with respect to the Quarter in which the Liquidation Date occurs and any subsequent Quarter shall equal zero.

"Opinion of Counsel" means a written opinion of counsel (who may be regular counsel to the Partnership, the General Partner or any of its Affiliates) acceptable to the General Partner in its reasonable discretion.

"Organizational Limited Partner" means William G. Powers, Jr., in his capacity as the organizational limited partner of the Partnership.

"Original Agreement" has the meaning assigned to such term in the Recitals to this Agreement.

"Outstanding" means, with respect to Partnership Securities, all Partnership Securities that are issued by the Partnership and reflected as outstanding on the Partnership's books and records as of the date of determination.

"Overallotment Option" means the overallotment option granted to the Underwriters by the Partnership pursuant to the Underwriting Agreement.

"Parity Units" means Common Units and all other Units having rights to distributions or in liquidation ranking on a parity with the Common Units.

"Partner Nonrecourse Debt" has the meaning set forth in Treasury Regulation Section 1.704-2(b)(4).

"Partner Nonrecourse Debt Minimum Gain" has the meaning set forth in Treasury Regulation Section 1.704-2(i)(2).

"Partner Nonrecourse Deductions" means any and all items of loss, deduction or expenditure (including, without limitation, any expenditure described in Section 705(a)(2)(B) of the Code) that, in accordance with the principles of Treasury Regulation Section 1.704-2(i), are attributable to a Partner Nonrecourse Debt.

"Partners" means the General Partner and the Limited Partners.

"Partnership" means Star Gas Partners, L.P., a Delaware limited partnership, and any successors thereto.

"Partnership Group" means the Partnership, the Operating Partnership and any Subsidiary of either such entity, treated as a single consolidated entity.

"Partnership Interest" means an interest in the Partnership, which shall include General Partner Interests and Limited Partner Interests.

"Partnership Minimum Gain" means that amount determined in accordance with the principles of Treasury Regulation Section 1.704-2(d).

"Partnership Security" means any class or series of Unit, any option, right, warrant or appreciation rights relating thereto, or any other type of equity interest that the Partnership may lawfully issue, or any unsecured or secured debt obligation of the Partnership that is convertible into any class or series of equity interests of the Partnership.

"Percentage Interest" means as of the date of such determination, as to any Partner or Assignee holding Units, the product of (i) 100% less the percentage applicable to paragraph (b) multiplied by (ii) the quotient of the number of Units held by such Partner or Assignee divided by the total number of all Outstanding Units, and (b) as to the holders of additional Partnership Securities issued by the Partnership in accordance with Section 4.4, the percentage established as a part of such issuance.

"Person" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association or other entity.

"Per Unit Capital Amount" means, as of any date of determination, the Capital Account, stated on a per Unit basis, underlying any Unit held by a Person.

"Petro" means Petroleum Heat and Power Co., Inc., a Minnesota corporation, an indirect subsidiary of the Operating Partnership.

"Petro Adjusted Operating Surplus" means, with respect to any four-Quarter period, the Adjusted Operating Surplus generated by Petro (which for purposes of this definition includes all subsidiaries of the Partnership primarily engaged in the home heating oil business) during such four-Quarter period, as determined in good faith by a majority of the members of the Board of Directors of the General Partner (with the concurrence of the Audit Committee). In calculating Petro Adjusted Operating Surplus, (a) debt service (including the payment of principal, interest and premium) on all debt incurred or assumed by Petro or any of its Affiliates, the proceeds of which are used by or for the benefit of Petro (including the proceeds from the Debt Offering), shall be included to the extent such debt service is included in the calculation of Operating Surplus, and (b) debt service (including the payment of principal, interest and premium) on all debt incurred or assumed by Petro or any of its Affiliates, the proceeds of which are not used by or for the benefit of Petro, shall be excluded.

"Petro Class A Common Stock" means the Class A Common Stock, par value $.10 per share, of Petro.

"Petro Class C Common Stock" means the Class C Common Stock, par value $.10 per share, of Petro.

"Petro Holdings" means Petro Holdings, Inc., a Minnesota corporation, a wholly-owned indirect subsidiary of the Operating Partnership.

"Petro Merger Agreement" has the meaning set forth in the Recitals to this Agreement.

"Petro Units," with respect to any date, means the sum of (a) the excess of the number of Units outstanding at the Effective Time over the number of Units outstanding immediately prior to the Effective Time (assuming the simultaneous closing of the Equity Offering), (b) the number of Units issued by the Partnership thereafter to the extent the net proceeds of which are contributed to Petro (which for purposes hereof includes all subsidiaries of the

Partnership primarily engaged in the home heating oil business), (c) the number of Senior Subordinated Units or Class B Common Units issued pursuant to Section 4.6, and (d) the deemed number of Units outstanding based upon a contribution of capital to Petro by the Partnership or any Affiliate thereof after the Effective Time (which contribution is not covered by (b) above or traceable to debt proceeds), which number of deemed Units is obtained by dividing (i) the amount of such contribution by (ii) the Current Market Price of a Common Unit. If Petro pays down debt of Petro or debt allocated to Petro from internally generated funds of Petro and if those internally generated funds exist at Petro only because Petro has not paid dividends up to the Partnership in an amount equal to the distributions that would have been paid on the Petro Units had they been actual outstanding Units of the Partnership, then the amount used to pay down such debt will be treated as if it were contributed to Petro by the Partnership. The distribution per Senior Subordinated Unit of the Partnership shall be the amount that the Partnership would have been deemed to have distributed per Petro Unit had they been actual outstanding Units of the Partnership. For purposes of the number of deemed outstanding Units in (d) above, such Units shall be deemed to be issued on the date of such Capital Contribution. For purposes of determining the number of Outstanding Petro Units for any period of time, the number of Units issued in (b), (c) and (d) above shall be determined on a weighted average basis based on the amount of time they have been Outstanding. For this purpose, Common Unit means Class A Common Unit upon expiration of the Subordination Period.

"Pro Rata" means (a) when modifying Units or any class thereof, apportioned equally among all designated Units in accordance with their respective Percentage Interests, and (b) when modifying Partners and Assignees, apportioned among all Partners and Assignees in accordance with their respective Percentage Interests.

"Proxy Statement" means the Registration Statement on Form S-4 (Registration No. 333-66005) as it has been or as it may be amended or supplemented from time to time, filed jointly by the Partnership and Petro relating to the Merger and the transactions contemplated thereby.

"Purchase Date" means the date determined by the General Partner as the date for purchase of all Outstanding Units of a certain class (other than Units owned by the General Partner and its Affiliates) pursuant to Article XVII.

"Quarter" means, unless the context requires otherwise, a three-month period of time ending on March 31, June 30, September 30, or December 31.

"Recapture Income" means any gain recognized by the Partnership (computed without regard to any adjustment required by Sections 734 or 743 of the Code) upon the disposition of any property or asset of the Partnership, which gain is characterized as ordinary income because it represents the recapture of deductions previously taken with respect to such property or asset.

"Record Date" means the date established by the General Partner for determining (a) the identity of the Record Holders entitled to notice of, or to vote at, any meeting of Limited Partners or entitled to vote by ballot or give approval of Partnership action in writing without a meeting or entitled to exercise rights in respect of any lawful action of Limited Partners or (b) the identity of Record Holders entitled to receive any report or distribution.

"Record Holder" means the Person in whose name a Common Unit or a Senior Subordinated Unit is registered on the books of the Transfer Agent as of the opening of business on a particular Business Day, or

with respect to a holder of a Junior Subordinated Unit or General Partner Unit or other Partnership Security, the Person in whose name such Junior Subordinated Unit or General Partner Unit or other Partnership Security is registered on the books of the General Partner as of the opening of business on such Business Day.

"Redeemable Units" means any Partnership Interests for which a redemption notice has been given, and has not been withdrawn, pursuant to Section 11.6.

"Remaining Net Positive Adjustments" means as of the end of any taxable period, (i) with respect to the Limited Partners, as a class, the excess of (a) the Net Positive Adjustments of the Limited Partners as of the end of such period over (b) the sum of those Partners' Share of Additional Book Basis

Derivative Items for each prior taxable period, and (ii) with respect to the General Partner, the excess of (a) the Net Positive Adjustments of the General Partner as of the end of such period over (b) the sum of the General Partner's Share of Additional Book Basis Derivative Items for each prior taxable period.

"Required Allocations" means any allocation (or limitation imposed on any allocation) of an item of income, gain, deduction or loss pursuant to (a) Section 5.1(b)(ii) or (b) Sections 5.1(d)(i), 5.1(d)(ii), 5.1(d)(iv), 5.1(d)(v), 5.1(d)(vi), 5.1(d)(vii) and 5.1(d)(ix), such allocations (or limitations thereon) being directly or indirectly required by the Treasury Regulations promulgated under Section 704(b) of the Code.

"Residual Gain" or "Residual Loss" means any item of gain or loss, as the case may be, of the Partnership recognized for federal income tax purposes resulting from a sale, exchange or other disposition of a Contributed Property or Adjusted Property, to the extent such item of gain or loss is not allocated pursuant to Sections 5.2(b)(i)(A) or 5.2(b)(ii)(A), respectively, to eliminate Book-Tax Disparities.

"Second Liquidation Target Amount" has the meaning assigned to such term in Section 5.1(c)(i)(F).

"Second Target Distribution" means $0.711 per Unit, subject to adjustment in accordance with Sections 5.6 and 5.8.

"Securities Act" means the Securities Act of 1933, as amended, supplemented or restated from time to time and any successor to such statute.

"Senior Subordinated Unit" means a Unit representing a fractional part of the Partnership Interests of all Limited Partners and Assignees, and having the rights and obligations specified with respect to Senior Subordinated Units in this Agreement.

"Share of Additional Book Basis Derivative Items" means in connection with any allocation of Additional Book Basis Derivative Items for any taxable period, (i) with respect to the Limited Partners, as a class, the amount that bears the same ratio to such Additional Book Basis Derivative Items as the Limited Partners' Remaining Net Positive Adjustments as of the end of such period bears to the Aggregate Remaining Net Positive Adjustments as of that time, and (ii) with respect to the General Partner, the amount that bears the same ratio to such Additional Book Basis Derivative Items as the General Partner's Remaining Net Positive Adjustments as of the end of such period bears to the Aggregate Remaining Net Positive Adjustments as of that time.

"Shelf Registration Statement" has the meaning assigned to such term in Section 6.13(f).

"Special Approval" means approval by the Audit Committee.

"Star Gas" means Star Gas Corporation, a Delaware corporation.

"Subordination Period" means the period that commenced on the Closing Date and ending on the first to occur of the following dates:

(a) the first day of any Quarter beginning on or after July 1, 2002 in respect of which (A) (i) distributions of Available Cash from Operating Surplus on each of the Outstanding Common Units, Senior Subordinated Units, Junior Subordinated Units and General Partner Units equaled or exceeded the Minimum Quarterly Distribution for each of the three non-overlapping four-Quarter periods immediately preceding such date and (ii) the Adjusted Operating Surplus generated during each of the three immediately preceding non-overlapping four-Quarter periods equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the Common Units, Senior Subordinated Units, Junior Subordinated Units and General Partner Units that were Outstanding during such periods on a fully diluted basis with respect to employee options or other employee incentive compensation (i.e., taking into account for purposes of such determination all Outstanding Common Units, Senior Subordinated Units, Junior Subordinated Units and General Partner Units and all Common Units issuable upon exercise of employee options that have, as of the date of determination, already vested or are scheduled to vest prior to the end of the Quarter immediately

following the Quarter with respect to which determination is made, and all Units that have as of the date of determination been earned by but not yet issued to management of the Partnership in respect of incentive compensation) and (B) there are no Cumulative Common Unit Arrearages; and

(b) the date on which the General Partner is removed as general partner of the Partnership upon the requisite vote by Limited Partners under circumstances where Cause does not exist; provided, however, that if the General Partner is removed during the Subordination Period within 12 months after the end of a six-Quarter period in which the Minimum Quarterly Distribution was not made on the Common Units with respect to more than one of such Quarters (excluding for this purpose the payment of any Common Unit Arrearages) and the first Quarter in such six-Quarter period that the Minimum Quarterly Distribution on Common Units was not made occurs after March 31, 2001, then the Subordination Period will not end. In the event that the General Partner is removed under the circumstances set forth above, the Junior Subordinated Units shall convert into Senior Subordinated Units on a one-for-one basis and the distribution rights on the General Partner Units will rank pari passu with the Senior Subordinated Units.

"Subsidiary" means, with respect to any Person, (a) a corporation of which more than 50% of the voting power of shares entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such corporation is owned, directly or indirectly, by such Person, by one or more Subsidiaries of such Person or a combination thereof, (b) a partnership (whether general or limited) in which such Person or a Subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if more than 50% of the partnership interests of such partnership (considering all of the partnership interests of the partnership as a single class) is owned or controlled, directly or indirectly, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, or (c) any other Person (other than a corporation or a partnership) in which such Person, directly or indirectly, at the date of determination, has (i) at least a majority ownership interest or (ii) the power to elect or direct the election of a majority of the directors or other governing body of such Person.

"Substituted Limited Partner" means a Person who is admitted as a Limited Partner to the Partnership pursuant to Section 12.2 in place of, and with all the rights of a Limited Partner and who is shown as a Limited Partner on the books and records of the Partnership.

"Surviving Business Entity" has the meaning assigned to such term in Section 16.2(b).

"Termination Capital Transaction" means a transaction in which Net Termination Gain or Net Termination Loss is recognized.

"Third Target Distribution" means $0.926 per Unit, subject to adjustment in accordance with Sections 5.6 and 5.8.

"Trading Day" means a day on which the principal National Securities Exchange on which the Units of any class are listed or admitted to trading is open for the transaction of business or, if Units of a class are not

listed or admitted to trading on any National Securities Exchange, a day on which banking institutions in New York City generally are open.

"Transfer" has the meaning assigned to such term in Section 11.1(a).

"Transfer Agent" means such bank, trust company or other Person (including the General Partner or one of its Affiliates) as shall be appointed from time to time by the Partnership to act as registrar and transfer agent for the Common Units and Senior Subordinated Units and as may be appointed from time to time by the General Partner to act as registrar and transfer agent for any other Partnership Securities; provided that if no Transfer Agent is specifically designated for any such other Partnership Securities, the General Partner shall act in such capacity.

"Transfer Application" means an application and agreement for transfer of Units in the form set forth on the back of a Certificate or in a form substantially to the same effect in a separate instrument.

"Underwriter" means each Person named as an underwriter in Schedule 1 to the Underwriting Agreement who purchases Common Units pursuant thereto.

"Underwriting Agreement" means the Underwriting Agreement, relating to the Equity Offering, dated , among the Underwriters, the Partnership and other parties providing for the purchase of Common Units by such Underwriters.

"Unit" means a Partnership Interest of a Partner or Assignee in the Partnership representing a fractional part of the Partnership Interests of all Partners and Assignees and shall include Common Units (Class A Common Units and Class B Common Units after the expiration of the Subordination Period), Senior Subordinated Units, Junior Subordinated Units and General Partner Units; provided, that each Unit at any time Outstanding shall represent the same fractional part of the Partnership Interests of all Partners and Assignees holding Units as each other Unit. A Unit shall not include a Petro Unit.

"Unit Majority" means, (a) during the Subordination Period, at least (i) a majority of the Outstanding Common Units voting as a class and (ii) a majority of the Outstanding Senior Subordinated Units and Junior Subordinated Units voting as a single class, in each case excluding Units owned by the General Partner or any Affiliate, and (b) after the Subordination Period, at least a majority of the Outstanding Common Units.

"Unrealized Gain" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the fair market value of such property as of such date (as determined under Section 4.9(d)) over (b) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 4.9(d) as of such date).

"Unrealized Loss" attributable to any item of Partnership property means, as of any date of determination, the excess, if any, of (a) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to Section 4.9(d) as of such date) over (b) the fair market value of such property as of such date (as determined under Section 4.9(d)).

"Unrecovered Initial Unit Price" means, at any time, with respect to Common Units, Senior Subordinated Units, Junior Subordinated Units or General Partner Units, the Initial Unit Price less the sum of all distributions constituting Capital Surplus theretofore made in respect of an Initial Common Unit and any distributions of cash (or the Net Agreed Value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership theretofore made in respect of an Initial Common Unit, adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Units.

"Withdrawal Opinion of Counsel" has the meaning assigned to such term in Section 13.1(b).

"Working Capital Borrowings" means borrowings pursuant to a facility or other arrangement requiring all borrowings thereunder to be reduced to a relatively small amount each year for an economically meaningful period of time. It being the intent hereof, that borrowings which are not intended exclusively for working capital purposes shall not be treated as Working Capital Borrowings.

ARTICLE III

PURPOSE

Section 3.1 Purpose and Business.

The purpose and nature of the business to be conducted by the Partnership shall be to (a) serve as a limited partner in the Operating Partnership and, in connection therewith, to exercise all the rights and powers conferred upon the Partnership as a limited partner in the Operating Partnership pursuant to the Operating Partnership Agreement or otherwise, (b) engage directly in, or enter into or form any corporation, partnership, joint venture, limited liability company or other arrangement to engage indirectly in, any business activity that the Operating Partnership is permitted to engage in by the Operating Partnership Agreement and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements

relating to such business activity, (c) engage directly in, or to enter into or form any corporation, partnership, joint venture, limited liability company or other arrangement to engage indirectly in, any business activity that is approved by the General Partner and which lawfully may be conducted by a limited partnership organized pursuant to the Delaware Act and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity, and (d) do anything necessary or appropriate to the foregoing, including the making of capital contributions or loans to the Operating Partnership. The General Partner has no obligation or duty to the Partnership, the Limited Partners, or the Assignees to propose or approve, and in its sole discretion may decline to propose or approve, the conduct by the Partnership of any business.

Section 3.2 Powers.

The Partnership shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in Section 3.1 and for the protection and benefit of the Partnership.

ARTICLE IV

CONTRIBUTIONS AND UNITS

Section 4.1 Organization Contributions and Return.

In connection with the formation of the Partnership under the Delaware Act, the Initial General Partner made an initial Capital Contribution to the Partnership and was admitted as the general partner of the Partnership, and the Organizational Limited Partner made an initial Capital Contribution to the Partnership and was admitted as a limited partner of the Partnership.

Section 4.2 Contributions by Initial Limited Partners.

On the Initial Closing Date, the Initial Underwriters contributed cash to the Partnership in exchange for 2,600,000 Common Units. On the Initial Overallotment Closing Date, the Initial Underwriters contributed cash to the Partnership in exchange for 275,000 Common Units. On the Initial Closing Date, the Initial General Partner, Silgas, Inc. and Silgas of Illinois, Inc. contributed their interests in the Operating Partnership to the Partnership in exchange for 2,396,078 Old Subordinated Units. Immediately after these contributions, the interest of the Organizational Limited Partner was terminated and the Organizational Limited Partner ceased to be a Limited Partner.

Section 4.3 Contributions at the Effective Time; General Partner Contributions.

(a) (i) At the Effective Time and pursuant to the Conveyance and Contribution Agreements, Petro contributed to the Partnership all of its general partner interest in the Operating Partnership (other than a portion of such interest with a value of $1,000), all of its general partner interest in the Partnership (other than a portion of such interest with a value of $1,000) and all 2,396,078 Old Subordinated Units (all of which it purchased from Star Gas in exchange for a note of equivalent value) in exchange for 42,046 newly issued Common Units, 1,718,795 newly issued Senior Subordinated Units and a promissory note in an amount equal to the excess of the value of the Old Subordinated Units and general partner interests assigned to the Partnership over the value of the Common Units and Senior Subordinated Units issued in exchange therefor. The Old Subordinated Units were cancelled.

(ii) At the Effective Time and pursuant to the Conveyance and Contribution Agreements, the General Partner contributed 11,280 shares of Petro Class A and Class C Common Stock to the Operating Partnership in exchange for a .01% general partner interest in the Operating Partnership and contributed 2,245,191 shares of Petro Class A and Class C Common Stock to the Partnership in exchange for a 1.99% general partner interest in the Partnership represented by 321,467 General Partner Units. At such time, the general partner interests in the Partnership and the Operating Partnership held by the Partnership were cancelled.

(iii) At the Effective Time and pursuant to the Exchange Agreement,

certain stockholders of Petro contributed (A) 3,005,972 shares of Petro Class A and Class C Common Stock to the Partnership in exchange for 430,395 Junior Subordinated Units and (B) 6,571,740 shares of Petro Class A and Class C Common Stock to the Partnership in exchange for 772,705 Senior Subordinated Units.

(iv) At the Effective Time and pursuant to the Merger, the remaining holders of Petro Class A and Class C Common Stock received 1,718,795 Senior Subordinated Units from Petro in exchange for their shares of Petro Class A and Class C Common Stock and the holders of Petro's 1998 Junior Convertible Preferred Stock received 102,773 Common Units from Petro in exchange for their shares of 1998 Junior Convertible Preferred Stock.

(b) Upon the making of any Capital Contribution to the Partnership by any Person, the General Partner, in its sole discretion, may make an additional Capital Contribution only to the extent necessary such that after taking into account the additional Capital Contribution made by such Person and the General Partner pursuant to this Section 4.3(b) the General Partner will have a Capital Account equal to at least 1.99% of the total of all Capital Accounts.

Section 4.4 Issuances of Additional Partnership Securities.

(a) Subject to Section 4.5, the General Partner is authorized to cause the Partnership to issue additional Partnership Securities for any Partnership purpose at any time and from time to time to such Persons for such consideration and on such terms and conditions as shall be established by the General Partner in its sole discretion, all without the approval of any Limited Partners.

(b) Each additional Partnership Security authorized to be issued by the Partnership pursuant to Section 4.4(a) may be issued in one or more classes, or one or more series of any such classes, with such designations, preferences, rights, powers and duties (which may be senior to existing classes and series of Partnership Securities), as shall be fixed by the General Partner in the exercise of its sole discretion, including (i) the right to share Partnership profits and losses or items thereof; (ii) the right to share in Partnership distributions; (iii) the rights upon dissolution and liquidation of the Partnership; (iv) whether, and the terms and conditions upon which, the Partnership may redeem the Partnership Security; (v) whether such Partnership Security is issued with the privilege of conversion and, if so, the terms and conditions of such conversion; (vi) the terms and conditions upon which each Partnership Security will be issued, evidenced by certificates and assigned or transferred; and (vii) the right, if any, of each such Partnership Security to vote on Partnership matters, including matters relating to the relative rights, preferences and privileges of such Partnership Security.

(c) The General Partner is hereby authorized and directed to take all actions that it deems necessary or appropriate in connection with each issuance of Partnership Securities pursuant to this Section 4.4 and to amend this Agreement in any manner that it deems necessary or appropriate to provide for each such issuance, to admit Additional Limited Partners in connection therewith and to specify the relative rights, powers and duties of the holders of the Units or other Partnership Securities being so issued. The General Partner shall do all things necessary to comply with the Delaware Act and is authorized and directed to do all things it deems to be necessary or advisable in connection with any future issuance of Partnership Securities, including compliance with any statute, rule, regulation or guideline of any federal, state or other governmental agency or any National Securities Exchange on which the Units or other Partnership Securities are listed for trading.

Section 4.5 Limitations on Issuance of Additional Partnership Securities.

The issuance of Partnership Securities pursuant to Section 4.4 shall be subject to the following restrictions and limitations:

(a) During the Subordination Period, the Partnership shall not issue an aggregate of more than 2,500,000 additional Parity Units without the prior approval of holders of at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partner and its Affiliates). In applying this limitation, there shall be excluded Common Units issued (i) in the Equity Offering, (ii) in accordance with Section 4.5(b) and 4.5(c)

and (iii) in connection with the issuance of Senior Subordinated Units or Class B Common Units pursuant to Section 4.6.

(b) The Partnership may also issue an unlimited number of Parity Units prior to the end of the Subordination Period and without the approval of the Unitholders if such issuance occurs (i) in connection with an Acquisition or a Capital Improvement or (ii) within 365 days of, and the net proceeds from such issuance are used to repay debt incurred in connection with, an Acquisition or a Capital Improvement, in each case where such Acquisition or Capital Improvement involves assets that, if acquired by the Partnership as of the date that is one year prior to the first day of the Quarter in which such Acquisition is to be consummated or such Capital Improvement is to be completed, would have resulted, on a pro forma basis, in an increase in

(i) the amount of Adjusted Operating Surplus generated by the Partnership on a per-Unit basis (for all Outstanding Units) with respect to each of the four most recently completed Quarters (on a pro forma basis) over

(ii) the actual amount of Adjusted Operating Surplus generated by the Partnership on a per-Unit basis (for all Outstanding Units) (excluding Adjusted Operating Surplus attributable to the Acquisition or Capital Improvement) with respect to each of such four Quarters.

The amount in clause (i) shall be determined on a pro forma basis assuming that (A) all of the Parity Units to be issued in connection with or within 365 days of such Acquisition or Capital Improvement had been issued and outstanding, (B) all indebtedness for borrowed money to be incurred or assumed in connection with such Acquisition or Capital Improvement (other than any such indebtedness that is to be repaid with the proceeds of such offering) had been incurred or assumed, in each case as of the commencement of such four-Quarter period, (C) the personnel expenses that would have been incurred by the Partnership in the operation of the acquired assets are the personnel expenses for employees to be retained by the Partnership in the operation of the acquired assets, and (D) the non-personnel costs and expenses are computed on the same basis as those incurred by the Partnership in the operation of the Partnership's business at similarly situated Partnership facilities.

(c) The Partnership may also issue an unlimited number of Parity Units prior to the end of the Subordination Period and without the approval of the Unitholders if the use of proceeds from such issuance is exclusively to repay up to $20 million of indebtedness of the Partnership or the Operating Partnership.

(d) During the Subordination Period, the Partnership shall not issue additional Partnership Securities having rights to distributions or in liquidation ranking prior or senior to the Common Units, without the prior approval of at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partner and its Affiliates).

(e) During the Subordination Period, the Partnership shall not issue additional Partnership Securities that would reduce the percentage of distributions allocable to all Units under Sections 5.4(a)(vi)(A), 5.4(a)(vii)(A) or 5.4(a)(viii)(A), and Sections 5.4(b)(iii)(A), 5.4(b)(iv)(A) or 5.4(b)(v)(A), without the prior approval of holders of at least a majority of the Outstanding Common Units (excluding Common Units held by the General Partner and its Affiliates).

(f) No fractional Units shall be issued by the Partnership.

Section 4.6 Special Issuance of Senior Subordinated Units and Conversion of Senior Subordinated Units and Junior Subordinated Units.

(a) For each full non-overlapping four-Quarter period ending on or after the first anniversary of the Effective Time, but prior to the fifth anniversary of the Effective Time, in which the dollar amount of Petro Adjusted Operating Surplus per Petro Unit equals or exceeds $2.90, the Partnership will issue (i) during the Subordination Period, 303,000 Senior Subordinated Units to the holders of the Senior Subordinated Units, Junior Subordinated Units and the

General Partner Units on the Record Date in respect of the distribution for the final Quarter of such non-overlapping four Quarter period, Pro Rata, and (ii) after the Subordination Period, 303,000 Class B Common Units to the holders of the Class B Common Units and the General Partner Units on the Record Date in respect of the distribution for the final Quarter of such non-overlapping four-Quarter period, Pro Rata; provided, that the Partnership may not issue more than 909,000 Senior Subordinated Units and Class B Common Units in the aggregate pursuant to this Section 4.6; and provided, further that the Partnership may not issue more than 303,000 Senior Subordinated Units and Class B Common Units pursuant to this Section 4.6 within any 365-day period.

(b) The Partnership shall not issue any fractional Senior Subordinated Units or Class B Common Units. Each holder who would otherwise be entitled to a fractional Senior Subordinated Unit or Class B Common Unit shall receive an amount in cash determined by multiplying such fraction by the Current Market Price of a Senior Subordinated Unit or a Class B Common Unit, as the case may be, as of the date three days prior to the date on which Senior Subordinated Units or Class B Common Units, as the case may be, are issued pursuant to this Section 4.6.

(c) Each Senior Subordinated Unit and Junior Subordinated Unit shall convert into one Class B Common Unit on the first day following the Record Date for distributions in respect of the final Quarter of the Subordination Period.

Section 4.7 Limited Preemptive Rights.

No Person shall have any preemptive, preferential or other similar right with respect to the issuance of any Partnership Security, whether unissued, held in the treasury or hereafter created, except that the General Partner shall have the right, which it may from time to time assign in whole or in part to any of its Affiliates, to purchase Partnership Securities from the Partnership whenever, and on the same terms that, the Partnership issues Partnership Securities to Persons other than the General Partner and its Affiliates, to the extent necessary to maintain the Percentage Interests of the General Partner and its Affiliates equal to that which existed immediately prior to the issuance of such Partnership Securities.

Section 4.8 Splits and Combinations.

(a) Subject to Sections 4.9(d), 5.6 and 5.8 (dealing with adjustments of distribution levels), the General Partner may make a pro rata distribution of Partnership Securities to all Record Holders or may effect a subdivision or combination of Partnership Securities so long as, after any such event, each Partner shall have

the same Percentage Interest in the Partnership as before such event, and any amounts calculated on a per Unit basis (including the number of Class B Common Units issuable upon conversion of the Senior Subordinated Units and Junior Subordinated Units, the number of Senior Subordinated Units or Class B Common Units issuable pursuant to Section 4.6 and the number of additional Parity Units that may be issued pursuant to Section 4.5 without a Unitholder vote) are proportionately adjusted retroactive to the beginning of the Partnership.

(b) Whenever such a distribution, subdivision or combination of Partnership Securities is declared, the General Partner shall select a Record Date as of which the distribution, subdivision or combination shall be effective and shall send notice thereof at least 20 days prior to such Record Date to each Record Holder as of the date not less than 10 days prior to the date of such notice. The General Partner also may cause a firm of independent public accountants selected by it to calculate the number of Units to be held by each Record Holder after giving effect to such distribution, subdivision or combination. The General Partner shall be entitled to rely on any certificate provided by such firm as conclusive evidence of the accuracy of such calculation.

(c) Promptly following any such distribution, subdivision or combination, the General Partner may cause Certificates to be issued to the Record Holders of Units as of the applicable Record Date representing the new number of Units held by such Record Holders, or the General Partner may adopt such other procedures as it may deem appropriate to reflect such changes. If any such combination results in a smaller total number of Units Outstanding, the General Partner shall require, as a condition to the delivery to a Record Holder of such new Certificate, the surrender of any Certificate held by such Record

Holder immediately prior to such Record Date.

(d) The Partnership shall not issue fractional Units upon any distribution, subdivision or combination of Units. If a distribution, subdivision or combination of Units would result in the issuance of fractional Units but for the provisions this Section 4.8(d), each fractional Unit shall be rounded to the nearest whole Unit (and a 0.5 Unit shall be rounded to the next higher Unit).

Section 4.9 Capital Accounts.

(a) The Partnership shall maintain for each Partner (or a beneficial owner of Partnership Interests held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the General Partner in its sole discretion) owning a Partnership Interest a separate Capital Account with respect to such Partnership Interest in accordance with the rules of Treasury Regulation Section 1.704-1(b)(2)(iv). Such Capital Account shall be increased by (i) the amount of all Capital Contributions made to the Partnership with respect to such Partnership Interest pursuant to this Agreement and (ii) all items of Partnership income and gain (including, without limitation, income and gain exempt from tax) computed in accordance with Section 4.9(b) and allocated with respect to such Partnership Interest pursuant to Section 5.1, and decreased by (x) the amount of cash or Net Agreed Value of all actual and deemed distributions of cash or property made with respect to such Partnership Interest pursuant to this Agreement and (y) all items of Partnership deduction and loss computed in accordance with Section 4.9(b) and allocated with respect to such Partnership Interest pursuant to Section 5.1.

(b) For purposes of computing the amount of any item of income, gain, loss or deduction to be reflected in the Partners' Capital Accounts, the determination, recognition and classification of any such item shall be the same as its determination, recognition and classification for federal income tax purposes (including, without limitation, any method of depreciation, cost recovery or amortization used for that purpose), provided, that:

(i) Solely for purposes of this Section 4.9, the Partnership shall be treated as owning directly its proportionate share (as determined by the General Partner based upon the provisions of the Operating Partnership Agreement) of all property owned by the Operating Partnership.

(ii) All fees and other expenses incurred by the Partnership to promote the sale of (or to sell) a Partnership Interest that can neither be deducted nor amortized under Section 709 of the Code, if any,

shall, for purposes of Capital Account maintenance, be treated as an item of deduction at the time such fees and other expenses are incurred and shall be allocated among the Partners pursuant to Section 5.1.

(iii) Except as otherwise provided in Treasury Regulation Section 1.704-1(b)(2)(iv)(m), the computation of all items of income, gain, loss and deduction shall be made without regard to any election under Section 754 of the Code which may be made by the Partnership and, as to those items described in Section 705(a)(1)(B) or 705(a)(2)(B) of the Code, without regard to the fact that such items are not includable in gross income or are neither currently deductible nor capitalized for federal income tax purposes.

(iv) Any income, gain or loss attributable to the taxable disposition of any Partnership property shall be determined as if the adjusted basis of such property as of such date of disposition were equal in amount to the Partnership's Carrying Value with respect to such property as of such date.

(v) In accordance with the requirements of Section 704(b) of the Code, any deductions for depreciation, cost recovery or amortization attributable to any Contributed Property shall be determined as if the adjusted basis of such property on the date it was acquired by the Partnership were equal to the Agreed Value of such property. Upon an adjustment pursuant to Section 4.9(d) to the Carrying Value of any Partnership property subject to depreciation, cost recovery or amortization, any further deductions for such depreciation, cost recovery or amortization attributable to such property shall be determined (A) as if the adjusted basis of such property

were equal to the Carrying Value of such property immediately following such adjustment and (B) using a rate of depreciation, cost recovery or amortization derived from the same method and useful life (or, if applicable, the remaining useful life) as is applied for federal income tax purposes; provided, however, that, if the asset has a zero adjusted basis for federal income tax purposes, depreciation, cost recovery or amortization deductions shall be determined using any reasonable method that the General Partner may adopt.

(vi) If the Partnership's adjusted basis in a depreciable or cost recovery property is reduced for federal income tax purposes pursuant to Section 48(q)(1) or 48(q)(3) of the Code, the amount of such reduction shall, solely for purposes hereof, be deemed to be an additional depreciation or cost recovery deduction in the year such property is placed in service and shall be allocated among the Partners pursuant to Section 5.1. Any restoration of such basis pursuant to Section 48(q)(2) of the Code shall, to the extent possible, be allocated in the same manner to the Partners to whom such deemed deduction was allocated.

(c) (i) Except as otherwise provided in Section 4.9(c)(ii)-(v), a transferee of a Partnership Interest shall succeed to a Pro Rata portion of the Capital Account of the transferor relating to the Partnership Interest so transferred.

(ii) If and when a Senior Subordinated Unit is issued pursuant to Section 4.6 with respect to one or more Senior Subordinated Units, the Capital Accounts associated with the existing Senior Subordinated Units shall be reallocated as required to make the Capital Account associated with each Senior Subordinated Unit be the same.

(iii) If and when a Class B Common Unit is issued pursuant to Section 4.6 with respect to one or more Class B Common Units, the Capital Accounts associated with the existing Class B Common Units shall be reallocated as required to make the Capital Account associated with each Class B Common Unit be the same.

(iv) If and when a Senior Subordinated Unit or a Class B Common Unit is issued pursuant to Section 4.6 with respect to one or more Junior Subordinated Units or General Partner Units, the Capital Accounts associated with the existing Units shall be reallocated to the new Unit until the Capital Account of the new Unit is the same as all other Units of the same class or until the Capital Account associated with the existing Units is reduced to zero.

(v) If at the time of conversion of a Junior Subordinated Unit, the Per Unit Capital Amount attributable to a Junior Subordinated Unit exceeds the existing Per Unit Capital Amount of Senior Subordinated Units, the amount of excess shall be reallocated to the Capital Accounts attributable to the General Partner Units through contribution of such excess to the General Partner.

(d) (i) Consistent with the provisions of Treasury Regulation Section 1.704-1(b)(2)(iv)(f), on an issuance of additional Units for cash or Contributed Property or the conversion of the General Partner's Combined Interest to Common Units pursuant to Section 13.3(b), the Capital Account of all Partners and the Carrying Value of each Partnership property immediately prior to such issuance shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized on an actual sale of each such property immediately prior to such issuance and had been allocated to the Partners at such time pursuant to Section 5.1(c). In determining such Unrealized Gain or Unrealized Loss, the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to the issuance of additional Units shall be determined by the General Partner using such reasonable method of valuation as it may adopt; provided, however, the General Partner, in arriving at such valuation, must take fully into account the fair market value of the Partnership Interests of all Partners at such time. The General Partner shall allocate such aggregate value among the assets of the Partnership (in such manner as it determines in its sole discretion to be reasonable) to arrive at a fair market value for individual properties.

(ii) In accordance with Treasury Regulation Section 1.704-1(b)(2)(iv)(f), immediately prior to any actual or deemed distribution to a Partner of any Partnership property (other than a distribution of cash that is not in redemption or retirement of a Partnership Interest), the Capital Accounts of all Partners and the Carrying Value of all Partnership property shall be adjusted upward or downward to reflect any Unrealized Gain or Unrealized Loss attributable to such Partnership property, as if such Unrealized Gain or Unrealized Loss had been recognized in a sale of such property immediately prior to such distribution for an amount equal to its fair market value, and had been allocated to the Partners, at such time, pursuant to Section 5.1(c). Any Unrealized Gain or Unrealized Loss attributable to such property shall be allocated in the same manner as Net Termination Gain or Net Termination Loss pursuant to Section 5.1(c); provided, however, that, in making any such allocation, Net Termination Gain or Net Termination Loss actually realized shall be allocated first. In determining such Unrealized Gain or Unrealized Loss the aggregate cash amount and fair market value of all Partnership assets (including, without limitation, cash or cash equivalents) immediately prior to a distribution shall (A) in the case of an actual distribution which is not made pursuant to Section 13.3 or 13.4 or (B) in the case of a liquidating distribution pursuant to Section 14.4, be determined and allocated by the Liquidator using such reasonable method of valuation as it may adopt.

Section 4.10 Interest and Withdrawal.

No interest shall be paid by the Partnership on Capital Contributions, and no Partner or Assignee shall be entitled to withdraw any part of its Capital Contributions or otherwise to receive any distribution from the Partnership, except as provided in Section 4.1 and Articles V, VII, XIII and XIV.

ARTICLE V

ALLOCATIONS AND DISTRIBUTIONS

Section 5.1 Allocations for Capital Account Purposes.

For purposes of maintaining the Capital Accounts and in determining the rights of the Partners among themselves, the Partnership's items of income, gain, loss and deduction (computed in accordance with Section 4.9(b)) shall be allocated among the Partners in each taxable year (or portion thereof) as provided hereinbelow.

(a) Net Income. After giving effect to the special allocations set forth in Section 5.1(d), Net Income for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Income for such taxable period shall be allocated as follows:

(i) First, 100% to the General Partner until the aggregate Net Income allocated to the General Partner pursuant to this Section 5.1(a)(i) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to the General Partner pursuant to Section 5.1(b)(iii) for all previous taxable years;

(ii) Second, 100% to the General Partner and the Limited Partners, in accordance with their respective Percentage Interests, until the aggregate Net Income allocated to such Partners pursuant to this Section 5.1(a)(ii) for the current taxable year and all previous taxable years is equal to the aggregate Net Losses allocated to such Partners pursuant to Section 5.1(b)(ii) for all previous taxable years; and

(iii) Third, the balance, if any, 100% to the General Partner and the Limited Partners in accordance with their respective Percentage Interests.

(b) Net Losses. After giving effect to the special allocations set forth in Section 5.1(d), Net Losses for each taxable period and all items of income, gain, loss and deduction taken into account in computing Net Losses for such taxable period shall be allocated as follows:

(i) First, 100% to the General Partner and the Limited Partners, in accordance with their respective Percentage Interests, until the aggregate Net Losses allocated pursuant to this Section 5.1(b)(i) for the current taxable year and all previous taxable years is equal to the aggregate Net Income allocated to such Partners pursuant to Section 5.1(a)(iii) for all previous taxable years;

(ii) Second, 100% to the General Partner and the Limited Partners in accordance with their respective Percentage Interests; provided, that Net Losses shall not be allocated pursuant to this Section 5.1(b)(ii) to the extent that such allocation would cause any Limited Partner to have a deficit balance in its Adjusted Capital Account at the end of such taxable year (or increase any existing deficit balance in its Adjusted Capital Account); and

(iii) Third, the balance, if any, 100% to the General Partner.

(c) Net Termination Gains and Losses. After giving effect to the special allocations set forth in Section 5.1(d), all items of income gain, loss and deduction taken into account in computing Net Termination Gain or Net Termination Loss for such taxable period shall be allocated in the same manner as such Net Termination Gain or Net Termination Loss is allocated hereunder. All allocations under this Section 5.1(c) shall be made after Capital Account balances have been adjusted by all other allocations provided under this Section 5.1 and after all distributions of Available Cash provided under Section 5.4 have been made with respect to the taxable period ending on the date of the Partnership's liquidation pursuant to Section 14.4.

(i) If a Net Termination Gain is recognized (or deemed recognized pursuant to Section 4.9(d)) from Termination Capital Transactions, such Net Termination Gain shall be allocated among the General Partner and the Limited Partners in the following manner (and the Capital Accounts of the Partners shall be increased by the amount so allocated in each of the following subclauses, in the order listed, before an allocation is made pursuant to the next succeeding subclause):

(A) First, to each Partner having a deficit balance in its Capital Account, in the proportion that such deficit balance bears to the total deficit balances in the Capital Accounts of all Partners, until each such Partner has been allocated Net Termination Gain equal to any such deficit balance in its Capital Account;

(B) Second, 100% to all Partners holding Common Units, Pro Rata, until the Capital Account in respect of each Common Unit then Outstanding is equal to the sum of (1) its Unrecovered Initial Unit Price plus (2) the Minimum Quarterly Distribution for the Quarter during which such Net Termination Gain is recognized, reduced by any distribution pursuant to Sections 5.4(a)(i) or (b)(i) with respect to such Common Unit for such Quarter (the amount determined pursuant to this clause (2) is hereinafter defined as the "Unpaid MQD") plus (3) any then existing Cumulative Common Unit Arrearage;

(C) Third, if such Termination Capital Transaction occurs (or is deemed to occur) prior to the expiration of the Subordination Period, 100% to all Partners holding Senior Subordinated Units, Pro Rata, until the Capital Account in respect of each Senior Subordinated Unit then Outstanding is equal to the sum of (1) the Unrecovered Initial Unit Price plus (2) the Minimum Quarterly Distribution for the Quarter during which such Net Termination Gain is recognized, reduced by any distribution pursuant to Section 5.4(a)(iii) with respect to such Senior Subordinated Unit for such Quarter;

(D) Fourth, if such Termination Capital Transaction occurs (or is deemed to occur) prior to the expiration of the Subordination Period, 100 % to all Partners holding Junior Subordinated Units and General Partner Units, Pro Rata, until the Capital Account in respect of each Junior Subordinated Unit then Outstanding is equal to the sum of (1) the Unrecovered Initial Unit Price plus (2) the

Minimum Quarterly Distribution for the Quarter during which such Net Termination Gain is recognized, reduced by any distribution pursuant to Section 5.4(a)(iv) with respect to such Junior Subordinated Unit for such Quarter;

(E) Fifth, 100% to all Partners, Pro Rata, until the Capital Account in respect of each Common Unit then Outstanding (if such Termination Capital Transaction occurs, or is deemed to occur, prior to the expiration of the Subordination Period) or Class A Common Unit then Outstanding (if such Termination Capital Transaction occurs, or is deemed to occur, after the expiration of the Subordination Period) is equal to the sum of (1) its Unrecovered Initial Unit Price, plus (2) the Unpaid MQD, if any, for such Common Unit with respect to the Quarter during which such Net Termination Gain is recognized, plus (3) any then existing Cumulative Common Unit Arrearage, plus (4) the excess of (aa) the First Target Distribution less the Minimum Quarterly Distribution for each Quarter of the Partnership's existence over (bb) the amount of any distributions of Operating Surplus that was distributed pursuant to Sections 5.4(a)(v) or 5.4 (b)(i) (the sum of (1) plus (2) plus (3) plus (4) is hereinafter defined as the "First Liquidation Target Amount");

(F) Sixth, 86.7% to all Partners, Pro Rata, and 13.3% to the Senior Subordinated Units, Junior Subordinated Units and General Partner Units, Pro Rata (if such Termination Capital Transaction occurs, or is deemed to occur, prior to the expiration of the Subordination Period), or 13.3% to the Class B Common Units and General Partner Units, Pro Rata (if such Termination Capital Transaction occurs, or is deemed to occur, after the expiration of the Subordination Period), until the Capital Account in respect of each Common Unit then Outstanding (if such Termination Capital Transaction occurs, or is deemed to occur, prior to the expiration of the Subordination Period) or Class A Common Unit then Outstanding (if such Termination Capital Transaction occurs, or is deemed to occur, after the expiration of the Subordination Period) is equal to the sum of (1) the First Liquidation Target Amount, plus (2) the excess of (aa) the Second Target Distribution less the First Target Distribution for each Quarter of the Partnership's existence over (bb) the amount of any distributions of Operating Surplus that was distributed pursuant to Section 5.4(a)(vi) or 5.4(b)(iii) (the sum of (1) plus (2) is hereinafter defined as the "Second Liquidation Target Amount");

(G) Seventh, 76.5% to all Partners, Pro Rata, and 23.5% to the Senior Subordinated Units, Junior Subordinated Units and General Partner Units, Pro Rata (if such Termination Capital Transaction occurs, or is deemed to occur, prior to the expiration of the Subordination Period), or 23.5% to the Class B Common Units and General Partner Units, Pro Rata (if such Termination Capital Transaction occurs, or is deemed to occur, after the expiration of the Subordination Period), until the Capital Account in respect of each Common Unit then Outstanding (if such Termination Capital Transaction occurs, or is deemed to occur, prior to the expiration of the Subordination Period) or Class A Common Unit then Outstanding (if such Termination Capital Transaction occurs, or is deemed to occur, after the expiration of the Subordination Period) is equal to the sum of (1) the Second Liquidation Target Amount, plus (2)

the excess of (aa) the Third Target Distribution less the Second Target Distribution for each Quarter of the Partnership's existence over (bb) the amount of any distributions of Operating Surplus that was distributed pursuant to Section 5.4(a)(vii) or 5.4(b)(iv); and

(H) Finally, any remaining amount 51% to all Partners, Pro Rata, and 49% to the Senior Subordinated Units, Junior Subordinated Units and General Partner Units, Pro Rata, (if such Termination Capital Transaction occurs, or is deemed to occur, prior to the expiration of the Subordination Period), or 49% to the Class B Common Units and General Partner Units, Pro Rata (if such Termination Capital Transaction occurs, or is deemed to occur, after the expiration of the Subordination Period).

(ii) If a Net Termination Loss is recognized (or deemed recognized pursuant to Section 4.9(d)) from Termination Capital Transactions, such Net Termination Loss shall be allocated to the Partners in the following manner:

(A) First, if such Termination Capital Transaction occurs (or is deemed to occur) prior to the conversion of the last outstanding Junior Subordinated Unit, 100% to the Partners holding Junior Subordinated Units and General Partner Units, Pro Rata, until the Capital Account in respect of each Junior Subordinated Unit has been reduced to zero;

(B) Second, if such Termination Capital Transaction occurs (or is deemed to occur) prior to the conversion of the last outstanding Senior Subordinated Unit, 100% to the Partners holding Senior Subordinated Units, Pro Rata, until the Capital Account in respect of each Senior Subordinated Unit then Outstanding has been reduced to zero;

(C) Third, 100% to all Partners holding Common Units, the Capital Account balances attributable to which are in excess of the Capital Account balances attributable to the remainder of the Common Units then Outstanding, Pro Rata, until the Capital Accounts in respect of each Common Unit then Outstanding are equal;

(D) Fourth, 100% to all Partners holding Common Units, Pro Rata, until the Capital Account in respect of each Common Unit then Outstanding has been reduced to zero; and

(E) Fifth, the balance, if any, 100% to the General Partner.

(d) Special Allocations. Notwithstanding any other provision of this Section 5.1, the following special allocations shall be made for such taxable period:

(i) Partnership Minimum Gain Chargeback. Notwithstanding any other provision of this Section 5.1, if there is a net decrease in Partnership Minimum Gain during any Partnership taxable period, each Partner shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(f)(6), 1.704-2(g)(2) and 1.704-2(j)(2)(i), or any successor provision. For purposes of this Section 5.1(d), each Partner's Adjusted Capital Account balance shall be determined, and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 5.1(d) with respect to such taxable period (other than an allocation pursuant to Sections 5.1(d)(vi) and 5.1(d)(vii)). This Section 5.1(d)(i) is intended to comply with the Partnership Minimum Gain chargeback requirement in Treasury Regulation Section 1.704-2(f) and shall be interpreted consistently therewith.

(ii) Chargeback of Partner Nonrecourse Debt Minimum Gain. Notwithstanding the other provisions of this Section 5.1 (other than Section 5.1(d)(i)), except as provided in Treasury Regulation Section 1.704-2(i)(4), if there is a net decrease in Partner Nonrecourse Debt Minimum Gain during any Partnership taxable period, any Partner with a share of Partner Nonrecourse Debt Minimum Gain at the beginning of such taxable period shall be allocated items of Partnership income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided in Treasury Regulation Sections 1.704-2(i)(4) and 1.704-2(j)(2)(ii), or any successor provisions. For purposes of this Section 5.1(d), each Partner's Adjusted Capital Account balance shall be determined,

and the allocation of income or gain required hereunder shall be effected, prior to the application of any other allocations pursuant to this Section 5.1(d), other than Section 5.1(d)(i) and other than an allocation pursuant to Sections 5.1(d)(vi) and 5.1(d)(vii), with respect to such taxable period. This Section 5.1(d)(ii) is intended to comply with the chargeback of items of income and gain requirement in

Treasury Regulation Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(iii) Priority Allocations. If the amount of cash or the Net Agreed Value of any property distributed (except cash or property distributed pursuant to Section 14.4) to any Limited Partner with respect to a taxable year is greater (on a per Unit basis) than the amount of cash or the Net Agreed Value of property distributed to the other Limited Partners (on a per Unit basis), then (1) each Limited Partner receiving such greater cash or property distribution shall be allocated gross income in an amount equal to the product of (aa) the amount by which the distribution (on a per Unit basis) to such Limited Partner exceeds the distribution (on a per Unit basis) to the Limited Partners receiving the smallest distribution and (bb) the number of Units owned by the Limited Partner receiving the greater distribution.

(iv) Qualified Income Offset. In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Treasury Regulation Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5), or 1.704-1(b)(2)(ii)(d)(6), items of Partnership income and gain shall be specifically allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations promulgated under Section 704(b) of the Code, the deficit balance, if any, in its Adjusted Capital Account created by such adjustments, allocations or distributions as quickly as possible unless such deficit balance is otherwise eliminated pursuant to Section 5.1(d)(i) or (ii).

(v) Gross Income Allocations. In the event any Partner has a deficit balance in its Capital Account at the end of any Partnership taxable period in excess of the sum of (A) the amount such Partner is required to restore pursuant to the provisions of this Agreement and (B) the amount such Partner is deemed obligated to restore pursuant to Treasury Regulation Sections 1.704-2(g) and 1.704-2(i)(5), such Partner shall be specially allocated items of Partnership gross income and gain in the amount of such excess as quickly as possible; provided, that an allocation pursuant to this Section 5.1(d)(v) shall be made only if and to the extent that such Partner would have a deficit balance in its Capital Account as adjusted after all other allocations provided for in this Section 5.1 have been tentatively made as if this Section 5.1(d)(v) were not in this Agreement.

(vi) Nonrecourse Deductions. Nonrecourse Deductions for any taxable period shall be allocated to the Partners in accordance with their respective Percentage Interests. If the General Partner determines in its good faith discretion that the Partnership's Nonrecourse Deductions must be allocated in a different ratio to satisfy the safe harbor requirements of the Treasury Regulations promulgated under Section 704(b) of the Code, the General Partner is authorized, upon notice to the Limited Partners, to revise the prescribed ratio to the numerically closest ratio that satisfies such requirements.

(vii) Partner Nonrecourse Deductions. Partner Nonrecourse Deductions for any taxable period shall be allocated 100% to the Partner that bears the Economic Risk of Loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulation Section 1.704-2(i). If more than one Partner bears the Economic Risk of Loss with respect to a Partner Nonrecourse Debt, such Partner Nonrecourse Deductions attributable thereto shall be allocated between or among such Partners in accordance with the ratios in which they share such Economic Risk of Loss.

(viii) Nonrecourse Liabilities. For purposes of Treasury Regulation Section 1.752-3(a)(3), the Partners agree that Nonrecourse Liabilities of the Partnership in excess of the sum of (A) the amount of Partnership Minimum Gain and (B) the total amount of Nonrecourse Built-in Gain shall be allocated among the Partners in accordance with their respective Percentage Interests.

(ix) Code Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b)

or 743(b) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Partners in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Treasury Regulations.

(x) Economic Uniformity. Upon the issuance of any Unit pursuant to Section 4.6 or upon the conversion of any Unit into another class after application of Section 4.9(c)(iii), gross income shall be allocated to the holder of such Unit until the Capital Account of such Unit is the same as the Capital Account per Unit of all other Units of the same class.

(xi) Curative Allocation.

(1) Notwithstanding any other provision of this Section 5.1, other than the Required Allocations, the Required Allocations shall be taken into account in making the Agreed Allocations so that, to the extent possible, the net amount of items of income, gain, loss and deduction allocated to each Partner pursuant to the Required Allocations and the Agreed Allocations, together, shall be equal to the net amount of such items that would have been allocated to each such Partner under the Agreed Allocations had the Required Allocations and the related Curative Allocation not otherwise been provided in this Section 5.1. Notwithstanding the preceding sentence, Required Allocations relating to (1) Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partnership Minimum Gain and (2) Partner Nonrecourse Deductions shall not be taken into account except to the extent that there has been a decrease in Partner Nonrecourse Debt Minimum Gain. Allocations pursuant to this Section 5.1(d)(xi)(A) shall only be made with respect to Required Allocations to the extent the General Partner reasonably determines that such allocations will otherwise be inconsistent with the economic agreement among the Partners. Further, allocations pursuant to this Section 5.1(d)(xi)(A) shall be deferred with respect to allocations pursuant to clauses (1) and (2) hereof to the extent the General Partner reasonably determines that such allocations are likely to be offset by subsequent Required Allocations.

(2) The General Partner shall have reasonable discretion, with respect to each taxable period, to (1) apply the provisions of Section 5.1(d)(xi)(A) in whatever order is most likely to minimize the economic distortions that might otherwise result from the Required Allocations, and (2) divide all allocations pursuant to Section 5.1(d)(xi)(A) among the Partners in a manner that is likely to minimize such economic distortions.

(xii) Corrective Allocations. In the event of any allocation of Additional Book Basis Derivative Items or any Book-Down Event, the following rules shall apply:

(1) In the case of any allocation of Additional Book Basis Derivative Items (other than an allocation of Unrealized Gain or Unrealized Loss under Section 4.9(d) hereof), the General Partner shall allocate additional items of gross income and gain to the Limited Partners or additional items of deduction and loss to the General Partner to the extent that the Additional Book Basis Derivative Items allocated to the Limited Partners exceeds their Share of those Additional Book Basis Derivative Items. For this purpose, the Limited Partners shall be treated as being allocated Additional Book Basis Derivative Items to the extent that such Additional Book Basis Derivative Items have reduced the amount of income that would otherwise have been allocated to the Limited Partners under the Partnership Agreement (e.g., Additional Book Basis Derivative Items taken into account in computing cost of goods sold would reduce the amount of book income otherwise available for allocation among the Partners). Any allocation made pursuant to this Section 5.1(d)(xii)(A) shall be made after all of the other Agreed Allocations have been made as if this Section 5.1(d)(xii) were not in the Partnership Agreement

and, to the extent necessary, shall require the reallocation of items that have been allocated pursuant to such other Agreed Allocations.

(2) In the case of any negative adjustments to the Capital Accounts of the Partners resulting from a Book-Down Event, such negative adjustment (1) shall first be allocated between the General Partner and the Limited Partners in proportion to and to the extent of their Remaining Net Positive Adjustments and (2) any remaining negative adjustment shall be allocated pursuant to Section 5.1(c) hereof. The aggregate amount so allocated to the Limited Partners in respect of each class or series of Units shall be allocated among them ratably on a per Unit basis.

(3) In making the allocations required under this Section 5.1(d)(xii), the General Partner, in its sole discretion, may apply whatever conventions or other methodology it deems reasonable to satisfy the purpose of this Section 5.1(d)(xii).

(xiii) Depreciation. Depreciation deductions of the Partnership for each period shall be allocated among the Partners in accordance with their relative Capital Account balances as they existed immediately after the most recent book adjustments pursuant to Section 4.9(d) of this Agreement that occurred prior to such period and without regard to allocations made after such adjustment.

Section 5.2 Allocations for Tax Purposes.

(a) Except as otherwise provided herein, for federal income tax purposes, each item of income, gain, loss and deduction shall be allocated among the Partners in the same manner as its correlative item of "book" income, gain, loss or deduction is allocated pursuant to Section 5.1.

(b) In an attempt to eliminate Book-Tax Disparities attributable to a Contributed Property or Adjusted Property, items of income, gain, loss, depreciation, amortization and cost recovery deductions shall be allocated for federal income tax purposes among the Partners as follows:

(i) (1) In the case of a Contributed Property, such items attributable thereto shall be allocated among the Partners in the manner provided under Section 704(c) of the Code that takes into account the variation between the Agreed Value of such property and its adjusted basis at the time of contribution; and (2) any item of Residual Gain or Residual Loss attributable to a Contributed Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 5.1.

(ii) (1) In the case of an Adjusted Property, such items shall (1) first, be allocated among the Partners in a manner consistent with the principles of Section 704(c) of the Code to take into account the Unrealized Gain or Unrealized Loss attributable to such property and the allocations thereof pursuant to Section 4.9(d)(i) or (ii), and (2) second, in the event such property was originally a Contributed Property, be allocated among the Partners in a manner consistent with Section 5.2(b)(i)(A); and (2) any item of Residual Gain or Residual Loss attributable to an Adjusted Property shall be allocated among the Partners in the same manner as its correlative item of "book" gain or loss is allocated pursuant to Section 5.1.

(iii) The General Partner shall apply the principles of Treasury Regulation Section 1.704-3(d) to eliminate Book-Tax Disparities.

(c) For the proper administration of the Partnership and for the preservation of uniformity of the Units (or any class or classes thereof), the General Partner shall have sole discretion to (i) adopt such conventions as it deems appropriate in determining the amount of depreciation, amortization and cost recovery deductions; (ii) make special allocations for federal income tax purposes of income (including, without limitation, gross income) or deductions; and (iii) amend the provisions of this Agreement as appropriate (x) to reflect the proposal or promulgation of Treasury Regulations under Section 704(b) or Section 704(c) of the Code or (y) otherwise to preserve or achieve uniformity of the Units (or any class or classes thereof). The General Partner may adopt

such conventions, make such allocations and make such amendments to this Agreement as provided in this Section 5.2(c) only if such conventions, allocations or amendments would not have a material

adverse effect on the Partners, the holders of any class or classes of Units issued and Outstanding or the Partnership, and if such allocations are consistent with the principles of Section 704 of the Code.

(d) The General Partner in its sole discretion may determine to depreciate or amortize the portion of an adjustment under Section 743(b) of the Code attributable to unrealized appreciation in any Adjusted Property (to the extent of the unamortized Book-Tax Disparity) using a predetermined rate derived from the depreciation or amortization method and useful life applied to the Partnership's common basis of such property, despite the inconsistency of such approach with Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed Treasury Regulation Section 1.197-2(g)(3), or any successor regulations thereto. If the General Partner determines that such reporting position cannot reasonably be taken, the General Partner may adopt depreciation and amortization conventions under which all purchasers acquiring Units in the same month would receive depreciation and amortization deductions, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. If the General Partner chooses not to utilize such aggregate method, the General Partner may use any other reasonable depreciation and amortization conventions to preserve the uniformity of the intrinsic tax characteristics of any Units that would not have a material adverse effect on the Limited Partners or the Record Holders of any class or classes of Units.

(e) Any gain allocated to the Partners upon the sale or other taxable disposition of any Partnership asset shall, to the extent possible, after taking into account other required allocations of gain pursuant to this Section 5.2, be characterized as Recapture Income in the same proportions and to the same extent as such Partners (or their predecessors in interest) have been allocated any deductions directly or indirectly giving rise to the treatment of such gains as Recapture Income.

(f) All items of income, gain, loss, deduction and credit recognized by the Partnership for federal income tax purposes and allocated to the Partners in accordance with the provisions hereof shall be determined without regard to any election under Section 754 of the Code which may be made by the Partnership; provided, however, that such allocations, once made, shall be adjusted as necessary or appropriate to take into account those adjustments permitted or required by Sections 734 and 743 of the Code.

(g) Each item of Partnership income, gain, loss and deduction attributable to a transferred Partnership Interest shall, for federal income tax purposes, be determined on an annual basis and prorated on a monthly basis and shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of each month; provided, however, that (i) if the Overallotment Option is not exercised, such items for the period beginning on the Closing Date and ending on the last day of the month in which the Effective Time occurs shall be allocated to Partners as of the opening of the New York Stock Exchange on the first Business Day of the next succeeding month or (ii) if the Overallotment Option is exercised, such items for the period beginning on the Closing Date and ending on the last day of the month in which the closing of the Overallotment Option occurs shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of the next succeeding month; and provided, further, that gain or loss on a sale or other disposition of any assets of the Partnership other than in the ordinary course of business shall be allocated to the Partners as of the opening of the New York Stock Exchange on the first Business Day of the month in which such gain or loss is recognized for federal income tax purposes. The General Partner may revise, alter or otherwise modify such methods of allocation as it determines necessary, to the extent permitted or required by Section 706 of the Code and the regulations or rulings promulgated thereunder.

(h) Allocations that would otherwise be made to a Limited Partner under the provisions of this Article V shall instead be made to the beneficial owner of Units held by a nominee in any case in which the nominee has furnished the identity of such owner to the Partnership in accordance with Section 6031(c) of the Code or any other method acceptable to the General Partner in its sole discretion.

Section 5.3 Requirement and Characterization of Distributions.

(a) Subject to (b) below, within 45 days following the end of (i) the period beginning on the Initial Closing Date and ending on March 31, 1996 and (ii) each Quarter commencing with the Quarter beginning on April 1, 1996 an amount equal to 100% of Available Cash with respect to such period or Quarter shall be distributed in accordance with this Article V by the Partnership to the Partners, as of the Record Date selected by the General Partner in its reasonable discretion; provided, however, that the Partnership shall not make any distributions of Available Cash to the holders of Senior Subordinated Units, Junior Subordinated Units and General Partner Units with respect to any Quarter during the Partnership's fiscal year 1999. All amounts of Available Cash distributed by the Partnership on any date from any source shall be deemed to be Operating Surplus until the sum of all amounts of Available Cash theretofore distributed by the Partnership to Partners pursuant to Section 5.4 equals the Operating Surplus from the Initial Closing Date through the close of the immediately preceding Quarter. Any remaining amounts of Available Cash distributed by the Partnership on such date shall, except as otherwise provided in Section 5.5, be deemed to be from Capital Surplus.

(b) Beginning with the distribution for the Quarter ending on December 31, 1999, no distributions will be made on the Senior Subordinated Units, Junior Subordinated Units and General Partner Units, unless the aggregate amount of distributions on all Units with respect to all Quarters, beginning with the Quarter ending on December 31, 1999 shall be equal to or less than the total Operating Surplus generated by the Partnership since October 1, 1999 (which does not include that portion of Operating Surplus included in clause (a)(i) of the definition of Operating Surplus).

(c) Notwithstanding the definitions of Available Cash and Operating Surplus contained herein, disbursements (including, without limitation, contributions to the Operating Partnership or disbursements on behalf of the Operating Partnership) made or cash reserves established, increased or reduced (including, without limitation, cash reserves established, increased or reduced by the Operating Partnership) after the end of any Quarter but on or before the date on which the Partnership makes its distribution of Available Cash in respect of such Quarter pursuant to Section 5.3(a) shall be deemed to have been made, established, increased or reduced for purposes of determining Available Cash and Operating Surplus, within such Quarter if the General Partner so determines. Notwithstanding the foregoing, in the event of the dissolution and liquidation of the Partnership, all proceeds of such liquidation shall be applied and distributed in accordance with, and subject to the terms and conditions of, Section 14.4.

(d) Nothing in this Section 5.3 prohibits the holders of the Senior Subordinated Units, Junior Subordinated Units or General Partner Units from receiving distributions from Capital Surplus in a partial liquidation during the Subordination Period.

Section 5.4 Distributions of Operating Surplus.

(a) During Subordination Period. Available Cash with respect to any Quarter within the Subordination Period that is deemed to be Operating Surplus pursuant to the provisions of Section 5.3 or 5.5 shall, subject to Section 5.3 and subject to Section 17-607 of the Delaware Act, be distributed as follows, except as otherwise required by Section 4.4(b) in respect of additional Partnership Securities issued pursuant thereto:

(i) First, 100% to the Common Units, Pro Rata, until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Minimum Quarterly Distribution;

(ii) Second, 100% to the Common Units, Pro Rata, until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the Cumulative Common Unit Arrearage, if any, existing with respect to any prior Quarter;

(iii) Third, 100% to the Senior Subordinated Units, Pro Rata, until there has been distributed in respect of each Senior Subordinated Unit then Outstanding an amount equal to the Minimum Quarterly Distribution;

(iv) Fourth, 100% to the Junior Subordinated Units and General Partner Units, Pro Rata, until there has been distributed in respect of each Junior Subordinated Unit and General Partner Unit then Outstanding an amount equal to the Minimum Quarterly Distribution;

(v) Fifth, 100% to all Units, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution;

(vi) Sixth, (A) 86.7% to all Units, Pro Rata, and (B) 13.3% to all Senior Subordinated Units, Junior Subordinated Units and General Partner Units, Pro Rata, until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution;

(vii) Seventh, (A) 76.5% to all Units, Pro Rata, and (B) 23.5% to all Senior Subordinated Units, Junior Subordinated Units and General Partner Units, Pro Rata, until there has been distributed in respect of each Common Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution; and

(viii) Thereafter, (A) 51% to all Units, Pro Rata, and (B) 49% to all Senior Subordinated, Junior Subordinated and General Partner Units, Pro Rata;

provided, however, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution have been reduced to zero pursuant to the second sentence of Section 5.6(a), the distributions of Available Cash that is deemed to be Operating Surplus with respect to any Quarter will be made in accordance with Section 5.4(a)(viii).

(b) After Subordination Period. Available Cash with respect to any Quarter after the Subordination Period that is deemed to be Operating Surplus pursuant to the provisions of Section 5.3 or 5.5 shall, subject to Section 17-607 of the Delaware Act, be distributed as follows, except as otherwise required by Section 4.4(b) in respect of additional Partnership Securities issued pursuant thereto:

(i) First, 100% to all Units, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the Minimum Quarterly Distribution;

(ii) Second, 100% to all Units, Pro Rata, until there has been distributed in respect of each Unit then Outstanding an amount equal to the excess of the First Target Distribution over the Minimum Quarterly Distribution;

(iii) Third, (A) 86.7% to all Units, Pro Rata, and (B) 13.3% to all Class B Common Units and General Partner Units, Pro Rata, until there has been distributed in respect of each Class A Common Unit then Outstanding an amount equal to the excess of the Second Target Distribution over the First Target Distribution;

(iv) Fourth, (A) 76.5% to all Units, Pro Rata, and (B) 23.5% to all Class B Common Units and General Partner Units, Pro Rata, until there has been distributed in respect of each Class A Common Unit then Outstanding an amount equal to the excess of the Third Target Distribution over the Second Target Distribution; and

(v) Thereafter, (A) 51% to all Units, Pro Rata, and (B) 49% to all Class B Common Units and General Partner Units, Pro Rata;

provided, however, if the Minimum Quarterly Distribution, the First Target Distribution, the Second Target Distribution and the Third Target Distribution have been reduced to zero pursuant to the second sentence of Section 5.6(a), the distributions of Available Cash that is deemed to be Operating Surplus with respect to any Quarter will be made in accordance with Section 5.4(b)(v).

Section 5.5 Distributions of Cash from Capital Surplus.

Available Cash that constitutes Capital Surplus shall, subject to Section 17-607 of the Delaware Act, be distributed, unless the provisions of Section 5.3 require otherwise, 100% to all Units, Pro Rata, until a hypothetical holder of a Common Unit acquired on the Initial Closing Date has received with respect to such Common Unit, during the period since the Initial Closing Date through such date, distributions of Available Cash that are deemed to be Capital Surplus in an aggregate amount equal to the Initial Unit Price. Thereafter, all Available Cash shall be distributed as if it were Operating Surplus and shall be distributed in accordance with Section 5.4.

Section 5.6 Adjustment of Minimum Quarterly Distribution and Target Distribution Levels.

(a) The Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall be proportionately adjusted in the event of any distribution, combination or subdivision (whether effected by a distribution payable in Units or otherwise) of Units or other Partnership Securities in accordance with Section 4.8. In the event of a distribution of Available Cash that is deemed to be from Capital Surplus, the Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall be adjusted proportionately downward to equal the product obtained by multiplying the otherwise applicable Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution, as the case may be, by a fraction of which the numerator is the Unrecovered Initial Unit Price of the Common Units immediately after giving effect to such distribution and of which the denominator is the Unrecovered Initial Unit Price of the Common Units immediately prior to giving effect to such distribution.

(b) The Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution and Third Target Distribution shall also be subject to adjustment pursuant to Section 5.8.

Section 5.7 Special Provisions Relating to the Senior Subordinated Units and Junior Subordinated Units.

Except with respect to the right to vote on or approve matters requiring the vote or approval of a percentage of the holders of Outstanding Common Units and the right to participate in allocations of income, gain, loss and deduction and distributions of cash made with respect to Common Units pursuant to this Article V, and except as provided in Section 6.12 and Section 17.1, the holder of a Senior Subordinated Unit or a Junior Subordinated Unit shall have all of the rights and obligations of a Limited Partner holding Common Units hereunder; provided, however, that immediately upon the end of the Subordination Period, the holder of a Senior Subordinated Unit or Junior Subordinated Unit shall possess all of the rights and obligations of a Limited Partner holding Class B Common Units hereunder, including, the right to vote as a Common Unitholder and the right to participate in allocations of income, gain, loss and deduction and distributions of cash made with respect to Common Units pursuant to this Article V (but such converted Senior Subordinated Units and Junior Subordinated Units shall remain subject to the provisions of Sections 4.9(c)(ii) and 5.1(d)(x)).

Section 5.8 Entity-Level Taxation.

If legislation is enacted or the interpretation of existing language is modified by the relevant governmental authority which causes the Partnership or the Operating Partnership to be treated as an association taxable as a corporation or otherwise subjects the Partnership or the Operating Partnership to entity-level taxation for federal income tax purposes, the Minimum Quarterly Distribution, First Target Distribution, Second Target Distribution or Third Target Distribution, as the case may be, shall be equal to the product obtained by multiplying (a) the amount thereof by (b) one minus the sum of (i) the highest marginal federal corporate (or other entity, as applicable) income tax rate of the Partnership for the taxable year of the Partnership in which such Quarter occurs (expressed as a percentage) plus (ii) the effective overall state and local income tax rate (expressed as a percentage) applicable to the Partnership for the calendar year next preceding the calendar year in which such Quarter occurs (after taking into account the benefit of any deduction allowable for federal income tax purposes with respect to the payment of state and local income taxes), but only to the extent of the

increase in such rates resulting from such legislation or interpretation. Such effective overall state and local income tax rate shall be determined for the taxable year next preceding the first taxable year during which the Partnership or the Operating Partnership is taxable for federal income tax purposes as an association taxable as a corporation or is otherwise subject to entity-level taxation by determining such rate as if the Partnership or the Operating Partnership had been subject to such state and local taxes during such preceding taxable year.

ARTICLE VI

MANAGEMENT AND OPERATION OF BUSINESS

Section 6.1 Management.

(a) The General Partner shall conduct, direct and manage all activities of the Partnership. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the General Partner, and no Limited Partner or Assignee shall have any management power over the business and affairs of the Partnership. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to Section 6.3, shall have full power and authority to do all things and on such terms as it, in its sole discretion, may deem necessary or appropriate to conduct the business of the Partnership, to exercise all powers set forth in Section 3.2 and to effectuate the purposes set forth in Section 3.1, including the following:

(i) the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness and the incurring of any other obligations;

(ii) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;

(iii) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership or the merger or other combination of the Partnership with or into another Person (the matters described in this clause (iii) being subject, however, to any prior approval that may be required by Section 6.3);

(iv) the use of the assets of the Partnership (including cash on hand) for any purpose consistent with the terms of this Agreement, including the financing of the conduct of the operations of the Partnership or the Operating Partnership, the lending of funds to other Persons (including Group Members), the repayment of obligations of the Partnership and the Operating Partnership and the making of capital contributions to the Operating Partnership;

(v) the negotiation, execution and performance of any contracts, conveyances or other instruments (including instruments that limit the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party to the contract to have no recourse against the General Partner or its assets other than its interest in the Partnership, even if same results in the terms of the transaction being less favorable to the Partnership than would otherwise be the case);

(vi) the distribution of Partnership cash;

(vii) the selection and dismissal of employees, including those of the Operating Partnership (including employees having titles such as "president," "vice president," "secretary" and "treasurer") and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;

(viii) the maintenance of such insurance for the benefit of the Partnership Group and the Partners as it deems necessary or appropriate;

(ix) the formation of, or acquisition of an interest in, and the

contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, corporations, limited liability

companies or other relationships (including the acquisition of interests in, and the contributions of property to, the Operating Partnership from time to time);

(x) the control of any matters affecting the rights and obligations of the Partnership, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation and the incurring of legal expense and the settlement of claims and litigation;

(xi) the indemnification of any Person against liabilities and contingencies to the extent permitted by law;

(xii) the entering into of listing agreements with any National Securities Exchange and the delisting of some or all of the Units from, or requesting that trading be suspended on, any such exchange (subject to any prior approval that may be required under Section 1.6);

(xiii) the purchase, sale or other acquisition or disposition of Units (subject to Section 6.12 and Section 17.1); and

(xiv) the undertaking of any action in connection with the Partnership's participation in the Operating Partnership as the limited partner.

(b) Notwithstanding any other provision of this Agreement, the Operating Partnership Agreement, the Delaware Act or any applicable law, rule or regulation, each of the Partners and Assignees and each other Person who may acquire an interest in Units hereby (i) approves, ratifies and confirms the execution, delivery and performance by the parties thereto of the Operating Partnership Agreement, the Underwriting Agreement, the Conveyance and Contribution Agreements, the agreements and other documents filed as exhibits to the Proxy Statement and the Equity Registration Statement, and the other agreements described in or filed as a part of the Proxy Statement and the Equity Registration Statement; (ii) agrees that the General Partner (on its own or through any officer of the Partnership) is authorized to execute, deliver and perform the agreements referred to in clause (i) of this sentence and the other agreements, acts, transactions and matters described in or contemplated by the Proxy Statement and the Equity Registration Statement on behalf of the Partnership without any further act, approval or vote of the Partners or the Assignees or the other Persons who may acquire an interest in Units; and (iii) agrees that the execution, delivery or performance by the General Partner, any Group Member or any Affiliate of any of them, of this Agreement or any agreement authorized or permitted under this Agreement (including the exercise by the General Partner or any Affiliate of the General Partner of the rights accorded pursuant to Article XVII), shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or the Assignees or any other Persons under this Agreement (or any other agreements) or of any duty stated or implied by law or equity.

Section 6.2 Certificate of Limited Partnership.

The General Partner has caused the Certificate of Limited Partnership to be filed with the Secretary of State of the State of Delaware as required by the Delaware Act and shall use all reasonable efforts to cause to be filed such other certificates or documents as may be determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business or own property. To the extent that such action is determined by the General Partner in its sole discretion to be reasonable and necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all things to maintain the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) under the laws of the State of Delaware or of any other state in which the Partnership may elect to do business or own property. Subject to the terms of Section 7.5(a), the General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto to any Limited Partner or Assignee.

Section 6.3 Restrictions on General Partner's Authority.

(a) The General Partner may not, without written approval of the specific act by all of the Outstanding Units or by other written instrument executed and delivered by all of the Outstanding Units subsequent to the date of this Agreement, take any action in contravention of this Agreement, including, except as otherwise provided in this Agreement, (i) committing any act that would make it impossible to carry on the ordinary business of the Partnership; (ii) possessing Partnership property, or assigning any rights in specific Partnership property, for other than a Partnership purpose; (iii) admitting a Person as a Partner; (iv) amending this Agreement in any manner; or (v) transferring its interest as general partner of the Partnership.

(b) Except as provided in Articles XIV and XVI, the General Partner may not sell, exchange or otherwise dispose of all or substantially all of the Partnership's assets in a single transaction or a series of related transactions or approve on behalf of the Partnership the sale, exchange or other disposition of all or substantially all of the assets of the Operating Partnership, without the approval of holders of a Unit Majority; provided however that this provision shall not preclude or limit the General Partner's ability to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the assets of the Partnership or Operating Partnership and shall not apply to any forced sale of any or all of the assets of the Partnership or Operating Partnership pursuant to the foreclosure of, or other realization upon, any such encumbrance. Without the approval of holders of a Unit Majority, the General Partner shall not, on behalf of the Partnership, (i) consent to any amendment to the Operating Partnership Agreement or, except as expressly permitted by Section 6.9(d), take any action permitted to be taken by a partner of the Operating Partnership, in either case, that would have a material adverse effect on the Partnership as a partner of the Operating Partnership or (ii) except as permitted under Sections 11.2, 13.1 and 13.2, elect or cause the Partnership to elect a successor general partner of the Operating Partnership.

Section 6.4 Reimbursement of the General Partner.

(a) Except as provided in this Section 6.4 and elsewhere in this Agreement or in the Operating Partnership Agreement, the General Partner shall not be compensated for its services as general partner of any Group Member.

(b) The General Partner shall be reimbursed on a monthly basis, or such other basis as the General Partner may determine in its sole discretion, for (i) all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership (including salary, bonus, incentive compensation and other amounts paid to any Person to perform services for the Partnership, the Operating Partnership or for the General Partner in the discharge of its duties to the Partnership), and (ii) all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with operating the Partnership's business (including expenses allocated to the General Partner by its Affiliates). The General Partner shall determine the expenses that are allocable to the Partnership in any reasonable manner determined by the General Partner in its sole discretion. Reimbursements pursuant to this Section 6.4 shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 6.7.

(c) Subject to Section 4.5, the General Partner, in its sole discretion and without the approval of the Limited Partners (who shall have no right to vote in respect thereof), may propose, adopt and amend on behalf of the Partnership employee benefit plans, employee programs and employee practices (including plans, programs and practices involving the issuance of Units), or issue Partnership Securities pursuant to any employee benefit plan, employee program or employee practice maintained or sponsored by the General Partner or any of its Affiliates, in each case for the benefit of employees of the General Partner, any Group Member or any Affiliate, or any of them, in respect of services performed, directly or indirectly, for the benefit of the Partnership Group. The Partnership agrees to issue and sell to the General Partner or any of its Affiliates any Units or other Partnership Securities that the General Partner or such Affiliate is obligated to provide to any employees pursuant to any such employee benefit plans, employee programs or employee practices. Expenses incurred by the General Partner in connection with any such plans,

programs and practices (including the net

cost to the General Partner or such Affiliate of Units or other Partnership Securities purchased by the General Partner or such Affiliate from the Partnership to fulfill options or awards under such plans, programs and practices) shall be reimbursed in accordance with Section 6.4(b). Any and all obligations of the General Partner under any employee benefit plans, employee programs or employee practices adopted by the General Partner as permitted by this Section 6.4(c) shall constitute obligations of the General Partner hereunder and shall be assumed by any successor General Partner approved pursuant to Section 13.1 or 13.2 or the transferee of or successor to all of the General Partner's Partnership Interest (which is represented by the General Partner Units) as a general partner in the Partnership pursuant to Section 11.2.

Section 6.5 Outside Activities.

(a) After the Effective Time, the General Partner, for so long as it is the general partner of the Partnership, shall not engage in any business or activity or incur any debts or liabilities except in connection with or incidental to (i) its performance as general partner of one or more Group Members or as described in or contemplated by the Proxy Statement or (ii) the acquiring, owning or disposing of debt or equity securities in any Group Member.

(b) Certain Affiliates of the General Partner have entered into the Non-competition Agreement with the Partnership and the Operating Partnership, which agreement sets forth certain restrictions on the ability of such Affiliates to compete with the Partnership and the Operating Partnership. Any amendments or waivers to the Non-competition Agreement must be approved by the Audit Committee.

(c) Except as restricted by Sections 6.5(a) or (b) and the Non-competition Agreement, each Indemnitee (other than the General Partner) shall have the right to engage in businesses of every type and description and other activities for profit and to engage in and possess an interest in other business ventures of any and every type or description, whether in businesses engaged in or anticipated to be engaged in by any Group Member, independently or with others, including business interests and activities in direct competition with the business and activities of any Group Member, and none of the same shall constitute a breach of this Agreement or any duty to any Group Member or any Partner or Assignee. Neither any Group Member, any Limited Partner nor any other Person shall have any rights by virtue of this Agreement, the Operating Partnership Agreement or the partnership relationship established hereby or thereby in any business ventures of any Indemnitee.

(d) Subject to Sections 6.5(a), (b) and (c) and the terms of the Non-competition Agreement, but otherwise notwithstanding anything to the contrary in this Agreement, (i) the engaging in competitive activities by any Indemnitees (other than the General Partner) in accordance with the provisions of this Section 6.5 is hereby approved by the Partnership and all Partners and (ii) it shall be deemed not to be a breach of the General Partner's fiduciary duty or any other obligation of any type whatsoever of the General Partner for the Indemnitees (other than the General Partner) to engage in such business interests and activities in preference to or to the exclusion of the Partnership (including, without limitation, the General Partner and the Indemnitees shall have no obligation to present business opportunities to the Partnership).

(e) The General Partner and any of its Affiliates may acquire Units or other Partnership Securities in addition to those acquired at the Effective Time and, except as otherwise provided in this Agreement, shall be entitled to exercise all rights of an Assignee or Limited Partner, as applicable, relating to such Units or Partnership Securities.

(f) The term "Affiliates" when used in Section 6.5(b) with respect to the General Partner shall not include any Group Member or any Subsidiary of the Group Member.

Section 6.6 Loans from the General Partner; Contracts with Affiliates; Certain Restrictions on the General Partner.

(a) The General Partner or any Affiliate thereof may lend to any Group Member, and any Group Member may borrow, funds needed or desired by the Group Member for such periods of time and in such amounts as

the General Partner may determine; provided, however, that in any such case the lending party may not charge the borrowing party interest at a rate greater than the rate that would be charged the borrowing party or impose terms less favorable to the borrowing party than would be charged or imposed on the borrowing party by unrelated lenders on comparable loans made on an arms'-length basis (without reference to the lending party's financial abilities or guarantees). The borrowing party shall reimburse the lending party for any costs (other than any additional interest costs) incurred by the lending party in connection with the borrowing of such funds. For purposes of this Section 6.6(a) and Section 6.6(b), the term "Group Member" shall include any Affiliate of the Group Member that is controlled by the Group Member. No Group Member may lend funds to the General Partner or any of its Affiliates.

(b) The Partnership may lend or contribute to any Group Member, and any Group Member may borrow, funds on terms and conditions established in the sole discretion of the General Partner; provided, however, that the Partnership may not charge the Group Member interest at a rate greater than the rate that would be charged to the Group Member (without reference to the General Partner's financial abilities or guarantees), by unrelated lenders on comparable loans. The foregoing authority shall be exercised by the General Partner in its sole discretion and shall not create any right or benefit in favor of any Group Member or any other Person.

(c) The General Partner may itself, or may enter into an agreement with any of its Affiliates to, render services to the Partnership or to the General Partner in the discharge of its duties as general partner of the Partnership. Any services rendered to the Partnership by the General Partner or any of its Affiliates shall be on terms that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 6.6(c) shall be deemed satisfied as to (i) any transaction approved by Special Approval, (ii) any transaction, the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership. The provisions of Section 6.4 shall apply to the rendering of services described in this Section 6.6(c).

(d) The Partnership may transfer assets to joint ventures, other partnerships, corporations, limited liability companies or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as are consistent with this Agreement and applicable law.

(e) Neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are fair and reasonable to the Partnership; provided, however, that the requirements of this Section 6.6(e) shall be deemed to be satisfied as to (i) the transactions effected pursuant to Sections 4.1, 4.2 and 4.3, the Conveyance and Contribution Agreements and any other transactions described in or contemplated by the Proxy Statement, (ii) any transaction approved by Special Approval, (iii) any transaction, the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties, or (iv) any transaction that, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership), is equitable to the Partnership. With respect to any contribution of assets to the Partnership in exchange for Units, the Audit Committee, in determining whether the appropriate number of Units are being issued, should take into account, among other things, the fair market value of the assets, the liquidated and contingent liabilities assumed, the tax basis in the assets, the extent to which tax-only allocations to the transferor will protect the existing partners of the Partnership against a low tax basis, and such other factors as the Audit Committee deems relevant under the circumstances.

(f) The General Partner and its Affiliates will have no obligation to permit any Group Member to use any facilities or assets of the General Partner and its

Affiliates, except as may be provided in contracts entered into from time to time specifically dealing with such use, nor shall there be any obligation on the part of the General Partner or its Affiliates to enter into such contracts.

(g) Without limitation of Sections 6.6(a) through 6.6(f), and notwithstanding anything to the contrary in this Agreement, the existence of the conflicts of interest described in the Proxy Statement are hereby approved by all Partners.

Section 6.7 Indemnification.

(a) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, all Indemnitees shall be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as an Indemnitee; provided, that in each case the Indemnitee acted in good faith and in a manner that such Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful; provided, further, no indemnification pursuant to this Section 6.7 shall be available to the General Partner or Petro with respect to their respective obligations incurred pursuant to the Underwriting Agreement or the Conveyance and Contribution Agreements (other than obligations incurred by the General Partner on behalf of the Partnership or the Operating Partnership). The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnitee acted in a manner contrary to that specified above. Any indemnification pursuant to this Section 6.7 shall be made only out of the assets of the Partnership, it being agreed that the General Partner shall not be personally liable for such indemnification and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate such indemnification.

(b) To the fullest extent permitted by law, expenses (including legal fees and expenses) incurred by an Indemnitee who is indemnified pursuant to Section 6.7(a) in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Partnership prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Partnership of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall be determined that the Indemnitee is not entitled to be indemnified as authorized in this Section 6.7.

(c) The indemnification provided by this Section 6.7 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, pursuant to any vote of the holders of Outstanding Units, as a matter of law or otherwise, both as to actions in the Indemnitee's capacity as an Indemnitee and as to actions in any other capacity (including any capacity under the Underwriting Agreement), and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee.

(d) The Partnership may purchase and maintain (or reimburse the General Partner or its Affiliates for the cost of) insurance, on behalf of the General Partner and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expense that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 6.7, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute "fines" within the meaning of Section 6.7(a); and action taken or omitted by it with respect to any employee benefit plan in the performance of its duties for a

purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is in, or not opposed to, the best interests of the Partnership.

(f) In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 6.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 6.7 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) No amendment, modification or repeal of this Section 6.7 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Partnership, nor the obligations of the Partnership to indemnify any such Indemnitee under and in accordance with the provisions of this Section 6.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

Section 6.8 Liability of Indemnitees.

(a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable for monetary damages to the Partnership, the Limited Partners, the Assignees or any other Persons who have acquired interests in the Units, for losses sustained or liabilities incurred as a result of any act or omission if such Indemnitee acted in good faith.

(b) Subject to its obligations and duties as General Partner set forth in Section 6.1(a), the General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and the General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the General Partner in good faith.

(c) Any amendment, modification or repeal of this Section 6.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability to the Partnership and the Limited Partners of the General Partner, its directors, officers and employees and any other Indemnitees under this Section 6.8 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

Section 6.9 Resolution of Conflicts of Interest.

(a) Unless otherwise expressly provided in this Agreement or the Operating Partnership Agreement, whenever a potential conflict of interest exists or arises between the General Partner or any of its Affiliates, on the one hand, and the Partnership, the Operating Partnership, any Partner or any Assignee, on the other hand, any resolution or course of action in respect of such conflict of interest shall be permitted and deemed approved by all Partners, and shall not constitute a breach of this Agreement, of the Operating Partnership Agreement, of any agreement contemplated herein or therein, or of any duty stated or implied by law or equity, if the resolution or course of action is, or by operation of this Agreement is deemed to be, fair and reasonable to the Partnership. The General Partner shall be authorized but not required in connection with its resolution of such conflict of interest to seek Special Approval of a resolution of such conflict or course of action. Any conflict of interest and any resolution of such conflict of interest shall be conclusively deemed fair and reasonable to the Partnership if such conflict of interest or resolution is (i) approved by Special Approval, (ii) on terms no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) fair to the Partnership, taking into account

the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to the Partnership). The General Partner may also adopt a resolution or course of action that has not received Special Approval. The

General Partner (including the Audit Committee in connection with Special Approval) shall be authorized in connection with its determination of what is "fair and reasonable" to the Partnership and in connection with its resolution of any conflict of interest to consider (A) the relative interests of any party to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interest; (B) any customary or accepted industry practices and any customary or historical dealings with a particular Person; (C) any applicable generally accepted accounting practices or principles; and (D) such additional factors as the General Partner (including the Audit Committee) determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances. Nothing contained in this Agreement, however, is intended to nor shall it be construed to require the General Partner (including the Audit Committee) to consider the interests of any Person other than the Partnership. In the absence of bad faith by the General Partner, the resolution, action or terms so made, taken or provided by the General Partner with respect to such matter shall not constitute a breach of this Agreement or any other agreement contemplated herein or a breach of any standard of care or duty imposed herein or therein or, to the extent permitted by law, under the Delaware Act or any other law, rule or regulation.

(b) Whenever this Agreement or any other agreement contemplated hereby provides that the General Partner or any of its Affiliates is permitted or required to make a decision (i) in its "sole discretion" or "discretion," that it deems "necessary or appropriate" or "necessary or advisable" or under a grant of similar authority or latitude, except as otherwise provided herein, the General Partner or such Affiliate shall be entitled to consider only such interests and factors as it desires and shall have no duty or obligation to give any consideration to any interest of, or factors affecting, the Partnership, the Operating Partnership, any Limited Partner or any Assignee, (ii) it may make such decision in its sole discretion (regardless of whether there is a reference to "sole discretion" or "discretion") unless another express standard is provided for, or (iii) in "good faith" or under another express standard, the General Partner or such Affiliate shall act under such express standard and shall not be subject to any other or different standards imposed by this Agreement, the Operating Partnership Agreement, any other agreement contemplated hereby or under the Delaware Act or any other law, rule or regulation. In addition, any actions taken by the General Partner or such Affiliate consistent with the standards of "reasonable discretion" set forth in the definitions of Available Cash or Operating Surplus shall not constitute a breach of any duty of the General Partner to the Partnership or the Limited Partners. The General Partner shall have no duty, express or implied, to sell or otherwise dispose of any asset of the Partnership Group. No borrowing by any Group Member or the approval thereof by the General Partner shall be deemed to constitute a breach of any duty of the General Partner to the Partnership or the Limited Partners by reason of the fact that the purpose or effect of such borrowing is directly or indirectly to (A) enable distributions on the General Partner Units to exceed the General Partner's Percentage Interest of the total amount distributed or (B) hasten the expiration of the Subordination Period or the conversion of any Senior Subordinated Units or Junior Subordinated Units into Class B Common Units.

(c) Whenever a particular transaction, arrangement or resolution of a conflict of interest is required under this Agreement to be "fair and reasonable" to any Person, the fair and reasonable nature of such transaction, arrangement or resolution shall be considered in the context of all similar or related transactions.

(d) The Limited Partners hereby authorize the General Partner, on behalf of the Partnership as a partner of a Group Member, to approve of actions by the general partner of such Group Member similar to those actions permitted to be taken by the General Partner pursuant to this Section 6.9.

Section 6.10 Other Matters Concerning the General Partner.

(a) The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture or other

paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the opinion (including an Opinion of Counsel) of such Persons as to matters that the General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such opinion.

(c) The General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers, a duly appointed attorney or attorneys-in-fact or the duly authorized officers of the Partnership.

(d) Any standard of care and duty imposed by this Agreement or under the Delaware Act or any applicable law, rule or regulation shall be modified, waived or limited, to the extent permitted by law, as required to permit the General Partner to act under this Agreement or any other agreement contemplated by this Agreement and to make any decision pursuant to the authority prescribed in this Agreement, so long as such action is reasonably believed by the General Partner to be in, or not inconsistent with, the best interests of the Partnership.

Section 6.11 Title to Partnership Assets.

Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner or Assignee, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner, one or more of its Affiliates or one or more nominees, as the General Partner may determine. The General Partner hereby declares and warrants that any Partnership assets for which record title is held in the name of the General Partner or one or more of its Affiliates or one or more nominees shall be held by the General Partner or such Affiliate or nominee for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the General Partner shall use its reasonable efforts to cause record title to such assets (other than those assets in respect of which the General Partner determines that the expense and difficulty of conveyancing makes transfer of record title to the Partnership impracticable) to be vested in the Partnership as soon as reasonably practicable; provided that, prior to the withdrawal or removal of the General Partner or as soon thereafter as practicable, the General Partner shall use reasonable efforts to effect the transfer of record title to the Partnership and, prior to any such transfer, will provide for the use of such assets in a manner satisfactory to the Partnership. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which record title to such Partnership assets is held. The General Partner covenants and agrees that at the Effective Time, the Partnership Group shall have all licenses, permits, certificates, franchises, or other governmental authorizations or permits necessary for the ownership of their properties or for the conduct of their businesses, except for such licenses, permits, certificates, franchises, or other governmental authorizations or permits, failure to have obtained which will not, individually or in the aggregate, have a material adverse effect on the Partnership Group.

Section 6.12 Purchase or Sale of Units.

The General Partner may cause the Partnership to purchase or otherwise acquire Units; provided that, except as permitted pursuant to Section 11.6 and Section 17.1(a), the General Partner may not cause the Partnership to purchase Units other than Common Units during the Subordination Period. As long as Units are held by any Group Member, such Units shall not be considered Outstanding for any purpose, except as otherwise provided herein. The General Partner or any Affiliate of the General Partner (other than a Group Member) may also purchase or otherwise acquire and sell or otherwise dispose of Units for its own account, subject to the provisions of Articles XI and XII.

Section 6.13 Registration Rights.

(a) If (i) the General Partner or any Affiliate of the General Partner (including for purposes of this Section 6.13, any Person that is an Affiliate of the General Partner at the date hereof notwithstanding that it may later cease to be an Affiliate of the General Partner) holds Units or other Partnership Securities that it desires to sell and (ii) Rule 144 of the Securities Act (or any successor rule or regulation to Rule 144) or another exemption from registration is not available to enable such holder of Units (the "Holder") to dispose of the number of Units or other Partnership Securities it desires to sell at the time it desires to do so without registration under the Securities Act, then upon the request of the General Partner or any of its Affiliates, the Partnership shall file with the Commission as promptly as practicable after receiving such request, and use all reasonable efforts to cause to become effective and remain effective for a period of not less than six months following its effective date or such shorter period as shall terminate when all Units or other Partnership Securities covered by such registration statement have been sold, a registration statement under the Securities Act registering the offering and sale of the number of Units or other Partnership Securities specified by the Holder; provided, however, that the Partnership shall not be required to effect more than three registrations pursuant to this Section 6.13(a); and provided further, however, that if the Audit Committee determines in its good faith judgment that a postponement of the requested registration for up to six months would be in the best interests of the Partnership and its Partners due to a pending transaction, investigation or other event, the filing of such registration statement or the effectiveness thereof may be deferred for up to six months, but not thereafter. In connection with any registration pursuant to the immediately preceding sentence, the Partnership shall promptly prepare and file (x) such documents as may be necessary to register or qualify the Partnership Securities subject to such registration under the securities laws of such states as the Holder shall reasonably request; provided, however, that no such qualification shall be required in any jurisdiction where, as a result thereof, the Partnership would become subject to general service of process or to taxation or qualification to do business as a foreign corporation or partnership doing business in such jurisdiction, and (y) such documents as may be necessary to apply for listing or to list the Partnership Securities subject to such registration on such National Securities Exchange as the Holder shall reasonably request, and do any and all other acts and things that may reasonably be necessary or advisable to enable the Holder to consummate a public sale of such Units in such states. Except as set forth in Section 6.13(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(b) If the Partnership shall at any time propose to file a registration statement under the Securities Act for an offering of equity securities of the Partnership for cash (other than an offering relating solely to an employee benefit plan), the Partnership shall use all reasonable efforts to include such number or amount of Partnership Securities held by the Holder in such registration statement as the Holder shall request. If the proposed offering pursuant to this Section 6.13(b) shall be an underwritten offering, then, in the event that the managing underwriter of such offering advises the Partnership and the Holder in writing that in its opinion the inclusion of all or some of the Holder's Partnership Securities would adversely and materially affect the success of the offering, the Partnership shall include in such offering only that number or amount, if any, of Partnership Securities held by the Holder which, in the opinion of the managing underwriter, will not so adversely and materially affect the offering. Except as set forth in Section 6.13(c), all costs and expenses of any such registration and offering (other than the underwriting discounts and commissions) shall be paid by the Partnership, without reimbursement by the Holder.

(c) If underwriters are engaged in connection with any registration referred to in Section 6.13(a) or (f), the Partnership shall provide indemnification, representations, covenants, opinions and other assurance to the underwriters in form and substance reasonably satisfactory to such underwriters. Further, in addition to and not in limitation of the Partnership's obligation under Section 6.7, the Partnership shall, to the fullest extent permitted by law, indemnify and hold harmless the Holder, its officers, directors and each Person who controls the Holder (within the meaning of the Securities Act) and any agent

thereof (collectively, "Indemnified Persons") against any losses, claims, demands, actions, causes of action, assessments, damages, liabilities (joint or several), costs and expenses (including interest, penalties and reasonable attorneys' fees and disbursements),

resulting to, imposed upon, or incurred by the Indemnified Persons, directly or indirectly, under the Securities Act or otherwise (hereinafter referred to in this Section 6.13(c) as a "claim" and in the plural as "claims") based upon, arising out of or resulting from any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which any Units were registered under the Securities Act or any state securities or Blue Sky laws, in any preliminary prospectus (if used prior to the effective date of such registration statement), or in any summary or final prospectus or in any amendment or supplement thereto (if used during the period the Partnership is required to keep the registration statement current), or arising out of, based upon or resulting from the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements made therein not misleading; provided, however, that the Partnership shall not be liable to any Indemnified Person to the extent that any such claim arises out of, is based upon or results from an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, such preliminary, summary or final prospectus or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Partnership by or on behalf of such Indemnified Person specifically for use in the preparation thereof. For purposes of this Section 6.13(c), the term "Holder" shall also include Affiliates or former Affiliates of Petro holding Common Units and Senior Subordinated Units.

(d) The provisions of Section 6.13(a) and (b) shall continue to be applicable with respect to the General Partner (and any of the General Partner's Affiliates) after it ceases to be a Partner of the Partnership, during a period of two years subsequent to the effective date of such cessation and for so long thereafter as is required for the Holder to sell all of the Units or other Partnership Securities of the Partnership with respect to which it has requested during such two-year period that a registration statement be filed; provided, however, that the Partnership shall not be required to file successive registration statements covering the same Partnership Securities for which registration was demanded during such two-year period. The provisions of Section 6.13(c) shall continue in effect thereafter.

(e) Any request to register Partnership Securities pursuant to this Section 6.13 shall (i) specify the Partnership Securities intended to be offered and sold by the Person making the request, (ii) express such Person's present intent to offer such Partnership Securities for distribution, (iii) describe the nature or method of the proposed offer and sale of Partnership Securities, and (iv) contain the undertaking of such Person to provide all such information and materials and take all action as may be required in order to permit the Partnership to comply with all applicable requirements in connection with the registration of such Partnership Securities.

(f) Prior to the Effective Time, the Partnership shall have filed with the Commission a registration statement (the "Shelf Registration Statement") on an appropriate form under the Securities Act relating to the resale of Common Units and Senior Subordinated Units issued to Affiliates or former Affiliates of Petro. The Partnership shall use all reasonable efforts to cause the Shelf Registration Statement to become effective and remain effective for a period of not less than one year from the Effective Time or such shorter period as shall terminate when all Common Units and Senior Subordinated Units covered by the Shelf Registration Statement have been sold pursuant to such registration statement; provided, however, that if the Audit Committee determines in its good faith judgment that the sale or distribution of Common Units or Senior Subordinated Units pursuant to the Shelf Registration Statement would not be in the best interests of the Partnership and its Partners due to a pending transaction, investigation or other event, the Audit Committee may elect that the Shelf Registration Statement may not be used for a reasonable period of time, not to exceed 120 days in any 365-day period.

Section 6.14 Reliance by Third Parties.

Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner and any officer of the Partnership authorized by the General Partner to act on behalf of and in the name of the Partnership has full power and

authority to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any contracts on behalf of the Partnership, and such Person shall be entitled to deal with the General Partner or any such officer as if it

were the Partnership's sole party in interest, both legally and beneficially. Each Limited Partner hereby waives any and all defenses or other remedies that may be available against such Person to contest, negate or disaffirm any action of the General Partner or any such officer in connection with any such dealing. In no event shall any Person dealing with the General Partner or any such officer or its representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or any such officer or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the General Partner or any such officer or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

ARTICLE VII

RIGHTS AND OBLIGATIONS OF LIMITED PARTNERS

Section 7.1 Limitation of Liability.

The Limited Partners, the Organizational Limited Partner and the Assignees shall have no liability under this Agreement except as expressly provided in this Agreement or the Delaware Act.

Section 7.2 Management of Business.

No Limited Partner or Assignee (other than the General Partner, any of its Affiliates or any officer, director, employee, partner, agent or trustee of the General Partner or any of its Affiliates, in its capacity as such, if such Person shall also be a Limited Partner or Assignee) shall participate in the operation, management or control (within the meaning of the Delaware Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. The transaction of any such business by the General Partner, any of its Affiliates or any member, officer, director, employee, partner, agent or trustee of the General Partner or any of its Affiliates, in its capacity as such, shall not affect, impair or eliminate the limitations on the liability of the Limited Partners or Assignees under this Agreement.

Section 7.3 Outside Activities.

Subject to the provisions of Section 6.5 and the Non-competition Agreement, which shall continue to be applicable to the Persons referred to therein, regardless of whether such Persons shall also be Limited Partners or Assignees, any Limited Partner or Assignee shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership Group. Neither the Partnership nor any of the other Partners or Assignees shall have any rights by virtue of this Agreement in any business ventures of any Limited Partner or Assignee.

Section 7.4 Return of Capital.

No Limited Partner or Assignee shall be entitled to the withdrawal or return of its Capital Contribution, except to the extent, if any, that distributions made pursuant to this Agreement or upon termination of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement. Except to the extent provided by Article V or as otherwise expressly provided in this Agreement, no Limited Partner or Assignee shall have priority over any other Limited Partner or Assignee either as to the return of Capital Contributions or as to profits, losses or distributions. Any such return shall be a compromise to which all Partners and Assignees agree within the meaning of

Section 17-502(b) of the Delaware Act.

Section 7.5 Rights of Limited Partners to the Partnership.

(a) In addition to other rights provided by this Agreement or by applicable law, and except as limited by Section 7.5(b), each Limited Partner shall have the right, for a purpose reasonably related to such Limited Partner's interest as a limited partner in the Partnership, upon reasonable demand and at such Limited Partner's own expense:

(i) to obtain true and full information regarding the status of the business and financial condition of the Partnership;

(ii) promptly after becoming available, to obtain a copy of the Partnership's federal, state and local tax returns for each year;

(iii) to have furnished to him, upon notification to the General Partner, a current list of the name and last known business, residence or mailing address of each Partner;

(iv) to have furnished to him, upon notification to the General Partner, a copy of this Agreement and the Certificate of Limited Partnership and all amendments thereto, together with a copy of the executed copies of all powers of attorney pursuant to which this Agreement, the Certificate of Limited Partnership and all amendments thereto have been executed;

(v) to obtain true and full information regarding the amount of cash and a description and statement of the Net Agreed Value of any other Capital Contribution by each Partner and which each Partner has agreed to contribute in the future, and the date on which each became a Partner; and

(vi) to obtain such other information regarding the affairs of the Partnership as is just and reasonable.

(b) The General Partner may keep confidential from the Limited Partners and Assignees, for such period of time as the General Partner deems reasonable, (i) any information that the General Partner reasonably believes to be in the nature of trade secrets or (ii) other information the disclosure of which the General Partner in good faith believes (A) is not in the best interests of the Partnership Group, (B) could damage the Partnership Group or (C) that any Group Member is required by law or by agreements with third parties to keep confidential (other than agreements with Affiliates the primary purpose of which is to circumvent the obligations set forth in this Section 7.5).

ARTICLE VIII

BOOKS, RECORDS, ACCOUNTING AND REPORTS

Section 8.1 Records and Accounting.

The General Partner shall keep or cause to be kept at the principal office of the Partnership appropriate books and records with respect to the Partnership's business, including all books and records necessary to provide to the Limited Partners any information required to be provided pursuant to Section 7.5(a). Any books and records maintained by or on behalf of the Partnership in the regular course of its business, including the record of the Record Holders and Assignees of Units or other Partnership Securities, books of account and records of Partnership proceedings, may be kept on, or be in the form of, computer disks, hard drives, punch cards, magnetic tape, photographs, micrographics or any other information storage device; provided, that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on an accrual basis in accordance with generally accepted accounting principles.

Section 8.2 Fiscal Year.

The fiscal year of the Partnership shall be October 1 to September 30.

Section 8.3 Reports.

(a) As soon as practicable, but in no event later than 120 days after the close of each fiscal year of the Partnership, the General Partner shall cause to be mailed to each Record Holder of a Unit as of a date selected by the General Partner in its sole discretion, an annual report containing financial statements of the Partnership for such fiscal year of the Partnership, presented in accordance with generally accepted accounting principles, including a balance sheet and statements of operations, Partners' equity and cash flows, such statements to be audited by a firm of independent public accountants selected by the General Partner.

(b) As soon as practicable, but in no event later than 90 days after the close of each Quarter except the last Quarter of each fiscal year, the General Partner shall cause to be mailed to each Record Holder of a Unit, as of a date selected by the General Partner in its sole discretion, a report containing unaudited financial statements of the Partnership and such other information as may be required by applicable law, regulation or rule of any National Securities Exchange on which the Units are listed for trading, or as the General Partner determines to be necessary or appropriate.

ARTICLE IX

TAX MATTERS

Section 9.1 Tax Returns and Information.

The General Partner shall timely file all returns of the Partnership that are required for federal, state and local income tax purposes on the basis of the accrual method and a taxable year ending on December 31. The tax information reasonably required by Record Holders for federal and state income tax reporting purposes with respect to a taxable year shall be furnished to them within 90 days of the close of the calendar year in which the Partnership's taxable year ends. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the accrual method of accounting for federal income tax purposes.

Section 9.2 Tax Elections.

(a) The Partnership shall make the election under Section 754 of the Code in accordance with applicable regulations thereunder, subject to the reservation of the right to seek to revoke any such election upon the General Partner's determination that such revocation is in the best interests of the Limited Partners. For the purposes of computing the adjustments under Section 743(b) of the Code, the General Partner shall be authorized (but not required) to adopt a convention whereby the price paid by a transferee of Units will be deemed to be the lowest quoted closing price of the Units on any National Securities Exchange on which such Units are traded during the calendar month in which such transfer is deemed to occur pursuant to Section 5.2(g) without regard to the actual price paid by such transferee.

(b) The Partnership shall elect to deduct expenses incurred in organizing the Partnership ratably over a sixty-month period as provided in Section 709 of the Code.

(c) Except as otherwise provided herein, the General Partner shall determine whether the Partnership should make any other elections permitted by the Code.

Section 9.3 Tax Controversies.

Subject to the provisions hereof, the General Partner is designated as the Tax Matters Partner (as defined in Section 6231 of the Code) and is authorized and required to represent the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. Each Partner agrees to cooperate with the General Partner and to do or refrain from doing any or all things reasonably required by the General Partner to conduct such proceedings.

Section 9.4 Withholding.

Notwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that it determines in its sole discretion to be necessary or appropriate to cause the Partnership and the Operating Partnership to comply with any withholding requirements established under the Code or any other federal, state or local law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Partnership is required to withhold and pay over to any taxing authority any amount resulting from the allocation or distribution of income to any Partner or Assignee (including, without limitation, by reason of Section 1446 of the Code), the amount withheld shall be treated as a distribution of cash pursuant to Section 5.3 in the amount of such withholding from such Partner.

ARTICLE X

CERTIFICATES

Section 10.1 Certificates.

Upon the Partnership's issuance of Common Units or Senior Subordinated Units to any Person, the Partnership shall issue one or more Certificates in the name of such Person evidencing the number of such Units being so issued. Certificates shall be executed on behalf of the Partnership by the General Partner. No Common Unit or Senior Subordinated Unit Certificate shall be valid for any purpose until it has been countersigned by the Transfer Agent; provided, however, that if the General Partner elects to issue Units in global form, the Certificates shall be valid upon receipt of a certificate from the Transfer Agent certifying that such Units have been duly registered in accordance with the directions of the Partnership and the Underwriters. The Partners holding Certificates evidencing Senior Subordinated Units or Junior Subordinated Units may exchange such Certificates for Certificates evidencing Class B Common Units on or after the expiration of the Subordination Period.

Section 10.2 Registration, Registration of Transfer and Exchange.

(a) The General Partner shall cause to be kept on behalf of the Partnership a register in which, subject to such reasonable regulations as it may prescribe and subject to the provisions of Section 10.2(b), the General Partner will provide for the registration and transfer of Units. The Transfer Agent is hereby appointed registrar and transfer agent for the purpose of registering Common Units and Senior Subordinated Units and transfers of such Units as herein provided. The Partnership shall not recognize transfers of Certificates representing Units unless such transfers are effected in the manner described in this Section 10.2. Upon surrender for registration of transfer of any Units evidenced by a Certificate, and subject to the provisions of Section 10.2(b), the General Partner on behalf of the Partnership shall execute, and the Transfer Agent shall countersign and deliver (or, in the case of Units issued in global form, register in accordance with the rules and regulations of the Depositary), in the name of the holder or the designated transferee or transferees, as required pursuant to the holder's instructions, one or more new Certificates evidencing the same aggregate number of Units as was evidenced by the Certificate so surrendered.

(b) Except as otherwise provided in Section 11.5, the Partnership shall not recognize any transfer of Units until the Certificates evidencing such Units are surrendered for registration of transfer and such Certificates are accompanied by a Transfer Application duly executed by the transferee (or the transferee's attorney-in-fact duly authorized in writing). No charge shall be imposed by the Partnership for such transfer; provided, that as a condition to the issuance of any new Certificate under this Section 10.2, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed with respect thereto.

Section 10.3 Mutilated, Destroyed, Lost or Stolen Certificates.

(a) If any mutilated Certificate is surrendered to the Transfer Agent, the General Partner on behalf of the Partnership shall execute, and upon its request the Transfer Agent shall countersign and deliver in exchange therefor, a new Certificate evidencing the same number of Units as the Certificate so surrendered.

(b) The General Partner on behalf of the Partnership shall execute, and upon its request the Transfer Agent shall countersign and deliver (or, in the case of Units issued in global form, register in accordance with the rules and regulations of the Depositary), a new Certificate in place of any Certificate

previously issued if the Record Holder of the Certificate:

(i) makes proof by affidavit, in form and substance satisfactory to the General Partner, that a previously issued Certificate has been lost, destroyed or stolen;

(ii) requests the issuance of a new Certificate before the Partnership has notice that the Certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(iii) if requested by the General Partner, delivers to the Partnership a bond, in form and substance satisfactory to the General Partner, with surety or sureties and with fixed or open penalty as the General Partner may reasonably direct, in its sole discretion, to indemnify the Partnership, the General Partner and the Transfer Agent against any claim that may be made on account of the alleged loss, destruction or theft of the Certificate; and

(iv) satisfies any other reasonable requirements imposed by the General Partner.

If a Limited Partner or Assignee fails to notify the Partnership within a reasonable time after he has notice of the loss, destruction or theft of a Certificate, and a transfer of the Units representing Limited Partner Interests represented by the Certificate is registered before the Partnership, the General Partner or the Transfer Agent receives such notification, the Limited Partner or Assignee shall be precluded from making any claim against the Partnership, the General Partner or the Transfer Agent for such transfer or for a new Certificate.

(c) As a condition to the issuance of any new Certificate under this Section 10.3, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Transfer Agent) reasonably connected therewith.

Section 10.4 Record Holder.

In accordance with Section 10.2(b), the Partnership shall be entitled to recognize the Record Holder as the Limited Partner or Assignee with respect to any Units and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Units on the part of any other Person, regardless of whether the Partnership shall have actual or other notice thereof, except as otherwise provided by law or any applicable rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are listed for trading. Without limiting the foregoing, when a Person (such as a broker, dealer, bank, trust company or clearing corporation or an agent of any of the foregoing) is acting as nominee, agent or in some other representative capacity for another Person in acquiring and/or holding Units, as between the Partnership on the one hand, and such other Persons, on the other, such representative Person (a) shall be the Limited Partner or Assignee (as the case may be) of record and beneficially, (b) must execute and deliver a Transfer Application and (c) shall be bound by this Agreement and shall have the rights and obligations of a Limited Partner or Assignee (as the case may be) hereunder and as provided for herein.

ARTICLE XI

TRANSFER OF INTERESTS

Section 11.1 Transfer.

(a) The term "transfer," when used in this Article XI with respect to a Partnership Interest, shall be deemed to refer to a transaction by which the General Partner assigns its General Partner Interest (which is represented by General Partner Units) to another Person or by which the holder of a Limited Partner Interest assigns such Limited Partner Interest to another Person who is or becomes an Assignee, and includes a sale,

assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange or any other disposition by law or otherwise.

(b) No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article XI. Any

transfer or purported transfer of a Partnership Interest not made in accordance with this Article XI shall be null and void.

(c) Nothing contained in this Article XI shall be construed to prevent a disposition by the members of the General Partner of any or all of the issued and outstanding member interests in the General Partner.

(d) Nothing contained in this Article XI, or elsewhere in this Partnership Agreement, shall preclude the settlement of any transactions involving Units entered into through the facilities of any National Securities Exchange on which the Units listed for trading.

Section 11.2 Transfer of a General Partner's Partnership Interest.

Except for a transfer by the General Partner of all, but not less than all, of its General Partner Interest to (a) an Affiliate of the General Partner or (b) another Person in connection with the merger or consolidation of the General Partner with or into another Person, which in either case, shall only be limited by the provisions of this Section 11.2, the transfer by the General Partner of all or any part of its General Partner Interest to a Person prior to December 31, 2005 shall be subject to the prior approval of holders of a Unit Majority. Notwithstanding anything herein to the contrary, no transfer by the General Partner of all or any part of its General Partner Interest to another Person shall be permitted unless (i) the transferee agrees to assume the rights and duties of the General Partner under this Agreement and the Operating Partnership Agreement and to be bound by the provisions of this Agreement and the Operating Partnership Agreement, (ii) the Partnership receives an Opinion of Counsel that such transfer would not result in the loss of limited liability of any Limited Partner or of any limited partner of any Group Member or cause any Group Member to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes and (iii) such transferee also agrees to purchase all (or the appropriate portion thereof, if applicable) of the partnership interest of the General Partner as the general partner of each Group Member. In the case of a transfer pursuant to and in compliance with this Section 11.2, the transferee or successor (as the case may be) shall, subject to compliance with the terms of Section 12.3, be admitted to the Partnership as a General Partner immediately prior to the transfer of the General Partner Interest, and the business of the Partnership shall continue without dissolution.

Section 11.3 Transfer of Units.

(a) Units may be transferred only in the manner described in Article X. The transfer of any Units and the admission of any new Partner shall not constitute an amendment to this Agreement.

(b) Until admitted as a Substituted Limited Partner pursuant to Article XII, the Record Holder of a Unit shall be an Assignee in respect of such Unit. Limited Partners may include custodians, nominees, or any other individual or entity in its own or any representative capacity.

(c) Each distribution in respect of Units shall be paid by the Partnership, directly or through the Transfer Agent or through any other Person or agent, only to the Record Holders thereof as of the Record Date set for the distribution. Such payment shall constitute full payment and satisfaction of the Partnership's liability in respect of such payment, regardless of any claim of any Person who may have an interest in such payment by reason of an assignment or otherwise.

(d) A transferee who has completed and delivered a Transfer Application shall be deemed to have (i) requested admission as a Substituted Limited Partner, (ii) agreed to comply with and be bound by and to have executed this Agreement, (iii) represented and warranted that such transferee has the right, power and authority and, if an individual, the capacity to enter into this Agreement, (iv) granted the powers of attorney set

forth in this Agreement and (v) given the consents and approvals and made the waivers contained in this Agreement.

Section 11.4 Restrictions on Transfers.

Notwithstanding the other provisions of this Article XI, no transfer of any

Unit or interest therein of any Limited Partner or Assignee shall be made if such transfer would (a) violate the then applicable federal or state securities laws or rules and regulations of the Commission, any state securities commission or any other governmental authorities with jurisdiction over such transfer, (b) affect any Group Member's existence or qualification as a limited partnership under the laws of the jurisdiction of its formation, or (c) result in entity-level taxation for federal income tax purposes of the Partnership or the Operating Partnership.

Section 11.5 Citizenship Certificates; Non-citizen Assignees.

(a) If any Group Member is or becomes subject to any federal, state or local law or regulation that, in the reasonable determination of the General Partner, creates a substantial risk of cancellation or forfeiture of any property in which the Group Member has an interest based on the nationality, citizenship or other related status of a Limited Partner or Assignee, the General Partner may request any Limited Partner or Assignee to furnish to the General Partner, within 30 days after receipt of such request, an executed Citizenship Certification or such other information concerning his nationality, citizenship or other related status (or, if the Limited Partner or Assignee is a nominee holding for the account of another Person, the nationality, citizenship or other related status of such Person) as the General Partner may request. If a Limited Partner or Assignee fails to furnish to the General Partner within the aforementioned 30-day period such Citizenship Certification or other requested information or if upon receipt of such Citizenship Certification or other requested information the General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Units owned by such Limited Partner or Assignee shall be subject to redemption in accordance with the provisions of Section 11.6. In addition, the General Partner may require that the status of any such Limited Partner or Assignee be changed to that of a Non-citizen Assignee and, thereupon, the General Partner shall be substituted for such Non-citizen Assignee as the Limited Partner in respect of his Units.

(b) The General Partner shall, in exercising voting rights in respect of Units held by it on behalf of Non-citizen Assignees, distribute the votes in the same ratios as the votes of Limited Partners in respect of Units other than those of Non-citizen Assignees are cast, either for, against or abstaining as to the matter.

(c) Upon dissolution of the Partnership, a Non-citizen Assignee shall have no right to receive a distribution in kind pursuant to Section 14.4 but shall be entitled to the cash equivalent thereof, and the General Partner shall provide cash in exchange for an assignment of the Non-citizen Assignee's share of the distribution in kind. Such payment and assignment shall be treated for Partnership purposes as a purchase by the General Partner from the Non-citizen Assignee of his Partnership Interest (representing his right to receive his share of such distribution in kind).

(d) At any time after he can and does certify that he has become an Eligible Citizen, a Non-citizen Assignee may, upon application to the General Partner, request admission as a Substituted Limited Partner with respect to any Units of such Non-citizen Assignee not redeemed pursuant to Section 11.6, and upon his admission pursuant to Section 12.2, the General Partner shall cease to be deemed to be the Limited Partner in respect of the Non-citizen Assignee's Units.

Section 11.6 Redemption of Interests.

(a) If at any time a Limited Partner or Assignee fails to furnish a Citizenship Certification or other information requested within the 30-day period specified in Section 11.5(a), or if upon receipt of such Citizenship Certification or other information the General Partner determines, with the advice of counsel, that a Limited Partner or Assignee is not an Eligible Citizen, the Partnership may, unless the Limited Partner or

Assignee establishes to the satisfaction of the General Partner that such Limited Partner or Assignee is an Eligible Citizen or has transferred his Units to a Person who furnishes a Citizenship Certification to the General Partner prior to the date fixed for redemption as provided below, redeem the Partnership Interest of such Limited Partner or Assignee as follows:

(i) The General Partner shall, not later than the 30th day before the date fixed for redemption, give notice of redemption to the Limited Partner or Assignee, at his last address designated on the records of the Partnership or the Transfer Agent, by registered or certified mail, postage prepaid. The notice shall be deemed to have been given when so mailed. The notice shall specify the Redeemable Units, the date fixed for redemption, the place of payment, that payment of the redemption price will be made upon surrender of the Certificate evidencing the Redeemable Units and that on and after the date fixed for redemption no further allocations or distributions to which the Limited Partner or Assignee would otherwise be entitled in respect of the Redeemable Units will accrue or be made.

(ii) The aggregate redemption price for Redeemable Units shall be an amount equal to the Current Market Price (the date of determination of which shall be the date fixed for redemption) of Units of the class to be so redeemed multiplied by the number of Units of each such class included among the Redeemable Units. The redemption price shall be paid, in the sole discretion of the General Partner, in cash or by delivery of a promissory note of the Partnership in the principal amount of the redemption price, bearing interest at the rate of 10% annually and payable in three equal annual installments of principal together with accrued interest, commencing one year after the redemption date.

(iii) Upon surrender by or on behalf of the Limited Partner or Assignee, at the place specified in the notice of redemption, of the Certificate evidencing the Redeemable Units, duly endorsed in blank or accompanied by an assignment duly executed in blank, the Limited Partner or Assignee or his duly authorized representative shall be entitled to receive the payment therefor.

(iv) After the redemption date, Redeemable Units shall no longer constitute issued and Outstanding Units.

(b) The provisions of this Section 11.6 shall also be applicable to Units held by a Limited Partner or Assignee as nominee of a Person determined to be other than an Eligible Citizen.

(c) Nothing in this Section 11.6 shall prevent the recipient of a notice of redemption from transferring his Units before the redemption date if such transfer is otherwise permitted under this Agreement. Upon receipt of notice of such a transfer, the General Partner shall withdraw the notice of redemption, provided the transferee of such Units certifies in the Transfer Application that he is an Eligible Citizen. If the transferee fails to make such certification, such redemption shall be effected from the transferee on the original redemption date.

ARTICLE XII

ADMISSION OF PARTNERS

Section 12.1 Admission of Initial Limited Partners.

Upon the issuance by the Partnership of the Old Subordinated Units to the Initial General Partner in connection with the Initial Offering, the Initial General Partner was admitted to the Partnership as a Limited Partner. Upon the issuance by the Partnership of Common Units to the Initial Underwriters in connection with the Initial Offering and the execution by the Initial Underwriters of a Transfer Application, the Initial Underwriters were admitted to the Partnership as Initial Limited Partners.

Section 12.2 Admission of Substituted Limited Partners.

By transfer of a Unit representing a Limited Partner Interest in accordance with Article XI, the transferor shall be deemed to have given the transferee the right to seek admission as a Substituted Limited Partner subject to the conditions of, and in the manner permitted under, this Agreement. A transferor of a Certificate

representing a Limited Partner Interest shall, however, only have the authority to convey to a purchaser or other transferee who does not execute and deliver a Transfer Application (a) the right to negotiate such Certificate to a purchaser or other transferee and (b) the right to transfer the right to request

admission as a Substituted Limited Partner to such purchaser or other transferee in respect of the transferred Units. Each transferee of a Unit representing a Limited Partner Interest (including any nominee holder or an agent acquiring such Unit for the account of another Person) who executes and delivers a Transfer Application shall, by virtue of such execution and delivery, be an Assignee and be deemed to have applied to become a Substituted Limited Partner with respect to the Units so transferred to such Person. Such Assignee shall become a Substituted Limited Partner (x) at such time as the General Partner consents thereto, which consent may be given or withheld in the General Partner's sole discretion, and (y) when any such admission is shown on the books and records of the Partnership. If such consent is withheld, such transferee shall be an Assignee. An Assignee shall have an interest in the Partnership equivalent to that of a Limited Partner with respect to allocations and distributions, including liquidating distributions, of the Partnership. With respect to voting rights attributable to Units that are held by Assignees, the General Partner shall be deemed to be the Limited Partner with respect thereto and shall, in exercising the voting rights in respect of such Units on any matter, vote such Units at the written direction of the Assignee who is the Record Holder of such Units. If no such written direction is received, such Units will not be voted. An Assignee shall have no other rights of a Limited Partner.

Section 12.3 Admission of Successor General Partner.

A successor General Partner approved pursuant to Section 13.1 or 13.2 or the transferee of or successor to all the General Partner Interest pursuant to Section 11.2 who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the General Partner, effective immediately prior to the withdrawal or removal of the General Partner pursuant to Section 13.1 or 13.2 or the transfer of the General Partner Interest pursuant to Section 11.2; provided, however, that no such successor shall be admitted to the Partnership until compliance with the terms of Section 11.2 has occurred and such successor has executed and delivered such other documents or instruments as may be required to effect such admission. Any such successor shall, subject to the terms hereof, carry on the business of the Partnership and Operating Partnership without dissolution.

Section 12.4 Admission of Additional Limited Partners.

(a) A Person (other than the General Partner, an Initial Limited Partner or a Substituted Limited Partner) who makes a Capital Contribution to the Partnership in accordance with this Agreement shall be admitted to the Partnership as an Additional Limited Partner only upon furnishing to the General Partner (i) evidence of acceptance in form satisfactory to the General Partner of all of the terms and conditions of this Agreement, including the power of attorney granted in Section 1.4, and (ii) such other documents or instruments as may be required in the discretion of the General Partner to effect such Person's admission as an Additional Limited Partner.

(b) Notwithstanding anything to the contrary in this Section 12.4, no Person shall be admitted as an Additional Limited Partner without the consent of the General Partner, which consent may be given or withheld in the General Partner's sole discretion. The admission of any Person as an Additional Limited Partner shall become effective on the date upon which the name of such Person is recorded as such in the books and records of the Partnership, following the consent of the General Partner to such admission.

Section 12.5 Amendment of Agreement and Certificate of Limited Partnership.

To effect the admission to the Partnership of any Partner, the General Partner shall take all steps necessary and appropriate under the Delaware Act to amend the records of the Partnership to reflect such admission and, if necessary, to prepare as soon as practical an amendment of this Agreement and, if required by law, to prepare and file an amendment to the Certificate of Limited Partnership, and the General Partner may for this purpose, among others, exercise the power of attorney granted pursuant to Section 1.4.

ARTICLE XIII

WITHDRAWAL OR REMOVAL OF PARTNERS

Section 13.1 Withdrawal of the General Partner.

(a) The General Partner shall be deemed to have withdrawn from the Partnership upon the occurrence of any one of the following events (each such event herein referred to as an "Event of Withdrawal");

(i) the General Partner voluntarily withdraws from the Partnership by giving written notice to the other Partners (and it shall be deemed that the General Partner has withdrawn pursuant to this Section 13.1(a)(i) if the General Partner voluntarily withdraws as general partner of the Operating Partnership);

(ii) the General Partner transfers all of its rights as General Partner pursuant to Section 11.2;

(iii) the General Partner is removed pursuant to Section 13.2;

(iv) the General Partner (A) makes a general assignment for the benefit of creditors; (B) files a voluntary bankruptcy petition for relief under Chapter 7 of the United States Bankruptcy Code; (C) files a petition or answer seeking for itself a liquidation, dissolution or similar relief (but not a reorganization) under any law; (D) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the General Partner in a proceeding of the type described in clauses (A)-(C) of this Section 13.1(a)(iv); or (E) seeks, consents to or acquiesces in the appointment of a trustee (but not a debtor in possession), receiver or liquidator of the General Partner or of all or any substantial part of its properties;

(v) a final and non-appealable order of relief under Chapter 7 of the United States Bankruptcy Code is entered by a court with appropriate jurisdiction pursuant to a voluntary or involuntary petition by or against the General Partner; or

(vi) a certificate of dissolution or its equivalent is filed for the General Partner, or 90 days expire after the date of notice to the General Partner of revocation of its charter without a reinstatement of its charter, under the laws of its state of incorporation or formation.

If an Event of Withdrawal specified in Section 13.1(a)(iv), (v) or (vi) occurs, the withdrawing General Partner shall give notice to the Limited Partners within 30 days after such occurrence. The Partners hereby agree that only the Events of Withdrawal described in this Section 13.1 shall result in the withdrawal of the General Partner from the Partnership.

(b) Withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall not constitute a breach of this Agreement under the following circumstances: (i) at any time during the period beginning on the Initial Closing Date and ending at 12:00 midnight, Eastern Standard Time, on December 31, 2005, the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners, provided that prior to the effective date of such withdrawal, the withdrawal is approved by Limited Partners holding at least a Unit Majority and the General Partner delivers to the Partnership an Opinion of Counsel ("Withdrawal Opinion of Counsel") that such withdrawal (following the selection of the successor General Partner) would not result in the loss of the limited liability of any Limited Partner or of the limited partner of any Group Member or cause any Group Member to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes; (ii) at any time after 12:00 midnight, Eastern Standard Time, on December 31, 2005, the General Partner voluntarily withdraws by giving at least 90 days' advance notice to the Limited Partners, such withdrawal to take effect on the date specified in such notice; (iii) at any time that the General Partner ceases to be a General Partner pursuant to Section 13.1(a)(ii) or is removed pursuant to Section 13.2; or (iv) notwithstanding clause (i) of this sentence, at any time that the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners, such withdrawal to take effect on the date specified in the notice, if at the time such notice is given one Person and its Affiliates (other than the General Partner and its Affiliates) own beneficially or of record or control at least 50% of the Outstanding Units. The withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall also constitute

the withdrawal of the General Partner as general partner of the other Group Members. If the General Partner gives a notice of withdrawal pursuant to Section 13.1(a)(i), holders of at least a Unit Majority may, prior to the effective date of such withdrawal, elect a successor General Partner. The Person so elected as successor General Partner shall automatically become the successor general partner of the other Group Members. If, prior to the effective date of the General Partner's withdrawal, a successor is not selected by the Limited Partners as provided herein or the Partnership does not receive a Withdrawal Opinion of Counsel, the Partnership shall be dissolved in accordance with Section 14.1. Any successor General Partner elected in accordance with the terms of this Section 13.1 shall be subject to the provisions of Section 12.3.

Section 13.2 Removal of the General Partner.

The General Partner may be removed if such removal is approved by Limited Partners holding at least two-thirds of the Outstanding Units voting together as a single class (excluding those Units held by the General Partner and its Affiliates). Any such action by such Limited Partners for removal of the General Partner must also provide for the election of a successor General Partner by Limited Partners holding at least a majority of the Outstanding Units (excluding for purposes of such determination Units owned by the General Partner and its Affiliates). Such removal shall be effective immediately following the admission of a successor General Partner pursuant to Article XII. The removal of the General Partner shall also automatically constitute the removal of the General Partner as general partner of the other Group Members. If a person is elected as a successor General Partner in accordance with the terms of this Section 13.2, such person shall, upon admission pursuant to Article XII, automatically become the successor general partner of the other Group Members. The right of the Limited Partners holding Outstanding Units to remove the General Partner shall not exist or be exercised unless the Partnership has received an opinion opining as to the matters covered by a Withdrawal Opinion of Counsel. Any successor General Partner elected in accordance with the terms of this Section 13.2 shall be subject to the provisions of Section 12.3.

Section 13.3 Interest of Departing Partner and Successor General Partner.

(a) In the event of (i) withdrawal of the General Partner under circumstances where such withdrawal does not violate this Agreement or (ii) removal of the General Partner by the Limited Partners under circumstances where Cause does not exist, if a successor General Partner is elected in accordance with the terms of Section 13.1 or 13.2, the Departing Partner shall have the option exercisable prior to the effective date of the departure of such Departing Partner to require its successor to purchase its Partnership Interest as a general partner in the Partnership (which is represented by the General Partner Units) and its partnership interest as the general partner in the other Group Members (collectively, the "Combined Interest") in exchange for an amount in cash equal to the fair market value of such Combined Interest, such amount to be determined and payable as of the effective date of its departure. If the General Partner is removed by the Limited Partners under circumstances where Cause exists or if the General Partner withdraws under circumstances where such withdrawal violates this agreement, and if a successor General Partner is elected in accordance with the terms of Section 13.1 or 13.2, such successor shall have the option, exercisable prior to the effective date of the departure of such Departing Partner, to purchase the Combined Interest of the Departing Partner for such fair market value of such Combined Interest. In either event, the Departing Partner shall be entitled to receive all reimbursements due such Departing Partner pursuant to Section 6.4, including any employee-related liabilities (including severance liabilities), incurred in connection with the termination of any employees employed by the General Partner for the benefit of the Partnership or the other Group Members.

For purposes of this Section 13.3(a), the fair market value of the Departing Partner's Combined Interest shall be determined by agreement between the Departing Partner and its successor or, failing agreement within 30 days after the effective date of such Departing Partner's departure, by an independent investment banking firm or other independent expert selected by the Departing Partner and its successor, which, in turn, may rely on other experts, and the determination of which shall be conclusive as to such matter. If such parties cannot agree upon one independent investment banking firm or other independent expert within 45 days after the effective date of such departure, then the Departing Partner shall designate an independent investment banking

firm or other independent expert, the Departing Partner's successor shall designate an independent investment banking firm or other independent expert, and such firms or experts shall mutually select a third independent investment banking firm or independent expert, which shall determine the fair market value of the Combined Interest. In making its determination, such independent investment banking firm or other independent expert shall consider the then current trading price of Units on any National Securities Exchange on which Units are then listed, the value of the Partnership's assets, the rights and obligations of the General Partner and other factors it may deem relevant.

(b) If the Combined Interest is not purchased in the manner set forth in Section 13.3(a), the Departing Partner shall become a Limited Partner and the Combined Interest shall be converted into Common Units pursuant to a valuation made by an investment banking firm or other independent expert selected pursuant to Section 13.3(a), without reduction in such Partnership Interest (but subject to proportionate dilution by reason of the admission of its successor). Any successor General Partner shall indemnify the Departing Partner as to all debts and liabilities of the Partnership arising on or after the date on which the Departing Partner becomes a Limited Partner. For purposes of this Agreement, conversion of the General Partner's Combined Interest to Common Units will be characterized as if the General Partner contributed its Combined Interest to the Partnership in exchange for the newly issued Common Units. For purposes of this Section 13.3(b), in the event that the Subordination Period has expired, the Combined Interest shall be converted into Class A Common Units.

(c) If a successor General Partner is elected in accordance with the terms of Section 13.1 or 13.2 and the option described in Section 13.3(a) is not exercised by the party entitled to do so, the successor General Partner shall, at the effective date of its admission to the Partnership, contribute to the Partnership cash in an amount equal to the fair market value of the Combined Interest on such date. In such event, such successor General Partner shall, subject to the following sentence, be entitled to such Percentage Interest of all Partnership allocations and distributions and any other allocations and distributions to which the Departing Partner was entitled.

Section 13.4 Withdrawal of Limited Partners.

No Limited Partner shall have any right to withdraw from the Partnership; provided, however, that when a transferee of a Limited Partner's Units becomes a Record Holder, such transferring Limited Partner shall cease to be a Limited Partner with respect to the Units so transferred.

ARTICLE XIV

DISSOLUTION AND LIQUIDATION

Section 14.1 Dissolution.

The Partnership shall not be dissolved by the admission of Substituted Limited Partners or Additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. Upon the removal or withdrawal of the General Partner, if a successor General Partner is elected pursuant to Section 13.1 or 13.2, the Partnership shall not be dissolved and such successor General Partner shall continue the business of the Partnership. The Partnership shall dissolve, and (subject to Section 14.2) its affairs shall be wound up, upon:

(a) the expiration of its term as provided in Section 1.5;

(b) an Event of Withdrawal of the General Partner as provided in Section 13.1(a) (other than Section 13.1(a)(ii)), unless a successor is elected and an Opinion of Counsel is received as provided in Section13.1(b) or 13.2 and such successor is admitted to the Partnership pursuant to Section 12.3;

(c) an election to dissolve the Partnership by the General Partner that is approved by holders of at least a Unit Majority;

(d) entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Delaware Act; or

(e) the sale of all or substantially all of the assets and properties of the Partnership Group.

Section 14.2 Continuation of the Business of the Partnership After Dissolution.

Upon (a) dissolution of the Partnership following an Event of Withdrawal caused by the withdrawal or removal of the General Partner as provided in Section 13.1(a)(i) or (iii) and the failure of the Partners to select a successor to such Departing Partner pursuant to Section 13.1 or 13.2, then within 90 days thereafter, or (b) dissolution of the Partnership upon an event constituting an Event of Withdrawal as defined in Section 13.1(a)(iv), (v) or (vi), then within 180 days thereafter, holders of at least a majority of the Outstanding Units (excluding for purposes of such determination any Units held by the General Partner or its Affiliates) may elect to reconstitute the Partnership and continue its business on the same terms and conditions set forth in this Agreement by forming a new limited partnership on terms identical to those set forth in this Agreement and having as the successor general partner a Person approved by holders of at least a majority of the Outstanding Units (excluding for purposes of such determination any Units held by the General Partner or its Affiliates). Unless such an election is made within the applicable time period as set forth above, the Partnership shall conduct only activities necessary to wind up its affairs. If such an election is so made, then:

(i) the reconstituted Partnership shall continue until the end of the term set forth in Section 1.5 unless earlier dissolved in accordance with this Article XIV;

(ii) if the successor General Partner is not the former General Partner, then the interest of the former General Partner shall be dealt with in the manner provided in Section 13.3(b); and

(iii) all necessary steps shall be taken to cancel this Agreement and the Certificate of Limited Partnership and to enter into and, as necessary, to file a new partnership agreement and certificate of limited partnership, and the successor general partner may for this purpose exercise the powers of attorney granted the General Partner pursuant to Section 1.4; provided, that the right of holders of at least a majority of Outstanding Units to approve a successor General Partner and to reconstitute and to continue the business of the Partnership shall not exist and may not be exercised unless the Partnership has received an Opinion of Counsel that (x) the exercise of the right would not result in the loss of limited liability of any Limited Partner and (y) neither the Partnership, the reconstituted limited partnership nor any other Group Member would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of such right to continue.

Section 14.3 Liquidator.

Upon dissolution of the Partnership, unless the Partnership is continued under an election to reconstitute and continue the Partnership pursuant to Section 14.2, the General Partner, or in the event the dissolution is the result of an Event of Withdrawal, a liquidator or liquidating committee approved by holders of at least a majority of the Outstanding Units representing Limited Partner Interests, shall be the Liquidator. The Liquidator (if other than the General Partner) shall be entitled to receive such compensation for its services as may be approved by holders of at least a majority of the Outstanding Units representing Limited Partner Interests. The Liquidator shall agree not to resign at any time without 15 days' prior notice and (if other than the General Partner) may be removed at any time, with or without cause, by notice of removal approved by holders of at least a majority of the Outstanding Units representing Limited Partner Interests. Upon dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers and duties of the original Liquidator) shall within 30 days thereafter be approved by holders of at least a majority of the Outstanding Units representing Limited Partner Interests. The right to approve a successor or substitute Liquidator in the manner provided herein shall be deemed to refer also to any such successor or substitute Liquidator approved in the manner herein provided. Except as expressly provided in this Article XIV, the Liquidator approved in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the

Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers, other than the limitation on sale set forth in Section 6.3(b)) to the extent necessary or desirable in the good faith judgment of the Liquidator to carry out the duties and functions of the Liquidator hereunder for and during such period of time as shall be reasonably required in the good faith judgment of the Liquidator to complete the winding up and liquidation of the Partnership as provided for herein.

Section 14.4 Liquidation.

The Liquidator shall proceed to dispose of the assets of the Partnership, discharge its liabilities, and otherwise wind up its affairs in such manner and over such period as the Liquidator determines to be in the best interest of the Partners, subject to the following:

(a) Disposition of Assets. The assets may be disposed of by public or private sale or by distribution in kind to one or more Partners on such terms as the Liquidator and such Partner or Partners may agree. If any property is distributed in kind, the Partner receiving the property shall be deemed for purposes of Section 14.4(c) to have received cash equal to its fair market value; and contemporaneously therewith, appropriate cash distributions must be made to the other Partners. For purposes of computing Net Termination Gain, gain or loss on distributed property shall be recognized as if such property had been sold for its fair market value.

(b) Discharge of Liabilities. Liabilities of the Partnership include amounts owed to Partners otherwise than in respect of their distribution rights under Article V. With respect to any liability that is contingent or is otherwise not yet due and payable, the Liquidator shall either settle such claim for such amount as it thinks appropriate or establish a reserve of cash or other assets to provide for its payment. When paid, any unused portion of the reserve shall be distributed as additional liquidation proceeds.

(c) Liquidation Distributions. All property and all cash in excess of that required to discharge liabilities as provided in Section 14.4(b) shall be distributed to the Partners in accordance with, and to the extent of, the positive balances in their respective Capital Accounts, as determined after taking into account all Capital Account adjustments (other than those made by reason of this clause) for the taxable year of the Partnership during which the liquidation of the Partnership occurs (with such date of occurrence being determined pursuant to Treasury Regulation Section 1.704-1(b)(2)(ii)(g)), and such distribution shall be made by the end of such taxable year (or, if later, within 90 days after said date of such occurrence).

Section 14.5 Cancellation of Certificate of Limited Partnership.

Upon the completion of the distribution of Partnership cash and property as provided in Sections 14.3 and 14.4 in connection with the liquidation of the Partnership, the Partnership shall be terminated and the Certificate of Limited Partnership and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be canceled and such other actions as may be necessary to terminate the Partnership shall be taken.

Section 14.6 Return of Capital Contributions.

The General Partner shall not be personally liable for, and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate, the return of the Capital Contributions of the Limited Partners, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

Section 14.7 Waiver of Partition.

To the maximum extent permitted by law, each Partner hereby waives any right to partition of the Partnership property.

Section 14.8 Capital Account Restoration.

No Limited Partner shall have any obligation to restore any negative balance in its Capital Account upon liquidation of the Partnership. The General Partner shall be obligated to restore any negative balance in its Capital Account upon liquidation of its interest in the Partnership by the end of the taxable year of the Partnership during which such liquidation occurs, or, if later, within 90 days after the date of such liquidation.

ARTICLE XV

AMENDMENT OF PARTNERSHIP AGREEMENT; MEETINGS; RECORD DATE

Section 15.1 Amendment to be Adopted Solely by General Partner.

Each Limited Partner agrees that the General Partner (pursuant to its powers of attorney from the Limited Partners and Assignees), without the approval of any Limited Partner or Assignee, may amend any provision of this Agreement and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership, the location of the principal place of business of the Partnership, the registered agent of the Partnership or the registered office of the Partnership;

(b) admission, substitution, withdrawal or removal of Partners in accordance with this Agreement;

(c) a change that, in the sole discretion of the General Partner, is necessary or advisable to qualify or continue the qualification of the Partnership as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that neither the Partnership nor the Operating Partnership will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

(d) a change that, in the sole discretion of the General Partner, (i) does not adversely affect the Limited Partners in any material respect, (ii) is necessary or advisable to (A) satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute (including the Delaware Act) or (B) facilitate the trading of the Units (including the division of Outstanding Units into different classes to facilitate uniformity of tax consequences within such classes of Units) or comply with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are or will be listed for trading, compliance with any of which the General Partner determines in its sole discretion to be in the best interests of the Partnership and the Limited Partners, (iii) is necessary or advisable in connection with action taken by the General Partner pursuant to Section 4.8, or (iv) is required to effect the intent of the provisions of this Agreement or is otherwise contemplated by this Agreement;

(e) a change in the fiscal year or taxable year of the Partnership and any changes that, in the sole discretion of the General Partner, are necessary or advisable as a result of a change in the fiscal year or taxable year of the Partnership including, if the General Partner shall so determine, a change in the definition of "Quarter" and the dates on which distributions are to be made by the Partnership;

(f) an amendment that is necessary, in the Opinion of Counsel, to prevent the Partnership or the General Partner or its directors or officers from in any manner being subjected to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, regardless of whether such are substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor;

(g) subject to the terms of Section 4.4, an amendment that, in the sole

discretion of the General Partner, is necessary or advisable in connection with the authorization of issuance of any class or series of Partnership Securities pursuant to Section 4.4;

(h) any amendment expressly permitted in this Agreement to be made by the General Partner acting alone;

(i) an amendment effected, necessitated or contemplated by a Merger Agreement approved in accordance with Section 16.3;

(j) an amendment that, in the sole discretion of the General Partner, is necessary or advisable to reflect, account for and deal with appropriately the formation by the Partnership of, or investment by the Partnership in, any corporation, partnership, joint venture, limited liability company or other entity other than the Operating Partnership, in connection with the conduct by the Partnership of activities permitted by the terms of Section 3.1; or

(k) any other amendments substantially similar to the foregoing.

Section 15.2 Amendment Procedures.

Except as provided in Sections 15.1 and 15.3, all amendments to this Agreement shall be made in accordance with the following requirements. Amendments to this Agreement may be proposed only by or with the consent of the General Partner. A proposed amendment shall be effective upon its approval by the holders of at least a Unit Majority, unless a greater or different percentage is required under this Agreement or by Delaware law. Each proposed amendment that requires the approval of the holders of a specified percentage of Outstanding Units shall be set forth in a writing that contains the text of the proposed amendment. If such an amendment is proposed, the General Partner shall seek the written approval of the requisite percentage of Outstanding Units or call a meeting of the Limited Partners to consider and vote on such proposed amendment. The General Partner shall notify all Record Holders upon final adoption of any such proposed amendments.

Section 15.3 Amendment Requirements.

(a) Notwithstanding the provisions of Sections 15.1 and 15.2, no provision of this Agreement that establishes a percentage of Outstanding Units required to take any action shall be amended, altered, changed, repealed or rescinded in any respect that would have either (i) the effect of reducing such voting percentage or (ii) more than an immaterial effect on a Unitholder unless such amendment is approved by the written consent or the affirmative vote of holders of Outstanding Units whose aggregate Outstanding Units constitute not less than the voting requirement sought to be reduced.

(b) Notwithstanding the provisions of Sections 15.1 and 15.2, no amendment to this Agreement may (i) enlarge the obligations of any Limited Partner without its consent, unless such shall be deemed to have occurred as a result of an amendment approved pursuant to Section 15.3(c), (ii) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable to, the General Partner without its consent, which may be given or withheld in its sole discretion, (iii) change Section 14.1(a) or (c), or (iv) change the term of the Partnership or, except as set forth in Section 14.1(c), give any Person the right to dissolve the Partnership.

(c) Except as otherwise provided, and without limitation of the General Partner's authority to adopt amendments to this Agreement as contemplated in Section 15.1, any amendment that would have a material adverse effect on the rights or preferences of any class of Outstanding Units in relation to other classes of Units must be approved by the holders of not less than a majority of the Outstanding Units of the class affected (excluding, during the Subordination Period, Common Units owned by the General Partner and its Affiliates).

(d) Notwithstanding any other provision of this Agreement, except for amendments pursuant to Section 6.3 or 15.1 and except as otherwise provided by Section 16.3(b), no amendments shall become effective without the approval of the holders of at least 90% of the Outstanding Units unless the Partnership

obtains an Opinion of Counsel to the effect that such amendment will not affect the limited liability of any Limited Partner or any limited partner of the other Group Members under applicable law.

(e) This Section 15.3 shall only be amended with the approval of the holders of at least 90% of the Outstanding Units.

Section 15.4 Meetings.

All acts of Limited Partners to be taken pursuant to this Agreement shall be taken in the manner provided in this Article XV. Meetings of the Limited Partners may be called by the General Partner or by Limited Partners owning 20% or more of the Outstanding Units of the class or classes for which a meeting is proposed. Limited Partners shall call a meeting by delivering to the General Partner one or more requests in writing stating that the signing Limited Partners wish to call a meeting and indicating the general or specific purposes for which the meeting is to be called. Within 60 days after receipt of such a call from Limited Partners or within such greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing agreements or similar requirements governing the holding of a meeting or the solicitation of proxies for use at such a meeting, the General Partner shall send a notice of the meeting to the Limited Partners either directly or indirectly through the Transfer Agent. A meeting shall be held at a time and place determined by the General Partner on a date not less than 10 days nor more than 60 days after the mailing of notice of the meeting.

Section 15.5 Notice of a Meeting.

Notice of a meeting called pursuant to Section 15.4 shall be given to the Record Holders in writing by mail or other means of written communication in accordance with Section 18.1. The notice shall be deemed to have been given at the time when deposited in the mail or sent by other means of written communication.

Section 15.6 Record Date.

For purposes of determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners or to give approvals without a meeting as provided in Section 15.11, the General Partner may set a Record Date, which shall not be less than 10 nor more than 60 days before (a) the date of the meeting (unless such requirement conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Units are listed for trading, in which case the rule, regulation, guideline or requirement of such exchange shall govern) or (b) in the event that approvals are sought without a meeting, the date by which Limited Partners are requested in writing by the General Partner to give such approvals.

Section 15.7 Adjournment.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken, unless such adjournment shall be for more than 45 days. At the adjourned meeting, the Partnership may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 45 days or if a new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article XV.

Section 15.8 Waiver of Notice; Approval of Meeting; Approval of Minutes.

The transactions of any meeting of Limited Partners, however called and noticed, and whenever held, shall be as valid as if occurred at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, Limited Partners representing such quorum who were present in person or by proxy and entitled to vote, sign a written waiver of notice or an approval of the holding of the meeting or an approval of the minutes thereof. All waivers and approvals shall be filed with the Partnership records or made a part of the minutes of the meeting. Attendance of a Limited Partner at a meeting shall constitute a waiver of notice of the meeting, except when the Limited Partner does not approve, at the beginning of the meeting, of the transaction of any business because the

meeting is not lawfully called or convened; and except that attendance at a meeting is not a waiver of any right to disapprove the consideration

of matters required to be included in the notice of the meeting, but not so included, if the disapproval is expressly made at the meeting.

Section 15.9 Quorum.

The holders of a majority of the Outstanding Units of the class or classes for which a meeting has been called represented in person or by proxy shall constitute a quorum at a meeting of Limited Partners of such class or classes unless any such action by the Limited Partners requires approval by holders of a greater percentage of such Units, in which case the quorum shall be such greater percentage (excluding, in either case, if such are to be excluded from the vote, Outstanding Units owned by the General Partner and its Affiliates). At any meeting of the Limited Partners duly called and held in accordance with this Agreement at which a quorum is present, the act of Limited Partners holding Outstanding Units that in the aggregate represent a majority of the Outstanding Units entitled to vote and be present in person or by proxy at such meeting shall be deemed to constitute the act of all Limited Partners, unless a greater or different percentage is required with respect to such action under the provisions of this Agreement, in which case the act of the Limited Partners holding Outstanding Units that in the aggregate represent at least such greater or different percentage shall be required. The Limited Partners present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Limited Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the required percentage of Outstanding Units specified in this Agreement. In the absence of a quorum any meeting of Limited Partners may be adjourned from time to time by the affirmative vote of holders of at least a majority of the Outstanding Units represented either in person or by proxy, but no other business may be transacted, except as provided in Section 15.7.

Section 15.10 Conduct of Meeting.

The General Partner shall have full power and authority concerning the manner of conducting any meeting of the Limited Partners or solicitation of approvals in writing, including the determination of Persons entitled to vote, the existence of a quorum, the satisfaction of the requirements of Section 15.4, the conduct of voting, the validity and effect of any proxies and the determination of any controversies, votes or challenges arising in connection with or during the meeting or voting. The General Partner shall designate a Person to serve as chairman of any meeting and shall further designate a Person to take the minutes of any meeting. All minutes shall be kept with the records of the Partnership maintained by the General Partner. The General Partner may make such other regulations consistent with the applicable law and this Agreement as it may deem advisable concerning the conduct of any meeting of the Limited Partners or solicitation of approvals in writing, including regulations in regard to the appointment of proxies, the appointment and duties of inspectors of votes and approvals, the submission and examination of proxies and other evidence of the right to vote, and the revocation of approvals in writing.

Section 15.11 Action Without a Meeting.

Any action that may be taken at a meeting of the Limited Partners may be taken without a meeting if an approval in writing setting forth the action so taken is signed by Limited Partners owning not less than the minimum percentage of the Outstanding Units that would be necessary to authorize or take such action at a meeting at which all the Limited Partners were present and voted. Prompt notice of the taking of action without a meeting shall be given to the Limited Partners who have not approved in writing. The General Partner may specify that any written ballot submitted to Limited Partners for the purpose of taking any action without a meeting shall be returned to the Partnership within the time period, which shall be not less than 20 days, specified by the General Partner. If a ballot returned to the Partnership does not vote all of the Units held by the Limited Partner, the Partnership shall be deemed to have failed to receive a ballot for the Units that were not voted. If approval of the taking of any action by the Limited Partners is solicited by any Person other than by or on behalf of the General Partner, the written approvals shall have no force and effect unless and until (a) they are deposited with the

Partnership in care of the General Partner, (b) approvals sufficient to take the

action proposed are dated as of a date not more than 90 days prior to the date sufficient approvals are deposited with the Partnership and (c) an Opinion of Counsel is delivered to the General Partner to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (i) will not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability, and (ii) is otherwise permissible under the state statutes then governing the rights, duties and liabilities of the Partnership and the Partners.

Section 15.12 Voting and Other Rights.

(a) Only those Record Holders of the Units on the Record Date set pursuant to Section 15.6 (and also subject to the limitations contained in the definition of "Outstanding") shall be entitled to notice of, and to vote at, a meeting of Limited Partners or to act with respect to matters as to which the holders of the Outstanding Units have the right to vote or to act. All references in this Agreement to votes of, or other acts that may be taken by, the Outstanding Units shall be deemed to be references to the votes or acts of the Record Holders of such Outstanding Units.

(b) With respect to Units that are held for a Person's account by another Person (such as a broker, dealer, bank, trust company or clearing corporation, or an agent of any of the foregoing), in whose name such Units are registered, such other Person shall, in exercising the voting rights in respect of such Units on any matter, and unless the arrangement between such Persons provides otherwise, vote such Units in favor of, and at the direction of, the Person who is the beneficial owner, and the Partnership shall be entitled to assume it is so acting without further inquiry. The provisions of this Section 15.12(b) (as well as all other provisions of this Agreement) are subject to the provisions of Section 10.4.

ARTICLE XVI

MERGER

Section 16.1 Authority.

The Partnership may merge or consolidate with one or more corporations, business trusts or associations, real estate investment trusts, common law trusts or unincorporated businesses, including a general partnership, limited partnership or limited liability company, formed under the laws of the State of Delaware or any other state of the United States of America, pursuant to a written agreement of merger or consolidation ("Merger Agreement") in accordance with this Article XVI.

Section 16.2 Procedure for Merger or Consolidation.

Merger or consolidation of the Partnership pursuant to this Article XVI requires the prior approval of the General Partner. If the General Partner shall determine, in the exercise of its sole discretion, to consent to the merger or consolidation, the General Partner shall approve the Merger Agreement, which shall set forth:

(a) The names and jurisdictions of formation or organization of each of the business entities proposing to merge or consolidate;

(b) The name and jurisdictions of formation or organization of the business entity that is to survive the proposed merger or consolidation (the "Surviving Business Entity");

(c) The terms and conditions of the proposed merger or consolidation;

(d) The manner and basis of exchanging or converting the equity securities of each constituent business entity for, or into, cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity; and (i) if any general or limited partner interests, securities or rights of any constituent business entity are not to be exchanged or converted solely for, or into, cash, property or general

or limited partner interests, rights, securities or obligations of the Surviving Business

Entity, the cash, property or general or limited partner interests, rights, securities or obligations of any limited partnership, corporation, trust or other entity (other than the Surviving Business Entity) which the holders of such general or limited partner interests, securities or rights are to receive in exchange for, or upon conversion of their general or limited partner interests, securities or rights, and (ii) in the case of securities represented by certificates, upon the surrender of such certificates, which cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity or any general or limited partnership, corporation, trust or other entity (other than the Surviving Business Entity), or evidences thereof, are to be delivered;

(e) A statement of any changes in the constituent documents or the adoption of new constituent documents (the articles or certificate of incorporation, articles of trust, declaration of trust, certificate or agreement of limited partnership, certificate of limited liability company or other similar charter or governing document) of the Surviving Business Entity to be effected by such merger or consolidation;

(f) The effective time of the merger, which may be the date of the filing of the certificate of merger pursuant to Section 16.4 or a later date specified in or determinable in accordance with the Merger Agreement (provided, that if the effective time of the merger is to be later than the date of the filing of the certificate of merger, the effective time shall be fixed no later than the time of the filing of the certificate of merger and stated therein); and

(g) Such other provisions with respect to the proposed merger or consolidation as are deemed necessary or appropriate by the General Partner.

Section 16.3 Approval by Limited Partners of Merger or Consolidation.

(a) The General Partner, upon its approval of the Merger Agreement, shall direct that the Merger Agreement be submitted to a vote of Limited Partners, whether at a meeting or by written consent, in either case in accordance with the requirements of Article XV. A copy or a summary of the Merger Agreement shall be included in or enclosed with the notice of a meeting or the written consent.

(b) The Merger Agreement shall be approved upon receiving the affirmative vote or consent of the holders of a Unit Majority unless the Merger Agreement contains any provision that, if contained in an amendment to this Agreement, the provisions of this Agreement or the Delaware Act would require the vote or consent of a greater percentage of the Outstanding Units or of any class of Limited Partners, in which case such greater percentage vote or consent shall be required for approval of the Merger Agreement.

(c) After such approval by vote or consent of the Limited Partners, and at any time prior to the filing of the certificate of merger pursuant to Section 16.4, the merger or consolidation may be abandoned pursuant to provisions therefor, if any, set forth in the Merger Agreement.

Section 16.4 Certificate of Merger.

Upon the required approval by the General Partner and the Limited Partners of a Merger Agreement, a certificate of merger shall be executed and filed with the Secretary of State of the State of Delaware in conformity with the requirements of the Delaware Act.

Section 16.5 Effect of Merger.

(a) At the effective time of the certificate of merger:

(i) all of the rights, privileges and powers of each of the business entities that has merged or consolidated, and all property, real, personal and mixed, and all debts due to any of those business entities and all other things and causes of action belonging to each of those business entities shall be vested in the Surviving Business Entity and after the

merger or consolidation shall be the property of the Surviving Business Entity to the extent they were of each constituent business entity;

(ii) the title to any real property vested by deed or otherwise in any of those constituent business entities shall not revert and is not in any way impaired because of the merger or consolidation;

(iii) all rights of creditors and all liens on or security interests in property of any of those constituent business entities shall be preserved unimpaired; and

(iv) all debts, liabilities and duties of those constituent business entities shall attach to the Surviving Business Entity, and may be enforced against it to the same extent as if the debts, liabilities and duties had been incurred or contracted by it.

(b) A merger or consolidation effected pursuant to this Article shall not be deemed to result in a transfer or assignment of assets or liabilities from one entity to another having occurred.

ARTICLE XVII

RIGHT TO ACQUIRE UNITS

Section 17.1 Right to Acquire Units.

(a) Notwithstanding any other provision of this Agreement, if at any time not more than 20% of the total Units of any class then Outstanding are held by Persons other than the General Partner and its Affiliates, the General Partner shall then have the right, which right it may assign and transfer to the Partnership or any Affiliate of the General Partner, exercisable in its sole discretion, to purchase all, but not less than all, of the Units of such class then Outstanding held by Persons other than the General Partner and its Affiliates, at the greater of (x) the Current Market Price as of the date three days prior to the date that the notice described in Section 17.1(c) is mailed, and (y) the highest cash price paid by the General Partner or any of its Affiliates for any such Unit purchased during the 90-day period preceding the date that the notice described in Section 17.1(c) is mailed.

(b) Notwithstanding any other provision of this Agreement, if at any time after the expiration of the Subordination Period and the earlier to occur of (i) the fifth anniversary of the Effective Time or (ii) the issuance of 909,000 Senior Subordinated Units and Class B Common Units in the aggregate pursuant to Section 4.6, the Partnership acquires, through purchase or exchange, in a twelve-month period, 66 2/3% or more of the total Class B Common Units, the Partnership shall then have the right, which it may not assign or transfer, exercisable in its sole discretion, to purchase all, but not less than all, of the remaining Class B Common Units then Outstanding during the following twelve-month period, at the greater of (x) the Current Market Price as of the date three days prior to the date that the notice described in Section 17(c) is mailed, and (y) the highest cash price paid by the Partnership for any such Unit purchased during the 90-day period preceding the date that the notice described in Section 17(c) is mailed.

(c) If the General Partner, any Affiliate of the General Partner or the Partnership elects to exercise the right to purchase Units granted pursuant to Section 17.1(a) or the Partnership elects to exercise the right granted pursuant to Section 17(b) to purchase Class B Common Units, the General Partner or the Partnership, as the case may be, shall deliver to the Transfer Agent notice of such election to purchase (the "Notice of Election to Purchase") and shall cause the Transfer Agent to mail a copy of such Notice of Election to Purchase to the Record Holders of such Units (as of a Record Date selected by the General Partner) at least 10, but not more than 60, days prior to the Purchase Date. Such Notice of Election to Purchase shall also be published for a period of at least three consecutive days in at least two daily newspapers of general circulation printed in the English language and published in the Borough of Manhattan, New York. The Notice of Election to Purchase shall specify the Purchase Date and the price (determined in accordance with Section 17.1(a)) at which Units will be purchased and state that the General Partner, its Affiliate or the Partnership, as the case may be, elects to purchase such Units, upon surrender of Certificates representing such Units in exchange for

payment, at such office or offices of the Transfer Agent as the Transfer Agent may specify, or as may be required by any National Securities Exchange on which the Units are listed or admitted to trading. Any such

Notice of Election to Purchase mailed to a Record Holder of Units at his address as reflected in the records of the Transfer Agent shall be conclusively presumed to have been given regardless of whether the owner receives such notice. On or prior to the Purchase Date, the General Partner, its Affiliate or the Partnership, as the case may be, shall deposit with the Transfer Agent cash in an amount sufficient to pay the aggregate purchase price of all of the Units to be purchased in accordance with this Section 17.1. If the Notice of Election to Purchase shall have been duly given as aforesaid at least 10 days prior to the Purchase Date, and if on or prior to the Purchase Date the deposit described in the preceding sentence has been made for the benefit of the holders of Units subject to purchase as provided herein, then from and after the Purchase Date, notwithstanding that any Certificate shall not have been surrendered for purchase, all rights of the holders of such Units (including any rights pursuant to Articles IV, V and XIV) shall thereupon cease, except the right to receive the purchase price (determined in accordance with Section 17.1(a)) for Units therefor, without interest, upon surrender to the Transfer Agent of the Certificates representing such Units, and such Units shall thereupon be deemed to be transferred to the General Partner, its Affiliate or the Partnership, as the case may be, on the record books of the Transfer Agent and the Partnership, and the General Partner or any Affiliate of the General Partner, or the Partnership, as the case may be, shall be deemed to be the owner of all such Units from and after the Purchase Date and shall have all rights as the owner of such Units (including all rights as owner of such Units pursuant to Articles IV, V and XIV).

(d) At any time from and after the Purchase Date, a holder of an Outstanding Unit subject to purchase as provided in this Section 17.1 may surrender his Certificate evidencing such Unit to the Transfer Agent in exchange for payment of the amount described in Section 17.1(a), therefor, without interest thereon.

ARTICLE XVIII

GENERAL PROVISIONS

Section 18.1 Addresses and Notices.

Any notice, demand, request, report or proxy materials required or permitted to be given or made to a Partner or Assignee under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Partner or Assignee at the address described below. Any notice, payment or report to be given or made to a Partner or Assignee hereunder shall be deemed conclusively to have been given or made, and the obligation to give such notice or report or to make such payment shall be deemed conclusively to have been fully satisfied, upon sending of such notice, payment or report to the Record Holder of such Unit at his address as shown on the records of the Transfer Agent or as otherwise shown on the records of the Partnership, regardless of any claim of any Person who may have an interest in such Unit or the Partnership Interest of a General Partner by reason of any assignment or otherwise. An affidavit or certificate of making of any notice, payment or report in accordance with the provisions of this Section 18.1 executed by the General Partner, the Transfer Agent or the mailing organization shall be prima facie evidence of the giving or making of such notice, payment or report. If any notice, payment or report addressed to a Record Holder at the address of such Record Holder appearing on the books and records of the Transfer Agent or the Partnership is returned by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver it, such notice, payment or report and any subsequent notices, payments and reports shall be deemed to have been duly given or made without further mailing (until such time as such Record Holder or another Person notifies the Transfer Agent or the Partnership of a change in his address) if they are available for the Partner or Assignee at the principal office of the Partnership for a period of one year from the date of the giving or making of such notice, payment or report to the other Partners and Assignees. Any notice to the Partnership shall be deemed given if received by the General Partner at the principal office of the Partnership designated pursuant to Section 1.3. The General Partner may rely and shall be protected in relying on any notice or other document from a Partner, Assignee or other Person if believed by it to be genuine.

Section 18.2 References.

Except as specifically provided otherwise, references to "Articles" and "Sections" are to Articles and Sections of this Agreement.

Section 18.3 Pronouns and Plurals.

Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

Section 18.4 Further Action.

The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

Section 18.5 Binding Effect.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

Section 18.6 Integration.

This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

Section 18.7 Creditors.

None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

Section 18.8 Waiver.

No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach of any other covenant, duty, agreement or condition.

Section 18.9 Counterparts.

This Agreement may be executed in counterparts, all of which together shall constitute an agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto or, in the case of a Person acquiring a Unit, upon accepting the certificate evidencing such Unit or executing and delivering a Transfer Application as herein described, independently of the signature of any other party.

Section 18.10 Applicable Law.

This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the principles of conflicts of law.

Section 18.11 Invalidity of Provisions.

If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

Section 18.12 Consent of Partners.

Each Partner hereby expressly consents and agrees that, whenever in this Agreement it is specified that an action may be taken upon the affirmative vote or consent of less than all of the Partners, such action may be so taken upon the concurrence of less than all of the Partners and each Partner shall be bound by the results of such action.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

GENERAL PARTNER:

Star Gas LLC

By: _____
Name:
Title:

LIMITED PARTNERS:

All Limited Partners now and hereafter admitted as limited partners of the Partnership, pursuant to the Powers of Attorney now and hereafter executed in favor of, and granted and delivered to, the General Partner.

By: Star Gas LLC

General Partner, as attorney-in-fact for all Limited Partners pursuant to the Powers of Attorney granted pursuant to Section 1.4

By: _____
Name:
Title:

EXHIBIT A
to the Amended and Restated
Agreement of Limited Partnership of
STAR GAS PARTNERS, L.P.

Certificate Evidencing Common Units
Representing Limited Partner Interests
STAR GAS PARTNERS, L.P.

No. Common Units

STAR GAS, LLC., a Delaware limited liability company, as the General Partner of STAR GAS PARTNERS, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that (the "Holder") is the registered owner of Common Units representing limited partner interests in the Partnership (the "Common Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Common Units represented by this Certificate. The rights, preferences and limitations of the Common Units are set forth in, and this Certificate and the Common Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Agreement of Limited Partnership of STAR GAS PARTNERS, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"). Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 2187 Atlantic Street, Stamford, Connecticut 06912-0011. Capitalized terms used herein but not defined shall have the meaning given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the

Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated: _____

STAR GAS, LLC.,
as General Partner

Countersigned and Registered by:

By: _____
President

_____,
as Transfer Agent and Registrar

By: _____
Secretary

By: _____
Authorized Signature

Ex. A-1

[Reverse of Certificate]

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

TEN COM-	as tenants in common	UNIF GIFT MIN ACT-
TEN ENT-	as tenants by the entireties	Custodian
JT TEN-	as joint tenants with right of survivorship and not as tenants in common	_____ (Cust) (Minor) under Uniform Gifts to Minors Act
		_____ State

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF COMMON UNITS
in
STAR GAS PARTNERS, L.P.

IMPORTANT NOTICE REGARDING INVESTOR RESPONSIBILITIES
DUE TO TAX SHELTER STATUS OF STAR GAS PARTNERS, L.P.

You have acquired an interest in Star Gas Partners, L.P., 2187 Atlantic Street, Stamford, Connecticut 06912-0011, whose taxpayer identification number is 06-1437793. The Internal Revenue Service has issued Star Gas Partners, L.P. the following tax shelter registration number:

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN Star Gas PARTNERS, L.P.

You must report the registration number as well as the name and taxpayer identification number of Star Gas Partners, L.P. on Form 8271. FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN STAR GAS PARTNERS, L.P.

If you transfer your interest in Star Gas Partners, L.P. to another person, you are required by the Internal Revenue Service to keep a list containing (a) that person's name, address and taxpayer identification number, (b) the date on

which you transferred the interest and (c) the name, address and tax shelter registration number of Star Gas Partners, L.P. If you do not want to keep such a list, you must (1) send the information specified above to the Partnership, which will keep the list for this tax shelter, and (2) give a copy of this notice to the person to whom you transfer your interest. Your failure to comply with any of the above-described responsibilities could result in the imposition of a penalty under Section 6707(b) or 6708(a) of the Internal Revenue Code of 1986, as amended, unless such failure is shown to be due to reasonable cause.

ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED, OR APPROVED BY THE INTERNAL REVENUE SERVICE.

FOR VALUE RECEIVED, hereby assigns, conveys, sells and

transfers unto

_____	_____
(Please print or typewrite name and address of Assignee)	(Please insert Social Security or other identifying number of Assignee)

Common Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint as its attorney-in-fact with full power of substitution to transfer the same on the books of Star Gas Partners, L.P.

Date: _____

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY

_____
(Signature)

_____
(Signature)

SIGNATURE(S) GUARANTEED

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

APPENDIX A

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

APPLICATION FOR TRANSFER OF COMMON UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Common Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner and agrees to comply with and be bound by, and hereby executes, the Amended and Restated Agreement of Limited Partnership of Star Gas Partners, L.P., as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (c) appoints the General Partner and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (d) gives the powers of attorney provided for in the Partnership Agreement and (e) makes the waivers and gives the consents and approvals contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date: _____

_____
Signature of Assignee

_____
Social Security or other identifying
number of Assignee

_____
Name and Address of Assignee

_____
Purchase Price including commissions, if any

Type of Entity (check one):

[_] Individual[_] Partnership[_] Corporation
[_] Trust [_] Other (specify) _____

Nationality (check one):

[_] U.S. Citizen, Resident or Domestic Entity [_] Non-resident Alien
[_] Foreign Corporation

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete Either A or B:

A. Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. income taxation.

2. My U.S. taxpayer identification number (Social Security Number) is

3. My home address is

B. Partnership, Corporation or Other Interestholder

1. _____
(Name of Interestholder)
is not a foreign corporation, foreign partnership, foreign trust or foreign

estate (as those terms are defined in the Code and Treasury Regulations).

2. The interestholder's U.S. employer identification number is

3. The interestholder's office address and place of incorporation (if applicable) is

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person. The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

_____
(Name of Interestholder)

_____
Signature and Date

_____
Title (if applicable)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Common Units shall be made to the best of the Assignee's knowledge.

EXHIBIT B
to the Amended and Restated
Agreement of Limited Partnership of
STAR GAS PARTNERS, L.P.

Certificate Evidencing Senior Subordinated Units
Representing Limited Partner Interests
STAR GAS PARTNERS, L.P.

No. Senior Subordinated Units

STAR GAS, LLC., a Delaware limited liability company, as the General Partner of STAR GAS PARTNERS, L.P., a Delaware limited partnership (the "Partnership"), hereby certifies that (the "Holder") is the registered owner of Senior Subordinated Units representing limited partner interests in the Partnership (the "Senior Subordinated Units") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed and accompanied by a properly executed application for transfer of the Senior Subordinated Units represented by this Certificate. The rights, preferences and limitations of the Senior Subordinated Units are set forth in, and this Certificate and the Senior Subordinated Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Amended and Restated Agreement of Limited Partnership of STAR GAS PARTNERS, L.P., as amended, supplemented or restated from time to time (the "Partnership Agreement"). Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 2187 Atlantic Street, Stamford, Connecticut 06912-0011. Capitalized terms used herein but not defined shall have the meaning given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested

admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated: _____

STAR GAS, LLC.,
as General Partner

Countersigned and Registered by:

By: _____
President

_____,
as Transfer Agent and Registrar

By: _____
Secretary

By: _____
Authorized Signature

Ex. B-1

[Reverse of Certificate]

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

TEN COM-	as tenants in common	UNIF GIFT MIN ACT-
TEN ENT-	as tenants by the entireties	Custodian
JT TEN-	as joint tenants with right of survivorship and not as tenants in common	_____ (Cust) (Minor) under Uniform Gifts to Minors Act _____ State

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF SENIOR SUBORDINATED UNITS
in
STAR GAS PARTNERS, L.P.

IMPORTANT NOTICE REGARDING INVESTOR RESPONSIBILITIES
DUE TO TAX SHELTER STATUS OF STAR GAS PARTNERS, L.P.

You have acquired an interest in Star Gas Partners, L.P., 2187 Atlantic Street, Stamford, Connecticut 06912-0011, whose taxpayer identification number is 06-1437793. The Internal Revenue Service has issued Star Gas Partners, L.P. the following tax shelter registration number:

YOU MUST REPORT THIS REGISTRATION NUMBER TO THE INTERNAL REVENUE SERVICE IF YOU CLAIM ANY DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN Star Gas PARTNERS, L.P.

You must report the registration number as well as the name and taxpayer identification number of Star Gas Partners, L.P. on Form 8271. FORM 8271 MUST BE ATTACHED TO THE RETURN ON WHICH YOU CLAIM THE DEDUCTION, LOSS, CREDIT, OR OTHER TAX BENEFIT OR REPORT ANY INCOME BY REASON OF YOUR INVESTMENT IN STAR GAS PARTNERS, L.P.

If you transfer your interest in Star Gas Partners, L.P. to another person, you are required by the Internal Revenue Service to keep a list containing (a) that person's name, address and taxpayer identification number, (b) the date on

which you transferred the interest and (c) the name, address and tax shelter registration number of Star Gas Partners, L.P. If you do not want to keep such a list, you must (1) send the information specified above to the Partnership, which will keep the list for this tax shelter, and (2) give a copy of this notice to the person to whom you transfer your interest. Your failure to comply with any of the above-described responsibilities could result in the imposition of a penalty under Section 6707(b) or 6708(a) of the Internal Revenue Code of 1986, as amended, unless such failure is shown to be due to reasonable cause.

ISSUANCE OF A REGISTRATION NUMBER DOES NOT INDICATE THAT THIS INVESTMENT OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED, OR APPROVED BY THE INTERNAL REVENUE SERVICE.

Ex. B-2

FOR VALUE RECEIVED, hereby assigns, conveys, sells and

transfers unto

_____	_____
(Please print or typewrite name and address of Assignee)	(Please insert Social Security or other identifying number of Assignee)

Senior Subordinated Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint as its attorney-in-fact with full power of substitution to transfer the same on the books of Star Gas Partners, L.P.

Date: _____

NOTE: The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

SIGNATURE(S) MUST BE GUARANTEED BY A MEMBER FIRM OF THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC. OR BY A COMMERCIAL BANK OR TRUST COMPANY

_____
(Signature)

_____
(Signature)

SIGNATURE(S) GUARANTEED

No transfer of the Senior Subordinated Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Senior Subordinated Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Senior Subordinated Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Senior Subordinated Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Senior Subordinated Units.

Ex. B-3

APPENDIX A

No transfer of the Senior Subordinated Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Senior Subordinated Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Senior Subordinated Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Senior Subordinated Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Senior Subordinated Units.

APPLICATION FOR TRANSFER OF SENIOR SUBORDINATED UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Senior Subordinated Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner and agrees to comply with and be bound by, and hereby executes, the Amended and Restated Agreement of Limited Partnership of Star Gas Partners, L.P., as amended, supplemented or restated to the date hereof (the "Partnership Agreement"), (b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (c) appoints the General Partner and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (d) gives the powers of attorney provided for in the Partnership Agreement and (e) makes the waivers and gives the consents and approvals contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date: _____

_____
Signature of Assignee

_____
Social Security or other identifying
number of Assignee

_____
Name and Address of Assignee

_____
Purchase Price including commissions, if any

Type of Entity (check one):

[_] Individual[_] Partnership[_] Corporation
[_] Trust [_] Other (specify) _____

Nationality (check one):

[_] U.S. Citizen, Resident or Domestic Entity [_] Non-resident Alien
[_] Foreign Corporation

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete Either A or B:

A. Individual Interestholder

1. I am not a non-resident alien for purposes of U.S. income taxation.

2. My U.S. taxpayer identification number (Social Security Number) is

3. My home address is

B. Partnership, Corporation or Other Interestholder

1. _____is not a foreign

(Name of Interestholder)

corporation, foreign partnership, foreign trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).

2. The interestholder's U.S. employer identification number is

3. The interestholder's office address and place of incorporation (if applicable) is

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person. The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

_____
(Name of Interestholder)

_____
Signature and Date

_____
Title (if applicable)

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Senior Subordinated Units shall be made to the best of the Assignee's knowledge.

ANNEX D--PRO FORMA AVAILABLE CASH FROM OPERATING SURPLUS

The following table shows the calculation of pro forma Available Cash from Operating Surplus and should be read only in conjunction with "Cash Available for Distribution," the Partnership's unaudited pro forma condensed consolidated financial information.

	Twelve Months Ended December 31, 1998
	(In thousands)
Pro forma net income (loss)	$(18,821)
Add (deduct):	
Loss (gain) on sale of assets	115
Depreciation and amortization	36,671
Provision for supplemental benefits	358
Amortization of debt issuance costs	424
Corporate identity expenses(a)	152
Restructuring charges(a)	535
Transaction expenses(b)	4,823
Maintenance capital expenditures	(4,059)
	$ 20,198

- --------
(a) Represents infrequent charges associated with Petro's branding, corporate identity and restructuring programs.
(b) Represents expenses associated with the Transaction.

- ----------
- ----------

We have not authorized any dealer, salesperson or other person to give any information or represent anything not contained in this prospectus. You must not rely on any unauthorized information. This prospectus does not offer to sell or buy any common units in any jurisdiction where it is unlawful. The information in this prospectus is correct as of the date such information is given.

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8,947,368
Common Units

STAR GAS PARTNERS, L.P.

Representing Limited Partner Interests

PROSPECTUS

PaineWebber Incorporated

CIBC Oppenheimer

Dain Rauscher Wessels

a division of Dain Rauscher Incorporated

Donaldson, Lufkin & Jenrette

A.G. Edwards & Sons, Inc.

Lehman Brothers

Prudential Securities

, 1999

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- ---

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution (1)

SEC Registration Fee	$54,349
NASD Fee	20,050
Printing and Engraving Expenses	*
New York Stock Exchange Listing Fee	*
Accounting Fees and Expenses	*
Legal Fees and Expenses	*
Transfer Agent and Registrar Fees	*
Miscellaneous	*
Total	$ *

- ---

(1)The amounts set forth above, except for the SEC, NASD and New York Stock Exchange fees, are in each case estimated.

*To be completed by amendment.

Item 15. Indemnification of Directors and Officers

The Partnership Agreement and the Operating Partnership Agreement provide that the Partnership or the Operating Partnership, as the case may be, will indemnify (to the fullest extent permitted by applicable law) certain persons from and against any and all losses, claims, damages, liabilities (joint or several), expenses (including, without limitation, legal fees and expenses), judgements, fines and amounts paid in settlement actually and reasonably incurred by such Indemnitee in connection with any claim, demand, action, suit or proceeding to which the Indemnitee is or was an actual or threatened party and which relates to the Partnership Agreement or the Operating Partnership Agreement or the property, business, affairs or management of the Partnership or the Operating Partnership. This indemnity is available only if the Indemnitee acted in good faith, in a manner in which such Indemnitee believed to be in, or not opposed to, the best interests of the Partnership and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful. Indemnitees include the General Partner, any Departing Partner, any affiliate of the General Partner or any Departing Partner, any person who is or was a director, officer, employee or agent of the general partner or any Departing Partner or any affiliate of either, or any person who

is or was serving at the request of the General Partner, any Departing Partner, or any such affiliate as a director, officer, partner, trustee, employee or agent of another person. Expenses subject to indemnity will be paid by the applicable partnership to the Indemnitee in advance, subject to receipt of an undertaking by or on behalf of the Indemnitee to repay such amount if it is ultimately determined by a court of competent jurisdiction that the Indemnitee is not entitled to indemnification. The Partnership will, to the extent commercially reasonable, purchase and maintain insurance on behalf of the Indemnitees, whether or not the Partnership would have the power to indemnify such Indemnitees against liability under the applicable partnership agreement. Star Gas Corporation maintains a policy of directors' and officers' liability insurance on behalf of its officers and directors.

Reference is made to Section 6 of the Underwriting Agreement filed as Exhibit 1.1 hereto.

Item 16. Exhibits

The following is a complete list of Exhibits filed or incorporated by reference as part of this Registration Statement.

Exhibit	Description
1.1	Form of Underwriting Agreement.
2.1	Merger Agreement dated as of October 22, 1998 by and among Petroleum Heat and Power Co. Inc., Star Gas Partners, L.P. and Star Gas Propane, L.P.+
2.2	Exchange Agreement dated October 17, 1998.+

Exhibit	Description
4.2	Form of Agreement of Limited Partnership of Star Gas Partners, L.P. (included as Annex C to the Prospectus).
4.3	Form of Agreement of Limited Partnership of Star Gas Propane, L.P.+
5.1	Opinion of Phillips Nizer Benjamin Krim & Ballon LLP as to the validity of the securities being registered.
8.1	Opinion of Andrews & Kurth L.L.P. as to certain federal income tax matters.
23.1	Consent of KPMG LLP.
23.2	Consent of Phillips Nizer Benjamin Krim & Ballon LLP (included in their opinion filed as Exhibit 5.1).
23.3	Consent of Andrews & Kurth L.L.P. (included in their opinion filed as Exhibit 8.1).
24.1	Powers of Attorney**

- --------
* To be filed by amendment.
** Previously filed.
\+ Incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-66005, filed with the Commission on October 22, 1998.

Item 17. Undertakings

(a) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in the Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be

deemed to be the initial bona fide offering thereof.

(b) Insofar as indemnification for liabilities arising under the Securities Act, may be permitted to directors, officers or controlling persons of the Registrant pursuant to the provisions described in Item 15 of this Registration Statement or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted against the Registrant by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b) (1) or (4), or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Stamford, state of Connecticut, on February 23, 1999.

Star Gas Partners, L.P.

By: STAR GAS CORPORATION, as General Partner

By: /s/ Joseph P. Cavanaugh

Joseph P. Cavanaugh
President

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Joseph P. Cavanaugh Joseph P. Cavanaugh	President (Principal Executive Officer)	February 23, 1999

/s/ Richard F. Ambury Richard F. Ambury	Vice President--Finance (Principal Financial and Accounting Officer)	February 23, 1999
/s/ Irik P. Sevin Irik P. Sevin	Director	February 23, 1999
* Audrey L. Sevin	Director	February 23, 1999
* William Nicoletti	Director	February 23, 1999
* Elizabeth K. Lanier	Director	February 23, 1999
* Paul Biddelman	Director	February 23, 1999
* Thomas J. Edelman	Director	February 23, 1999
 Wolfgang Traber	Director	
* William G. Powers, Jr.	Director	February 23, 1999

*By /s/ Irik P. Sevin
Irik P. Sevin
Attorney-in-Fact

EXHIBIT INDEX

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 * To be filed by amendment.
** Previously filed.
 + Incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-66005, filed with the Commission on October 22, 1998.

EXHIBIT 1.1

Units

STAR GAS PARTNERS, L.P.

Common Units

UNDERWRITING AGREEMENT

_____, 1999

PAINEWEBBER INCORPORATED
CIBC OPPENHEIMER CORP.
DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION
A.G. EDWARDS & SONS, INC.
LEHMAN BROTHERS INC.
PRUDENTIAL SECURITIES INCORPORATED
DAIN RAUSCHER WESSELS, A DIVISION OF DAIN RAUSCHER INCORPORATED
As Representatives of the
several Underwriters
c/o PaineWebber Incorporated
1285 Avenue of the Americas
New York, New York 10019

Ladies and Gentlemen:

Star Gas Partners, L.P., a Delaware limited partnership (the "Partnership"), proposes to sell an aggregate of Common Units representing limited partner interests in the Partnership (the "Firm Units"), to you and the other underwriters named in schedule 1 (collectively, the "Underwriters"), for whom you are acting as representatives (the "Representatives"). The Partnership has also agreed to grant to the several Underwriters an option (the "Option") to purchase up to an aggregate of additional common units (the "Option Units") on the terms and for the purposes set forth in Section 1(b). The Firm Units and the Option Units are hereinafter collectively referred to as the "Units."

The initial public offering price per Unit and the purchase price per Unit to be paid by the several Underwriters shall be agreed upon by the Partnership and the Representatives, acting on behalf of the several Underwriters, and such agreement shall be set forth in a separate written instrument substantially in the form of Exhibit A hereto (the "Price Determination Agreement"). The Price Determination Agreement may take the form of an exchange of any standard form of written telecommunication among the Partnership and PaineWebber Incorporated ("PaineWebber") on behalf of the Representatives and shall specify such applicable information as is indicated in Exhibit A hereto. The offering of the Units will be governed by this Agreement, as supplemented by the Price Determination Agreement. From and after the date of the execution and delivery of the Price Determination Agreement, this Agreement shall be deemed to incorporate, and, unless the context otherwise indicates, all references contained

herein to "this Agreement" and to the phrase "herein" shall be deemed to include, the Price Determination Agreement.

On the Closing Date (as hereinafter defined) the Partnership will acquire Petroleum Heat and Power Co., Inc. ("Petro") as part of a four-part transaction (the "Transaction"). The four principal parts of the Transaction are as follows:

(i) Pursuant to the terms of an Agreement and Plan of Merger (the "Merger Agreement") entered into on October 22, 1998, that was amended and restated on February 3, 1999 between the Partnership and Petro, Petro will become a wholly-owned, indirect subsidiary of the Partnership through (1) a merger of one of the Partnership's wholly-owned Subsidiaries into Petro and (2) an exchange

by affiliates of Petro of their Petro common stock for senior subordinated units, junior subordinated units and general partner units of the Partnership.

(ii) The Partnership will offer Common Units and separately, Petro will offer (the "Notes Offering") Senior Secured Notes (the "Notes"). The Partnership, along with Petro Holdings, Inc., a Minnesota corporation and the parent corporation of Petro ("Petro Holdings"), will guarantee (the "Guarantees") the Notes. The Partnership will use the proceeds from these offerings to redeem or restructure certain public and private debt and preferred stock of Petro.

(iii) As a result of the Transaction, Star Gas Corporation, a Delaware corporation ("Star Gas Corporation") will become a subsidiary of the Partnership. The Partnership will substitute a new general partner (the "General Partner"), Star Gas LLC, a Delaware limited liability company ("Star Gas LLC") for Star Gas Corporation.

(iv) The Partnership will amend its Agreement of Limited Partnership (the "Partnership Agreement") among the General Partner and the limited partners of the Partnership, which is in effect prior to the Transaction. The amendment will, among other things, facilitate the consummation of the Transaction and increase the Partnership minimum quarterly distribution from $0.55 to $0.575 per Common Unit per quarter.

The Partnership confirms as follows its agreements with the Representatives and the several other Underwriters.

SECTION 1. Agreement to Sell and Purchase.

(a) On the basis of the representations, warranties and agreements of the Partnership herein contained and subject to all the terms and conditions of this Agreement, the Partnership agrees to issue and sell to each Underwriter, and each Underwriter, severally and not jointly, agrees to purchase from the Partnership, at the purchase price per Firm Unit to be agreed upon by PaineWebber on behalf of the Representatives and the Partnership in accordance with Section 1(c) or 1(d) hereof and set forth in the Price Determination Agreement, the number of Firm Units (subject to such adjustments to eliminate fractional units as PaineWebber on behalf of the Representatives may determine) which bears the same proportion to the total number of Firm Units to be sold by the Partnership as the number of Firm Units set forth opposite the name of

such Underwriter in Schedule 1 bears to the total number of Firm Units, plus such additional number of Firm Units which such Underwriter may become obligated to purchase pursuant to Section 8 hereof. Schedule 1 may be attached to the Price Determination Agreement.

(b) Subject to all the terms and conditions of this Agreement, the Partnership grants the Option to the Underwriters to purchase, severally and not jointly, up to Option Units from the Partnership at the same price per Option Unit as the Underwriters shall pay for each of the Firm Units. The Option may be exercised only to cover over-allotments in the sale of the Firm Units by the Underwriters and may be exercised in whole or in part at any time (but not more than once) on or before the 30th day after the date of this Agreement (or, if the Partnership has elected to rely on Rule 430A, on or before the 30th day after the date of the Price Determination Agreement), upon written or telegraphic notice (the "Option Units Notice") by PaineWebber on behalf of the Representatives to the Partnership no later than 12:00 noon, New York City time, at least two and no more than five business days before the date specified for closing in the Option Units Notice (the "Option Closing Date") setting forth the aggregate number of Option Units to be purchased and the time and date for such purchase. On the Option Closing Date, the Partnership will sell to the Underwriters the number of Option Units set forth in the Option Units Notice, and each Underwriter will purchase such percentage of the Option Units as is equal to the percentage of Firm Units that such Underwriter is purchasing, as adjusted by PaineWebber on behalf of the Representatives in such manner as it deems advisable to avoid fractional units.

(c) The initial public offering price per Firm Unit and the purchase price per Firm Unit to be paid by the several Underwriters shall be agreed upon and set forth in the Price Determination Agreement, if the

Partnership has elected to rely on Rule 430A. In the event such price has not been agreed upon and the Price Determination Agreement has not been executed by the close of business on the fourteenth business day following the date on which the Registration Statement (as hereinafter defined) becomes effective, this Agreement shall terminate forthwith, without liability of any party to any other party except that Section 6 shall remain in effect.

(d) If the Partnership has elected not to rely on Rule 430A, the initial public offering price per Firm Unit and the purchase price per Firm Unit to be paid by the several Underwriters shall be agreed upon and set forth in the Price Determination Agreement, which shall be dated the date hereof, and an amendment to the Registration Statement containing such per unit price information shall be filed before the Registration Statement becomes effective.

SECTION 2. Delivery and Payment.

Delivery of the Firm Units shall be made to the several Underwriters for their accounts at the office of PaineWebber Incorporated, 1285 Avenue of the Americas, New York, New York 10019, credit to the account of the Partnership with the Depository Trust Company, against payment of the purchase price by wire transfer of Federal Funds or similar same day funds to an account designated in writing by the Partnership to PaineWebber at least one business day prior to the Closing Date. Such payment shall be made at 10:00 a.m., New York City time, on the third business day (or fourth business day, if the Price Determination Agreement is executed after 4:30

p.m.) after the date on which the first bona fide offering of the Units to the public is made by the Underwriters or at such time on such other date, not later than ten business days after such date, as may be agreed upon by the Partnership and PaineWebber on behalf of the Representatives (such date is hereinafter referred to as the "Closing Date").

To the extent the Option is exercised, delivery of the Option Units against payment by the Underwriters (in the manner specified above) will take place at the offices specified above for the Closing Date at the time and date (which may be the Closing Date) specified in the Option Units Notice.

Certificates evidencing the Units shall be in definitive form and shall be registered in such names and in such denominations as PaineWebber on behalf of the Representatives shall request at least two business days prior to the Closing Date or the Option Closing Date, as the case may be, by written notice to the Partnership. For the purpose of expediting the checking and packaging of certificates for the Units, the Partnership agrees to make such certificates to be sold by the Partnership available for inspection at least 24 hours prior to the Closing Date or the Option Closing Date, as the case may be.

The cost of original issue tax stamps, if any, in connection with the issuance and delivery of the Firm Units by the Partnership to the respective Underwriters shall be borne by the Partnership. The Partnership will pay and save each Underwriter and any subsequent holder of the Units harmless from any and all liabilities with respect to or resulting from any failure or delay in paying Federal and state stamp and other transfer taxes, if any, which may be payable or determined to be payable in connection with the original issuance or sale to such Underwriter of the Firm Units and Option Units.

SECTION 3. Representations and Warranties.

The Partnership represents, warrants and covenants to each Underwriter that:

(a) The Partnership meets the requirements for use of Form S-3 and a registration statement (Registration No. 333-68329) on Form S-3 relating to the Units, including a preliminary prospectus and such amendments to such registration statement as may have been required to the date of this Agreement, has been prepared by the Partnership under the provisions of the Securities Act of 1933, as amended (the "Act"), and the rules and regulations (collectively referred to as the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder, and has been filed with the Commission. The term "preliminary prospectus" as used herein means a preliminary prospectus as contemplated by Rule 430 or Rule 430A ("Rule 430A") of the Rules and Regulations included at any time as part of the registration statement. Copies of such registration statement and amendments and of each related

preliminary prospectus have been delivered to the Representatives. The term "Registration Statement" means such registration statement as amended at the time it becomes or became effective (the "Effective Date"), including financial statements and all exhibits and any information deemed to be included by Rule 430A or Rule 434 of the Rules and Regulations. If the Partnership files a registration statement to register a portion of the Units and relies on Rule 462(b) of the Rules and Regulations for such registration statement to become effective upon

filing with the Commission (the "Rule 462 Registration Statement"), then any reference to the "Registration Statement" shall be deemed to include the Rule 462 Registration Statement, as amended from time to time. The term "Prospectus" means the prospectus as first filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations or, if no such filing is required, the form of final prospectus included in the Registration Statement at the Effective Date. Any reference herein to the Registration Statement, any preliminary prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), on or before the Effective Date or the date of such preliminary prospectus or the Prospectus, as the case may be. Any reference herein to the terms "amend," "amendment" or "supplement" with respect to the Registration Statement, any preliminary prospectus or the Prospectus shall be deemed to refer to and include the filing of any document under the Exchange Act after the Effective Date, or the date of any preliminary prospectus or the Prospectus, as the case may be, and deemed to be incorporated therein by reference.

(b) On the Effective Date, the date the Prospectus is first filed with the Commission pursuant to Rule 424(b) (if required), at all times subsequent to and including the Closing Date and, if later, the Option Closing Date and when any post-effective amendment to the Registration Statement becomes effective or any amendment or supplement to the Prospectus is filed with the Commission, the Registration Statement and the Prospectus (as amended or as supplemented if the Partnership shall have filed with the Commission any amendment or supplement thereto), including the financial statements included or incorporated by reference in the Prospectus, did or will comply with all applicable provisions of the Act, the Exchange Act, the rules and regulations thereunder (the "Exchange Act Rules and Regulations") and the Rules and Regulations and will contain all statements required to be stated therein in accordance with the Act, the Exchange Act, the Exchange Act Rules and Regulations and the Rules and Regulations. On the Effective Date and when any post-effective amendment to the Registration Statement becomes effective, no part of the Registration Statement or any such amendment did or will contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading. At the Effective Date, the date the Prospectus or any amendment or supplement to the Prospectus is filed with the Commission and at the Closing Date and, if later, the Option Closing Date, the Prospectus did not or will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing representations and warranties in this Section 3(b) do not apply to any statements or omissions made in reliance on and in conformity with information relating to any Underwriter furnished in writing to the Partnership by the Representatives specifically for inclusion in the Registration Statement or Prospectus or any amendment or supplement thereto. For all purposes of this Agreement, the amounts of the selling concession and reallowance set forth in the Prospectus constitute the only information relating to any Underwriter furnished in writing to the Partnership by the Representatives specifically for inclusion in the Registration Statement, the preliminary prospectus or the Prospectus. The Partnership has not distributed any offering material in connection with the

offering or sale of the Units other than the Registration Statement, the preliminary prospectus, the Prospectus or any other materials, if any, permitted by the Act.

(c) The documents which are incorporated by reference in the preliminary prospectus and the Prospectus or from which information is so incorporated by reference, when they become effective or were filed with the

Commission, as the case may be, complied in all material respects with the requirement of the Act or the Exchange Act, as applicable, the Exchange Act Rules and Regulations and the Rules and Regulations; and any document so filed and incorporated by reference subsequent to the Effective Date shall, when they are filed with the Commission, conform in all material respects with the requirements of the Act and the Exchange Act, as applicable, the Exchange Act Rules and Regulations and the Rules and Regulations.

(d) The Partnership and each of its direct or indirect subsidiaries listed on Exhibit B hereto (the "Subsidiaries" and together with the Partnership, the General Partner, Petro and its direct or indirect subsidiaries, the "Star Entities"), have been duly formed and are validly existing and in good standing, and after consummation of the Transaction will continue to be validly existing and in good standing, as a limited partnership under the Delaware Revised Uniform Limited Partnership Act (the "Delaware Act") (or, in the case of certain of the Subsidiaries, a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation), with all necessary partnership power and authority to own or lease the properties it owns or leases or will own or lease at the Closing Date, assume its liabilities and conduct the business it conducts and will conduct at the Closing Date, in each case as described in the Prospectus, and are, and at the Closing Date will be, duly qualified or registered as a foreign limited partnership (or, in the case of certain of the Subsidiaries, a foreign corporation) for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration necessary (except where the failure to so qualify or register would not have a material adverse effect on the condition (financial or other), results of operations or business of the Star Entities, taken as a whole, or to subject the Partnership or the limited partners of the Partnership to any material liability or disability).

(e) The only subsidiaries (as defined in the Rules and Regulations) of the Partnership are the Subsidiaries. All of the outstanding shares of capital stock or other capital interests of the Subsidiaries have been duly authorized and validly issued and are fully paid and non-assessable and are owned by the Partnership free and clear of all liens, encumbrances and claims except for liens, encumbrances or claims against Star Gas Propane, L.P. (the "Operating Partnership"), a Delaware limited partnership, a 99.99% limited partner interest of which will be owned by the Partnership and a 0.01% general partner interest of which will be owned by the General Partner, as described in the Registration Statement. Except for the units or stock of the Subsidiaries and as disclosed in the Registration Statement, the Partnership does not own, and at the Closing Date will not own, directly or indirectly, any units of units or any other equity or long-term debt securities of any corporation or have any equity interest in any firm, partnership, joint venture, association or other entity. Complete and correct copies of the certificate of incorporation and of the by-laws or, if applicable, partnership agreements of the Partnership and each of its Subsidiaries and all amendments thereto have been delivered to the Representatives,

and no changes therein will be made subsequent to the date hereof and prior to the Closing Date or, if later, the Option Closing Date.

(f) The Operating Partnership has been duly formed and is validly existing, and after consummation of the Transaction will continue to be validly existing, as a limited partnership under the Delaware Act, with all necessary partnership power and authority to own or lease the properties it will own or lease at the Closing Date, assume its liabilities and conduct the business it will conduct at the Closing Date, in each case as described in the Registration Statement, and is, or at the Closing Date will be, duly qualified or registered as a foreign limited partnership for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration necessary (except where the failure to so qualify or register would not have a material adverse effect on the condition (financial or other), results of operations or business of the Star Entities, taken as a whole, or subject the Operating Partnership, the Partnership or the limited partners of the Partnership to any material liability or disability).

(g) The General Partner has been duly organized and is validly existing in good standing as a limited liability company under the laws of the

State of Delaware. The General Partner has all necessary power and authority to own or lease its properties and conduct its business and to act as general partner of the Partnership and the Operating Partnership, in each case as described in the Registration Statement, and the General Partner is duly qualified or registered as a foreign entity for the transaction of business and is in good standing under the laws of each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration necessary (except where the failure to so qualify or register would not have a material adverse effect on the condition (financial or other), results of operations or business of the General Partner, or subject the General Partner, the Partnership or the limited partners of the Partnership to any material liability or disability).

(h) On the Closing Date, the General Partner will be duly organized and will continue to be validly existing in good standing as a limited liability company under the laws of the State of Delaware. The General Partner will have all necessary power and authority to own or lease its properties and conduct its business and to act as general partner of the Partnership and the Operating Partnership, in each case as described in the Registration Statement, and the General Partner will be duly qualified or registered as a foreign entity for the transaction of business and is in good standing under the laws of each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration necessary (except where the failure to so qualify or register would not have a material adverse effect on the condition (financial or other), results of operations or business of the General Partner, or subject the General Partner, the Partnership or the limited partners of the Partnership to any material liability or disability).

(i) Petro has been duly organized and is validly existing and in good standing as a corporation under the laws of the State of Minnesota. Petro has all necessary power and authority to own or lease its properties and conduct its business as described in the Registration

Statement, and Petro is duly qualified or registered as a foreign entity for the transaction of business and is in good standing under the laws of each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration necessary (except where the failure to so qualify or register would not have a material adverse effect on the condition (financial or other), results of operations or business of Petro, or subject Petro, the Partnership or the limited partners of the Partnership to any material liability or disability).

(j) Each of Petro's direct and indirect subsidiaries has been duly organized and is validly existing and in good standing under the laws of its jurisdiction of organization. Each of Petro's direct and indirect subsidiaries has all necessary power and authority to own or lease its properties and conduct its business as described in the Registration Statement, and each subsidiary is duly qualified or registered as a foreign entity for the transaction of business and is in good standing under the laws of each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it make such qualification or registration necessary (except where the failure to so qualify or register would not have a material adverse effect on the condition (financial or other), results of operations or business of Petro or any of its direct or indirect subsidiaries, taken as a whole, or subject Petro, its direct and indirect subsidiaries, the Partnership or the limited partners of the Partnership to any material liability or disability).

(k) On the Closing Date, the General Partner will be the sole general partner of the Partnership with a 1.99% general partner interest in the Partnership; such general partner interest will have been duly authorized by the Partnership Agreement, as amended through the Closing Date, and will be validly issued to the General Partner; and the General Partner will own such general partner interest free and clear of all liens, encumbrances, security interests, equities, charges or claims (except for such liens, encumbrances, security interests, equities, charges or claims as are not, individually or in the aggregate, material) other than those created by or arising under the Delaware Act, the Operating Partnership's bank credit facilities (the "Bank Credit Facilities") or the First Mortgage Note Agreement between the General Partner and various institutional investors (the "First Mortgage Note Agreement").

On the Closing Date, the Partnership will be own its limited partner interest in the Operating Partnership free and clear of all liens, encumbrances, security interests, equities, charges or claims (except for such liens, encumbrances, security interests, equities, charges or claims as are not, individually or in the aggregate, material) other than those created by or arising under the Delaware Act, the Bank Credit Facilities or the First Mortgage Note Agreement.

(l) On the Closing Date, the General Partner will be the sole general partner of the Operating Partnership with a 0.01% general partner interest in the Operating Partnership; such general partner interest will have been duly authorized by the Agreement of Limited Partnership of the Operating Partnership as amended through the Closing Date (the "Operating Partnership Agreement" and, together with the Partnership Agreement, the "Partnership Agreements") and will have been validly issued to the General Partner; and the General Partner will own such general partner interest free and clear of all liens, encumbrances, security interests,

equities, charges or claims (except for such liens, encumbrances, security interests, equities, charges or claims as are not, individually or in the aggregate, material) other than those created by or arising under the Delaware Act, the Bank Credit Facilities or the First Mortgage Note Agreement.

(m) All of the issued and outstanding capital stock of the General Partner has been duly authorized and was validly issued, and is fully paid and nonassessable, and Petro owns all such outstanding capital stock of the General Partner free and clear of all liens, encumbrances, security interests, equities, charges or claims (except for such liens, encumbrances, security interests, equities, charges or claims as are not, individually or in the aggregate, material).

(n) On the Closing Date, all of the issued and outstanding member interests of the General Partner will be duly authorized and will have been validly issued, and will be fully paid and nonassessable, and Irik P. Sevin, Audrey L. Sevin, and two entities affiliated with Wolfgang Traber will own all such outstanding membership interests of the General Partner free and clear of all liens, encumbrances, security interests, equities, charges or claims (except for such liens, encumbrances, security interests, equities, charges or claims as are not, individually or in the aggregate, material).

(o) The outstanding Common Units have been, and the Units to be issued and sold by the Partnership under this Agreement upon such issuance will be, duly authorized, validly issued, fully paid and nonassessable and will not be subject to any preemptive or similar right. The description of the Common Units in the Registration Statement and the Prospectus is, and at the Closing Date will be, complete and accurate in all respects. Except as set forth in the Prospectus, the Partnership does not have outstanding, and at the Closing Date will not have outstanding, any options to purchase, or any rights or warrants to subscribe for, or any securities or obligations convertible into, or any contracts or commitments to issue or sell, any Common Units or other partnership interests, any capital stock or partnership interests of any Subsidiary or any such warrants, convertible securities or obligations.

(p) The financial statements and schedules included or incorporated by reference in the Registration Statement or the Prospectus present fairly the consolidated financial condition of the Partnership and Petro as of the respective dates thereof and the consolidated results of operations and cash flows of the Partnership and Petro for the respective periods covered thereby, all in conformity with generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the entire period involved, except as otherwise disclosed in the Prospectus. The pro forma financial statements and other pro forma financial information included in the Registration Statement or the Prospectus (i) present fairly in all material respects the information shown therein, (ii) have been prepared in accordance with the Commission's rules and guidelines with respect to pro forma financial statements and (iii) have been properly computed on the bases described therein. The assumptions used in the preparation of the pro forma financial statements and other pro forma financial information included in the Registration Statement or the Prospectus are reasonable and the adjustments used therein are appropriate to give effect to the transactions or circumstances referred to therein. No other financial statements or schedules of the Partnership are

required by the Act, the Exchange Act, the Exchange Act

Rules and Regulations or the Rules and Regulations to be included in the Registration Statement or the Prospectus. KPMG Peat Marwick LLP (the "Accountants"), who have reported on such financial statements and schedules, are independent accountants with respect to each of the Star Entities as required by the Act and the Rules and Regulations. The statements included in the Registration Statement with respect to the Accountants pursuant to Rule 509 of Regulation S-K of the Rules and Regulations are true and correct in all material respects.

(q) Each of the Star Entities maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(r) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus and prior to the Closing Date, except as set forth in or contemplated by the Registration Statement and the Prospectus, (i) there has not been and will not have been any change in the capitalization of any of the Star Entities, or in the business, properties, business prospects, condition (financial or otherwise) or results of operations of any of the Star Entities, arising for any reason whatsoever, (ii) none of the Star Entities has incurred nor will it incur any material liabilities or obligations, direct or contingent, except liabilities incurred in the ordinary course of business and consistent with past practices, nor has it entered into nor will it enter into any material transactions other than pursuant to this Agreement and the transactions referred to herein and (iii) the Partnership has not and will not have paid or declared any dividends or other distributions of any kind on any class of its capital units.

(s) None of the Star Entities is, or as of the Closing Date will be, (i) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" thereof, within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (ii) an "investment company," a company "controlled by" an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

(t) Except as set forth in the Registration Statement and the Prospectus, there are no actions, suits or proceedings pending, or to the knowledge of the Star Entities, threatened against or affecting any of the Star Entities or any of their respective directors or officers in their capacity as such, before or by any federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, wherein an unfavorable ruling, decision or finding might materially and adversely affect any of the Star Entities or their business, properties, business prospects, condition (financial or otherwise) or results of operations.

(u) Each of the Star Entities has, and at the Closing Date will have, (i) all governmental licenses, permits, consents, orders, approvals and other authorizations necessary to carry on its business as contemplated in the Prospectus, (ii) complied in all respects with all laws, regulations and orders applicable to it or its business, except where the failure to so comply would not have a material adverse affect on the Star Entities, taken as a whole, and (iii) performed all its obligations required to be performed by it, and is not, and at the Closing Date will not be, in default, under any indenture, mortgage, deed of trust, voting trust agreement, loan agreement, bond, debenture, note agreement, lease, contract or other agreement or instrument (collectively, a "contract or other agreement") to which it is a party or by which its property is bound or affected. To the best knowledge of the Partnership and each of its Subsidiaries, no other party under any contract or

other agreement to which it is a party is in default in any material respect thereunder. None of the Star Entities is, nor at the Closing Date will any of them be, in violation of any provision of its Partnership Agreement or certificate of incorporation or by-laws, as the case may be.

(v) No consent, approval, authorization or order of, or any filing or declaration with, any court or governmental agency or body is required in connection with the authorization, issuance, transfer, sale or delivery of the Units by the Partnership, in connection with the execution, delivery and performance of this Agreement and the Price Determination Agreement by the Partnership, in connection with the execution, delivery and performance of the Merger Agreement by the Partnership (other than the filing of the certificate of merger with respect thereto filed with the Secretary of State of the State of Delaware), in connection with the taking by the Partnership of any action contemplated hereby or in connection with the taking by the Partnership of any other action contemplated by the Transaction, except such as have been obtained under the Act or the Rules and Regulations and such as may be required under state securities or Blue Sky laws or the by-laws and rules of the National Association of Securities Dealers, Inc. (the "NASD") in connection with the purchase and distribution by the Underwriters of the Units. [other approvals, if any, to be discussed]

(w) The Partnership has full power and authority to enter into this Agreement. This Agreement has been duly authorized, executed and delivered by the Partnership and constitutes a valid and binding agreement of the Partnership and is enforceable against the Partnership in accordance with the terms hereof; provided that the enforceability hereof may by limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, or similar laws relating to or affecting creditors' right generally and by general equitable principals (regardless of whether such enforceability is considered in a proceeding in equity or at law). The performance of this Agreement, the consummation of the transactions contemplated hereby and the application of the net proceeds from the offering and sale of the Units in the manner set forth in the Prospectus under "Use of Proceeds" will not result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Partnership or any of its Subsidiaries or Petro or any of its subsidiaries pursuant to the terms or provisions of, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give any other party a right to terminate any of its obligations under, or result in the acceleration of any obligation under, the Partnership Agreement of the Partnership or certificate of incorporation or by-laws, as the case may be, of any of its Subsidiaries or of Petro or any of its subsidiaries, any

contract or other agreement to which the Partnership or any of its Subsidiaries or Petro or any of its subsidiaries is a party or by which the Partnership or any of its Subsidiaries or Petro or any of its subsidiaries or any of their respective properties is bound or affected, or violate or conflict with any judgment, ruling, decree, order, statute, rule or regulation of any court or other governmental agency or body applicable to the business or properties of the Partnership or any of its Subsidiaries or Petro or any of its subsidiaries.

(x) The Partnership Agreement has been and, as amended as of the Closing Date will be, duly authorized, executed and delivered by the General Partner and is a valid and legally binding agreement of the General Partner, enforceable against the General Partner in accordance with its terms; the Operating Partnership Agreement has been and, as amended as of the Closing Date, will be duly authorized executed and delivered by the General Partner and is a valid and legally binding agreement of the General Partner, enforceable against the General Partner in accordance with its terms; provided that, with respect to both agreements described in this paragraph (u), the enforceability thereof may by limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, or similar laws relating to or affecting creditors' right generally and by general equitable principals (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(y) The Partnership has full power and authority to enter into the Merger Agreement. The Merger Agreement has been duly authorized, executed and delivered by the Partnership and constitutes a valid and binding agreement of the Partnership and is enforceable against the Partnership in accordance with the terms thereof; provided that the enforceability thereof may by limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, or similar laws relating to or affecting creditors' right generally and by general

equitable principals (regardless of whether such enforceability is considered in a proceeding in equity or at law). The performance of the Merger Agreement and the consummation of the transactions contemplated thereby will not result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Partnership or any of its Subsidiaries pursuant to the terms or provisions of, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give any other party a right to terminate any of its obligations under, or result in the acceleration of any obligation under, the Partnership Agreement of the Partnership or certificate of incorporation or by-laws, as the case may be, of any of its Subsidiaries, any contract or other agreement to which the Partnership or any of its Subsidiaries is a party or by which the Partnership or any of its Subsidiaries or any of its properties is bound or affected, or violate or conflict with any judgment, ruling, decree, order, statute, rule or regulation of any court or other governmental agency or body applicable to the business or properties of the Partnership or any of its Subsidiaries.

(z) Petro has full power and authority to enter into the Merger Agreement. The Merger Agreement has been duly authorized, executed and delivered by Petro and constitutes a valid and binding agreement of Petro and is enforceable against Petro in accordance with the terms thereof; provided that the enforceability thereof may by limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, or similar laws relating to or affecting creditors' right generally and by general equitable principals (regardless of whether

such enforceability is considered in a proceeding in equity or at law). The performance of the Merger Agreement and the consummation of the transactions contemplated thereby will not result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of Petro or any of its subsidiaries pursuant to the terms or provisions of, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give any other party a right to terminate any of its obligations under, or result in the acceleration of any obligation under, the certificate of incorporation or by-laws of Petro or any of its subsidiaries, any contract or other agreement to which Petro or any of its subsidiaries is a party or by which Petro or any of its subsidiaries or any of its properties is bound or affected, or violate or conflict with any judgment, ruling, decree, order, statute, rule or regulation of any court or other governmental agency or body applicable to the business or properties of Petro or any of its subsidiaries.

(aa) On the Closing Date, the Notes Offering will be consummated pursuant to the terms of the purchase agreement entered into by Petro, Petro Holdings, the Partnership and the initial purchasers parties thereto.

(bb) Each of the Star Entities has good and marketable title to all properties and assets described in the Prospectus as owned by it, free and clear of all liens, charges, encumbrances or restrictions, except such as are described in the Prospectus or are not material to the business of the Partnership or its Subsidiaries. Each of the Star Entities has valid, subsisting and enforceable leases for the properties described in the Prospectus as leased by it, with such exceptions as are not material and do not materially interfere with the use made and proposed to be made of such properties by the Partnership and such Subsidiaries.

(cc) There is no document or contract of a character required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed as required. All such contracts to which the Partnership or any Subsidiary is a party have been duly authorized, executed and delivered by the Partnership or such Subsidiary, constitute valid and binding agreements of the Partnership or such Subsidiary and are enforceable against the Partnership or such Subsidiary in accordance with the terms thereof.

(dd) No statement, representation, warranty or covenant made by the Partnership in this Agreement or made in any certificate or document required by this Agreement to be delivered to the Representatives was or will be, when made, inaccurate, untrue or incorrect.

(ee) Neither the Star Entities nor the directors, officers or controlling persons of any such entity have taken, directly or indirectly, any

action intended, or which might reasonably be expected, to cause or result, under the Act or otherwise, in, or which has constituted, stabilization or manipulation of the price of any security of the Partnership to facilitate the sale or resale of the Units.

(ff) Except as disclosed in the Registration Statement or the Prospectus, no person or entity has the right to require the registration under the Act of Common Units or other securities of any Star Entity by reason of the filing or effectiveness of the Registration Statement.

(gg) The Units have been approved for listing on the New York Stock Exchange ("NYSE"), subject only to official notice of issuance.

(hh) The Star Entities are, and immediately after consummation of the Transaction will be, in compliance in all material respects with all federal, state and local employment and labor laws, including, but not limited to, laws relating to non-discrimination in hiring, promotion and pay of employees; no labor dispute with the employees of such entities exists or, to the knowledge of the Partnership, is imminent or threatened; and the Partnership is not aware of any existing, imminent or threatened labor disturbance by the employees of any principal suppliers, manufacturers or contractors of the Star Entities that could result in a material adverse effect on the condition (financial or otherwise) or on the earnings, business, properties, business prospects or operations of the Partnership and its Subsidiaries, taken as a whole.

(ii) The Star Entities own, or are licensed or otherwise have the full exclusive right to use, and after consummation of the Transaction will own, or will be licensed or otherwise will have full exclusive right to use, the material patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, services marks and trade names (collectively, "patent and proprietary rights") presently employed by them or which are necessary in connection with the conduct of the business now operated by them as set forth in the Registration Statement and the Prospectus and, [except as set forth on Schedule 2 hereto,] none of the Star Entities have received any written notice or otherwise have actual knowledge of any infringement of or conflict with asserted rights of others or any other claims with respect to any patent or proprietary rights, or of any basis for rendering any patent and proprietary rights invalid or inadequate to protect the interest of such Star Entity.

(jj) None of the Star Entities, nor, to any Star Entity's knowledge, any employee or agent of such Star Entity has made, and after consummation of the Transaction will have made, any payment of funds of the Star Entity or received or retained any funds in violation of any law, rule or regulation or of a character required to be disclosed in the Prospectus.

(kk) The Partnership has complied, and until the completion of the distribution of the Units will comply, with all of the provisions of (including, without limitation, filing all forms required by) Section 517.075 of the Florida Securities and Investor Protection Act and Regulation 3E-900.001 issued thereunder with respect to the offering and sale of the Units.

(ll) The Star Entities (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or imposing liability or standards of conduct concerning any Hazardous Material (as hereinafter defined) ("Environmental Laws"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and

conditions of such permits, licenses or approvals would not, individually or in the aggregate result in a material adverse effect on the condition (financial or otherwise) or on the earnings, business, properties, business prospects or operations of the Partnership and its Subsidiaries, taken as a whole. The term

"Hazardous Material" means (A) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, (B) any "hazardous waste" as defined by the Resource Conservation and Recovery Act, as amended, (C) any petroleum or petroleum product, (D) any polychlorinated biphenyl and (E) any pollutant or contaminant or hazardous, dangerous, or toxic chemical, material, waste or substance regulated under or within the meaning of any other Environmental Law.

(mm) Each of the Star Entities maintains insurance with respect to its properties and business of the types and in amounts generally deemed adequate for its business and consistent with insurance coverage maintained by similar companies and businesses, all of which insurance is in full force and effect.

(nn) Each of the Star Entities has filed all material federal, state and foreign income and franchise tax returns and has paid all taxes shown as due thereon, other than taxes which are being contested in good faith and for which adequate reserves have been established in accordance with GAAP; and none of the Star Entities nor Petro has knowledge of any tax deficiency which has been or might be asserted or threatened against any such entity. There are no tax returns of any Star Entity or of Petro that are currently being audited by state, local or federal taxing authorities or agencies (and with respect to which any such entity has received notice), where the findings of such audit, if adversely determined, would result in a material adverse effect on the condition (financial or otherwise) or on the earnings, business, properties, business prospects or operations of the Partnership and its Subsidiaries, taken as a whole.

(oo) With respect to each employee benefit plan, program and arrangement (including, without limitation, any "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")) maintained or contributed to by any Star Entity, or with respect to which any Star Entity could incur any liability under ERISA (collectively, the "Benefit Plans"), no event has occurred and, to the best knowledge of any of the Star Entities, there exists no condition or set of circumstances, in connection with which any such entity could be subject to any liability under the terms of such Benefit Plan, applicable law (including, without limitation, ERISA and the Internal Revenue Code of 1986, as amended) or any applicable agreement that could materially adversely affect the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Star Entities, taken as a whole.

SECTION 4. Agreements of the Partnership.

The Partnership agrees with the Underwriters as follows:

(a) The Partnership will not, either prior to the Effective Date or thereafter during such period as the Prospectus is required by law to be delivered in connection with sales of the Units by an Underwriter or dealer, file any amendment or supplement to the Registration

Statement or the Prospectus, unless a copy thereof shall first have been submitted to the Representatives within a reasonable period of time prior to the filing thereof and the Representatives shall not have objected thereto in good faith.

(b) The Partnership will use its best efforts to cause the Registration Statement to become effective, and will notify the Representatives promptly, and will confirm such advice in writing, (1) when the Registration Statement has become effective and when any post-effective amendment thereto becomes effective, (2) of any request by the Commission for amendments or supplements to the Registration Statement or the Prospectus or for additional information, (3) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose or the threat thereof, (4) of the happening of any event during the period mentioned in the second sentence of Section 4(e) that in the judgment of the Partnership makes any statement made in the Registration Statement or the Prospectus untrue or that requires the making of any changes in the Registration Statement or the Prospectus in order to make the statements therein, in light of the circumstances in which they are made, not misleading and (5) of receipt by the Partnership or any representative or attorney of the Partnership of any other communication from the Commission relating to the

Partnership, the Registration Statement, any preliminary prospectus or the Prospectus. If at any time the Commission shall issue any order suspending the effectiveness of the Registration Statement, the Partnership will make every reasonable effort to obtain the withdrawal of such order at the earliest possible moment. The Partnership will use its best efforts to comply with the provisions of and make all requisite filings with the Commission pursuant to Rule 430A and to notify the Representatives promptly of all such filings.

(c) The Partnership will furnish to the Representatives, without charge, two signed copies of the Registration Statement and of any post-effective amendment thereto, including financial statements and schedules, and all exhibits thereto (including any document filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus), and will furnish to the Representatives, without charge, for transmittal to each of the other Underwriters, a copy of the Registration Statement and any post-effective amendments thereto, including financial statements and schedules but without exhibits.

(d) The Partnership will comply with all the provisions of any undertakings contained in the Registration Statement.

(e) On the Effective Date, and thereafter from time to time, the Partnership will deliver to each of the Underwriters, without charge, as many copies of the Prospectus or any amendment or supplement thereto as the Representatives may reasonably request. The Partnership consents to the use of the Prospectus or any amendment or supplement thereto by the Underwriters and by all dealers to whom the Units may be sold, both in connection with the offering or sale of the Units and for any period of time thereafter during which the Prospectus is required by law to be delivered in connection therewith. If during such period of time any event shall occur which in the judgment of the Partnership or counsel to the Underwriters should be set forth in the Prospectus in order to make any statement therein, in the light of the circumstances under which it was made, not misleading, or if it is necessary to supplement or amend the

Prospectus to comply with law, the Partnership will forthwith prepare and duly file with the Commission an appropriate supplement or amendment thereto, and will deliver to each of the Underwriters, without charge, such number of copies thereof as the Representatives may reasonably request. The Partnership shall not file any document under the Exchange Act before the termination of the offering of the Units by the Underwriters if such document would be deemed to be incorporated by reference into the Prospectus which is not approved by the Representatives after reasonable notice thereof.

(f) Prior to any public offering of the Units by the Underwriters, the Partnership will cooperate with the Representatives and counsel to the Underwriters in connection with the registration or qualification of the Units for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Representatives may request; provided, that in no event shall the Partnership be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action which would subject it to general service of process in any jurisdiction where it is not now so subject.

(g) During the period of five years commencing on the Effective Date, the Partnership will furnish to the Representatives copies of such financial statements and other periodic and special reports as the Partnership may from time to time distribute generally to the holders of any class of its capital units, and will furnish to the Representatives copies of each annual or other report it shall be required to file with the Commission.

(h) The Partnership will make generally available to holders of its securities as soon as may be practicable but in no event later than the last day of the fifteenth full calendar month following the calendar quarter in which the Effective Date falls, an earnings statement (which need not be audited but shall be in reasonable detail) for a period of 12 months ended commencing after the Effective Date, and satisfying the provisions of Section 11(a) of the Act (including Rule 158 of the Rules and Regulations).

(i) Whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, the Partnership will pay, or reimburse if paid by the Representatives, all costs and expenses incident to the performance of the obligations of the Partnership under this

Agreement, including but not limited to costs and expenses of or relating to (1) the preparation, printing and filing of the Registration Statement and exhibits to it, each preliminary prospectus, the Prospectus and any amendment or supplement to the Registration Statement or the Prospectus, (2) the preparation and delivery of certificates representing the Units, (3) the word processing, printing and reproduction of this Agreement, the Agreement Among Underwriters, any Dealer Agreements and any Underwriters' Questionnaire, (4) furnishing (including costs of shipping, mailing and courier) such copies of the Registration Statement, the Prospectus and any preliminary prospectus, and all amendments and supplements thereto, as may be requested for use in connection with the offering and sale of the Units by the Underwriters or by dealers to whom Units may be sold, (5) the listing of the Units on the NYSE, (6) any filings required to be made by the Underwriters with the NASD, and the fees, disbursements and other charges of counsel for the Underwriters in connection therewith, (7) the registration or qualification of the Units for offer and sale under the securities or Blue Sky laws

of such jurisdictions designated pursuant to Section 4(f), including the fees, disbursements and other charges of counsel to the Underwriters in connection therewith, and the preparation and printing of preliminary, supplemental and final Blue Sky memoranda, (8) counsel to the Partnership, (9) the transfer agent for the Units and (10) the Accountants.

(j) If this Agreement shall be terminated by the Partnership pursuant to any of the provisions hereof (otherwise than pursuant to Section 8) or if for any reason the Partnership shall be unable to perform its obligations hereunder, the Partnership will reimburse the Underwriters for all out-of-pocket expenses (including the fees, disbursements and other charges of counsel to the Underwriters) reasonably incurred by them in connection herewith.

(k) The Partnership will not at any time, directly or indirectly, take any action intended, or which might reasonably be expected, to cause or result in, or which will constitute, stabilization of the price of the units of Common Units to facilitate the sale or resale of any of the Units.

(l) The Partnership will apply the net proceeds from the offering and sale of the Units to be sold by the Partnership in the manner set forth in the Prospectus under "Use of Proceeds."

(m) During the period of 120 days commencing at the Closing Date, the Partnership will not, without the prior written consent of PaineWebber Incorporated, directly or indirectly, sell, offer to sell, grant any option for the sale of, or otherwise dispose of, any Common Units or securities convertible into Common Units, other than to the Underwriters pursuant to this Agreement and other than pursuant to employee benefit plans as in existence as of the date hereof, provided, that the Partnership will not grant options to purchase Common Units pursuant to such employee benefit plans at a price less than the public offering price.

(n) The Partnership will not, and will cause each of its affiliates, and certain executive officers, directors and controlling persons to enter into agreements with the Representatives in the form set forth in Exhibit C to the effect that they will not, for a period of 120 days after the commencement of the public offering of the Units (the "Lock-up Period"), without the prior written consent of PaineWebber Incorporated, directly or indirectly, offer, pledge, sell, contract to sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of any Common Units or rights to acquire Common Units or any security convertible into or exercisable or exchangeable for Common Units (including, without limitation, Common Units which may be deemed to be beneficially owned in accordance with the rules and regulations of the SEC) other than in the case of the Partnership the Option Units (other than (i) pursuant to employee stock option plans as in existence as of the date hereof or in connection with other employee incentive compensation arrangements consistent with past practice, or (ii) pursuant to or in connection with an acquisition by the Partnership provided that any person receiving such Common Units in the acquisition will also enter into an agreement with the Underwriters in substantially the same form set forth in Exhibit C, in which such person will agree not to sell, contract to sell or

otherwise dispose of any Common Units or rights to acquire such units for the remainder of the Lock-up Period).

SECTION 5. Conditions of the Obligations of the Underwriters.

In addition to the execution and delivery of the Price Determination Agreement, the obligations of each Underwriter hereunder are subject to the following conditions:

(a) Notification that the Registration Statement has become effective shall be received by the Representatives not later than 5:00 p.m., New York City time, on the date of this Agreement or at such later date and time as shall be consented to in writing by the Representatives and all filings required by Rule 424 of the Rules and Regulations and Rule 430A shall have been made.

(b) (i) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall be pending or threatened by the Commission, (ii) no order suspending the effectiveness of the Registration Statement or the qualification or registration of the Units under the securities or Blue Sky laws of any jurisdiction shall be in effect and no proceeding for such purpose shall be pending before or threatened or contemplated by the Commission or the authorities of any such jurisdiction, (iii) any request for additional information on the part of the staff of the Commission or any such authorities shall have been complied with to the satisfaction of the staff of the Commission or such authorities and (iv) after the date hereof no amendment or supplement to the Registration Statement or the Prospectus shall have been filed unless a copy thereof was first submitted to the Representatives and the Representatives did not object thereto in good faith, and the Representatives shall have received certificates, dated the Closing Date and the Option Closing Date and signed by the Chief Executive Officer or the Chairman of the Board of Directors of the General Partner and the Chief Financial Officer of the General Partner (who may, as to proceedings threatened, rely upon the best of their information and belief), to the effect of clauses (i), (ii) and (iii).

(c) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, (i) there shall not have been, and no development shall have occurred which could reasonably be expected to result in, a material adverse change in the general affairs, business, business prospects, properties, management, condition (financial or otherwise) or results of operations of the Partnership and its Subsidiaries or Petro and its subsidiaries, in each case taken as a whole, whether or not arising from transactions in the ordinary course of business, in each case other than as set forth in or contemplated by the Registration Statement and the Prospectus and (ii) neither the Partnership nor any of its Subsidiaries, nor Petro nor any of its Subsidiaries, shall have sustained any material loss or interference with its business or properties from fire, explosion, flood or other casualty, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree, which is not set forth in the Registration Statement and the Prospectus, if in the judgment of the Representatives any such development makes it

impracticable or inadvisable to consummate the sale and delivery of the Units by the Underwriters at the public offering price.

(d) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, there shall have been no litigation or other proceeding instituted against the General Partner, the Partnership or any of its Subsidiaries or Petro or any of its Subsidiaries or any of their respective officers or directors in their capacities as such, before or by any Federal, state or local court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, in which litigation or proceeding an unfavorable ruling, decision or finding would materially and adversely affect the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Partnership and its Subsidiaries or Petro and its subsidiaries, as the case may be, in each case taken as a whole.

(e) Each of the representations and warranties of the Partnership contained herein shall be true and correct in all material respects at the Closing Date and, with respect to the Option Units, at the Option Closing

Date, as if made at the Closing Date and, with respect to the Option Units, at the Option Closing Date, and all covenants and agreements herein contained to be performed on the part of the Partnership and all conditions herein contained to be fulfilled or complied with by the Partnership at or prior to the Closing Date and, with respect to the Option Units, at or prior to the Option Closing Date, shall have been duly performed, fulfilled or complied with.

(f) The Representatives shall have received an opinion, dated the Closing Date and, with respect to the Option Units, the Option Closing Date, satisfactory in form and substance to counsel for the Underwriters, from Phillips Nizer Benjamin Krim & Ballon LLP, counsel to the Partnership, to the effect set forth in Exhibit D (to the extent such opinions are not covered by the opinion received pursuant to Section 5(g) hereof).

(g) The Representatives shall have received an opinion, dated the Closing Date and, with respect to the Option Units, the Option Closing Date, satisfactory in form and substance to counsel for the Underwriters, from Andrews & Kurth LLP, counsel to the Partnership, to the effect set forth in Exhibit D (to the extent such opinions are not covered by the opinion received pursuant to Section 5(f) hereof).

(h) The Representatives shall have received an opinion, dated the Closing Date and the Option Closing Date, from Latham & Watkins, counsel to the Underwriters, with respect to the Registration Statement, the Prospectus and this Agreement, which opinion shall be satisfactory in all respects to the Representatives.

(i) On the date of the Prospectus, the Accountants shall have furnished to the Representatives a letter, dated the date of its delivery, addressed to the Representatives and in form and substance satisfactory to the Representatives, confirming that they are independent accountants with respect to the Partnership as required by the Act and the Rules and Regulations and with respect to the financial and other statistical and numerical information contained in the Registration Statement or incorporated by reference therein. At the Closing Date and, as to the Option Units, the Option Closing Date, the Accountants shall have furnished to the

Representatives a letter, dated the date of its delivery, which shall confirm, on the basis of a review in accordance with the procedures set forth in the letter from the Accountants, that nothing has come to their attention during the period from the date of the letter referred to in the prior sentence to a date (specified in the letter) not more than five days prior to the Closing Date and the Option Closing Date which would require any change in their letter dated the date of the Prospectus, if it were required to be dated and delivered at the Closing Date and the Option Closing Date.

(j) On or prior to the Closing Date, the Representatives shall have received the executed agreements referred to in Section 4(n).

(k) At the Closing Date and, as to the Option Units, the Option Closing Date, there shall be furnished to the Representatives an accurate certificate, dated the date of its delivery, signed by each of the Chief Executive Officer and the Chief Financial Officer of the General Partner, in form and substance satisfactory to the Representatives, to the effect that:

(i) Each signer of such certificate has carefully examined the Registration Statement and the Prospectus (including any documents filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus) and (A) as of the date of such certificate, such documents are true and correct in all material respects and do not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not untrue or misleading and (B) since the Effective Date, no event has occurred as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein not untrue or misleading in any material respect and there has been no document required to be filed under the Exchange Act and the Exchange Act Rules and Regulations that upon such filing would be deemed to be incorporated by reference into the Prospectus that has not been so filed;

(ii) Each of the representations and warranties of the

Partnership contained in this Agreement were, when originally made, and are, at the time such certificate is delivered, true and correct in all material respects;

(iii) Each of the covenants required herein to be performed by the Partnership on or prior to the delivery of such certificate has been duly, timely and fully performed and each condition herein required to be complied with by the Partnership on or prior to the date of such certificate has been duly, timely and fully complied with; and

(iv) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, (A) there has not been, and no development has occurred which could reasonably be expected to result in, a material adverse change in the general affairs, business, business prospects, properties, management, condition (financial or otherwise) or results of operations of the Partnership and its Subsidiaries or Petro and its subsidiaries, in each case taken as a whole, whether or not arising from transactions in the ordinary course of business, in each case other than as set forth in or contemplated by the Registration Statement and the Prospectus and (B) neither the Partnership nor any of its Subsidiaries, nor Petro nor any of its Subsidiaries, has sustained

any material loss or interference with its business or properties from fire, explosion, flood or other casualty, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree, which is not set forth in the Registration Statement and the Prospectus,

and such other matters as the Representatives may reasonably request.

(l) The Units shall be qualified for sale in such states as the Representatives may reasonably request, each such qualification shall be in effect and not subject to any stop order or other proceeding on the Closing Date and the Option Closing Date.

(m) Prior to the Closing Date, the Units shall have been duly authorized for listing on NYSE upon official notice of issuance.

(n) The National Association of Securities Dealers, Inc. shall have approved the underwriting terms and arrangements and such approval shall not have been withdrawn or limited.

(o) The Partnership shall have furnished to the Representatives such certificates, in addition to those specifically mentioned herein, as the Representatives may have reasonably requested as to the accuracy and completeness at the Closing Date and the Option Closing Date of any statement in the Registration Statement or the Prospectus or any documents filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus, as to the accuracy at the Closing Date and the Option Closing Date of the representations and warranties of the Partnership herein, as to the performance by the Partnership of its obligations hereunder, or as to the fulfillment of the conditions concurrent and precedent to the obligations hereunder of the Underwriters.

(p) On the Closing Date, the Partnership will acquire Petro in the Transaction substantially as set forth in the Prospectus and in the Partnership's Registration Statement on Form S-4 (Registration No. 333-59807), as amended.

(q) The Merger Agreement shall be in full force and effect, all conditions thereto shall have been satisfied, and no condition shall have been waived without the express written consent of the Representatives.

SECTION 6. Indemnification.

(a) The Partnership and its Subsidiaries will, jointly and severally, indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter and each person, if any, who controls each Underwriter within the meaning of Section 15 of the Act or Section 20 of the

Exchange Act, from and against any and all losses, claims, liabilities, expenses and damages (collectively, "Liabilities") (including, but not limited to, any and all investigative, legal and other expenses reasonably incurred in connection with,

and any and all amounts paid in settlement of, any action, suit or proceeding between any of the indemnified parties and any indemnifying parties or between any indemnified party and any third party, or otherwise, or any claim asserted), as and when incurred, to which any Underwriter, or any such person, may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, liabilities, expenses or damages arise out of or are based on (i) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, the Registration Statement or the Prospectus or any amendment or supplement to the Registration Statement or the Prospectus or in any documents filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus, or in any application or other document executed by or on behalf of the Partnership or based on written information furnished by or on behalf of the Partnership filed in any jurisdiction in order to qualify the Units under the Securities Laws thereof or filed with the Commission, (ii) the omission or alleged omission to state in such document a material fact required to be stated in it or necessary to make the statements in it not misleading or (iii) any act or failure to act or any alleged act or failure to act by any Underwriter in connection with, or relating in any manner to, the Units or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, liability, expense or damage arising out of or based upon matters covered by clause (i) or (ii) above (provided that the Partnership shall not be liable under this clause (iii) to the extent it is finally judicially determined by a court of competent jurisdiction that such loss, claim, liability, expense or damage resulted primarily and directly from any such acts or failures to act undertaken or omitted to be taken by such underwriter through its gross negligence or willful misconduct); provided that the Partnership will not be liable to the extent that such loss, claim, liability, expense or damage arises from the sale of the Units in the public offering to any person by an Underwriter and is based on an untrue statement or omission or alleged untrue statement or omission made in reliance on and in conformity with information relating to any Underwriter furnished in writing to the Partnership by the Representatives on behalf of any Underwriter expressly for inclusion in the Registration Statement, any preliminary prospectus or the Prospectus. This indemnity agreement will be in addition to any liability that the Partnership might otherwise have.

(b) Each Underwriter will indemnify and hold harmless the Partnership, each person, if any, who controls the Partnership within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, each director of the General Partner and each officer of the General Partner who signs the Registration Statement to the same extent as the foregoing indemnity from the Partnership to each Underwriter, but only insofar as Liabilities arise out of or are based on any untrue statement or omission or alleged untrue statement or omission made in reliance on and in conformity with information relating to any Underwriter furnished in writing to the Partnership by the Representatives on behalf of such Underwriter expressly for use in the Registration Statement, the Preliminary Prospectus or the Prospectus. This indemnity will be in addition to any liability that each Underwriter might otherwise have; provided, however, that in no case shall any Underwriter be liable or responsible for any amount in excess of the underwriting discounts and commissions received by such Underwriter.

(c) Any party that proposes to assert the right to be indemnified under this Section 6 will, promptly after receipt of notice of commencement of any action against such party in respect of which a claim is to be made against an indemnifying party or parties under this Section 6, notify each such indemnifying party of the commencement of such action, enclosing a copy of all papers served, but the omission so to notify such indemnifying party will not relieve it from any liability that it may have to any indemnified party under the foregoing provisions of this Section 6 unless, and only to the extent that, such omission results in the forfeiture of substantive rights or defenses by the indemnifying party. If any such action is brought against any indemnified party and it notifies the indemnifying party of its commencement, the indemnifying

party will be entitled to participate in and, to the extent that it elects by delivering written notice to the indemnified party promptly after receiving notice of the commencement of the action from the indemnified party, jointly with any other indemnifying party similarly notified, to assume the defense of the action, with counsel satisfactory to the indemnified party, and after notice from the indemnifying party to the indemnified party of its election to assume the defense, the indemnifying party will not be liable to the indemnified party for any legal or other expenses except as provided below and except for the reasonable costs of investigation subsequently incurred by the indemnified party in connection with the defense. The indemnified party will have the right to employ its own counsel in any such action, but the fees, expenses and other charges of such counsel will be at the expense of such indemnified party unless (1) the employment of counsel by the indemnified party has been authorized in writing by the indemnifying party, (2) the indemnified party has reasonably concluded (based on advice of counsel) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, (3) a conflict or potential conflict exists (based on advice of counsel to the indemnified party) between the indemnified party and the indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party) or (4) the indemnifying party has not in fact employed counsel to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees, disbursements and other charges of counsel will be at the expense of the indemnifying party or parties. It is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm admitted to practice in such jurisdiction at any one time for all such indemnified party or parties. All such fees, disbursements and other charges will be reimbursed by the indemnifying party promptly as they are incurred. An indemnifying party will not be liable for any settlement of any action or claim effected without its written consent (which consent will not be unreasonably withheld). No indemnifying party shall, without the prior written consent of each indemnified party, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding relating to the matters contemplated by this Section 6 (whether or not any indemnified party is a party thereto), unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising or that may arise out of such claim, action or proceeding. Notwithstanding any other provision of this Section 6(c), if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement effected without its written consent if (i) such settlement is entered

into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(d) In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in the foregoing paragraphs of this Section 6 is applicable in accordance with its terms but for any reason is held to be unavailable from the Partnership or the Underwriters, the Partnership and the Underwriters will contribute to the total Liabilities (including any investigative, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted, but after deducting any contribution received by the Partnership from persons other than the Underwriters, such as persons who control the Partnership within the meaning of the Act, officers of the General Partner who signed the Registration Statement and directors of the General Partner, who also may be liable for contribution) to which the Partnership and any one or more of the Underwriters may be subject in such proportion as shall be appropriate to reflect the relative benefits received by the Partnership on the one hand and the Underwriters on the other. The relative benefits received by the Partnership on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Partnership bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. If, but only

if, the allocation provided by the foregoing sentence is not permitted by applicable law, the allocation of contribution shall be made in such proportion as is appropriate to reflect not only the relative benefits referred to in the foregoing sentence but also the relative fault of the Partnership, on the one hand, and the Underwriters, on the other, with respect to the statements or omissions which resulted in such loss, claim, liability, expense or damage, or action in respect thereof, as well as any other relevant equitable considerations with respect to such offering. Such relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Partnership, or the Representatives on behalf of the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Partnership and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 6(d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the Liabilities, or action in respect thereof, referred to above in this Section 6(d) shall be deemed to include, for purpose of this Section 6(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 6(d), no Underwriter shall be required to contribute any amount in excess of the underwriting discounts and commissions received by it and no person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) will be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to

contribute as provided in this Section 6(d) are several in proportion to their respective underwriting obligations and not joint. For purposes of this Section 6(d), any person who controls a party to this Agreement within the meaning of the Act will have the same rights to contribution as that party, and each officer of the General Partner who signed the Registration Statement will have the same rights to contribution as the Partnership, subject in each case to the provisions hereof. Any party entitled to contribution, promptly after receipt of notice of commencement of any action against such party in respect of which a claim for contribution may be made under this Section 6(d), will notify any such party or parties from whom contribution may be sought, but the omission so to notify will not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have under this Section 6(d). Except for a settlement entered into pursuant to the last sentence of Section 6(d) hereof, no party will be liable for contribution with respect to any action or claim settled without its written consent (which consent will not be unreasonably withheld).

(e) The indemnity and contribution agreements contained in this Section 6 and the representations and warranties of the Partnership contained in this Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of the Underwriters, (ii) acceptance of the Units and payment therefore or (iii) any termination of this Agreement.

(f) The Partnership hereby irrevocably consents and agrees, for the benefit of each Underwriter and each person who controls any Underwriter, that any action, suit or proceeding asserting a claim for indemnification or contribution under or pursuant to this Section 6 may be instituted by any Underwriter or any such controlling person in any state or federal court in the Borough of Manhattan in the City of New York, and the Partnership will accept the jurisdiction of such court in such action, and waives, to the fullest extent permitted by applicable law, any defense based upon lack of personal jurisdiction or venue.

SECTION 7. Termination.

The obligations of the Underwriters under this Agreement may be terminated at any time on or prior to the Closing Date (or, with respect to the Option Units, on or prior to the Option Closing Date), by notice to the Partnership from the Representatives, without liability on the part of any Underwriter to the Partnership, if, prior to delivery and payment for the Units (or the Option Units, as the case may be), in the sole judgment of the Representatives, (i) there has been, since the respective dates as of which information is given in

the Registration Statement, any material adverse change in the Partnership's business, properties, business prospects, condition (financial or otherwise) or results of operations, (ii) trading in any of the equity securities of the Partnership shall have been suspended by the Commission, the NASD, by an exchange that lists the Units or by the Nasdaq Stock Market, (iii) trading in securities generally on the New York Stock Exchange or the Nasdaq Stock Market shall have been suspended or limited or minimum or maximum prices shall have been generally established on such exchange or over the counter market, or additional material governmental restrictions, not in force on the date of this Agreement, shall have been imposed upon trading in securities generally by such exchange or by order of the Commission or the NASD or any court or other governmental authority, (iv) a

general banking moratorium shall have been declared by either Federal or New York State authorities or (v) any material adverse change in the financial or securities markets in the United States or in political, financial or economic conditions in the United States or any outbreak or material escalation of hostilities or declaration by the United States of a national emergency or war or other calamity or crisis shall have occurred the effect of any of which is such as to make it, in the sole judgment of the Representatives, impracticable or inadvisable to market the Units on the terms and in the manner contemplated by the Prospectus.

SECTION 8. Substitution of Underwriters.

If any one or more of the Underwriters shall fail or refuse to purchase any of the Firm Units which it or they have agreed to purchase hereunder, and the aggregate number of Firm Units which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of Firm Units, the other Underwriters shall be obligated, severally, to purchase the Firm Units which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase, in the proportions which the number of Firm Units which they have respectively agreed to purchase pursuant to Section 1 bears to the aggregate number of Firm Units which all such non-defaulting Underwriters have so agreed to purchase, or in such other proportions as the Representatives may specify; provided that in no event shall the maximum number of Firm Units which any Underwriter has become obligated to purchase pursuant to Section 1 be increased pursuant to this Section 8 by more than one-ninth of the number of Firm Units agreed to be purchased by such Underwriter without the prior written consent of such Underwriter. If any Underwriter or Underwriters shall fail or refuse to purchase any Firm Units and the aggregate number of Firm Units which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase exceeds one-tenth of the aggregate number of Firm Units and arrangements satisfactory to the Representatives and the Partnership for the purchase of such Firm Units are not made within 48 hours after such default, this Agreement will terminate without liability on the part of any Representatives and the Partnership for the purchase or sale of any Units under this Agreement. In any such case either the Representatives or the Partnership shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and in the Prospectus or in any other documents or arrangements may be effected. Any action taken pursuant to this Section 8 shall not relieve the defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

SECTION 9. Miscellaneous.

Notice given pursuant to any of the provisions of this Agreement shall be in writing and, unless otherwise specified, shall be mailed or delivered (a) if to the Partnership, at the office of the Partnership, 2187 Atlantic Street, P.O. Box 120011, Stamford, CT 06912-0011, Attention: Richard Ambury, or (b) if to the Representatives, at the offices of PaineWebber Incorporated, 1285 Avenue of the Americas, New York, New York 10019, Attention: Corporate Finance Department, with a copy to Latham & Watkins, 885 Third Avenue, Suite 1000, New York, New York 10022, Attention: Robert A. Zuccaro. Any such notice shall be effective only upon receipt.

Any notice under Section 7 or 8 may be made by telex or telephone, but if so made shall be subsequently confirmed in writing.

This Agreement has been and is made solely for the benefit of the Underwriters and the Partnership and of the controlling persons, directors and officers referred to in Section 6, and their respective successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. The term "successors and assigns" as used in this Agreement shall not include a purchaser, as such purchaser, of Units from any of the Underwriters.

All representations, warranties and agreements of the Partnership contained herein or in certificates or other instruments delivered pursuant hereto, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any of its controlling persons and shall survive delivery of and payment for the Units hereunder.

Any action required or permitted to be taken by the Representatives under this Agreement may be taken by them jointly or by PaineWebber Incorporated.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE CONFLICT OF LAWS PRINCIPLES OF SUCH STATE.

This Agreement may be signed in two or more counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

The Partnership and the Underwriters each hereby irrevocably waive any right they may have to a trial by jury in respect of any claim based upon or arising out of this Agreement or the transactions contemplated hereby.

This Agreement may not be amended or otherwise modified or any provision hereof waived except by an instrument in writing signed by the Representatives and the Partnership.

Please confirm that the foregoing correctly sets forth the agreement among the Partnership and the several Underwriters.

Very truly yours,

STAR GAS PARTNERS, L.P.

By: STAR GAS CORPORATION, as General Partner

By: _____
Name:
Title:

STAR GAS LLC

By: _____
Name:
Title:

Confirmed as of the date first above mentioned:

PAINEWEBBER INCORPORATED
CIBC OPPENHEIMER CORP.
DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION
A.G. EDWARDS & SONS, INC.
LEHMAN BROTHERS INC.
PRUDENTIAL SECURITIES INCORPORATED
DAIN RAUSCHER WESSELS, A DIVISION OF DAIN RAUSCHER INCORPORATED
Acting on behalf of themselves and as the
Representatives of the other several
Underwriters named in Schedule I hereof.

By: PAINEWEBBER INCORPORATED

By: _____
Name:
Title:

SCHEDULE 1

UNDERWRITERS

Name of Underwriters	Number of Firm Units to be Purchased
PaineWebber Incorporated.....	
CIBC Oppenheimer Corp.....	
Dain Rauscher Wessels, a division of Dain Rauscher Incorporated.....	
Donaldson, Lufkin & Jenrette Securities Corporation.....	
A.G. Edwards & Sons, Inc.....	
Lehman Brothers, Inc.....	
Prudential Securities Incorporated.....	
Total.....	

SCHEDULE 2

TRADEMARK RIGHTS

EXHIBIT A

STAR GAS PARTNERS, L.P.

PRICE DETERMINATION AGREEMENT

_____, 1999

PAINEWEBBER INCORPORATED
CIBC OPPENHEIMER CORP.
DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION
A.G. EDWARDS & SONS, INC.
LEHMAN BROTHERS INC.
PRUDENTIAL SECURITIES INCORPORATED
DAIN RAUSCHER WESSELS, A DIVISION OF DAIN RAUSCHER INCORPORATED
As Representatives of the
several Underwriters
c/o PaineWebber Incorporated
1285 Avenue of the Americas
New York, New York 10019

Dear Sirs:

Reference is made to the Underwriting Agreement, dated _____, 1999 (the "Underwriting Agreement"), among Star Gas Partners, L.P., a Delaware partnership (the "Partnership"), and the Underwriters named in Schedule 1 thereto or hereto (the "Underwriters") for whom PaineWebber Incorporated, CIBC Oppenheimer Corp., Donaldson, Lufkin & Jenrette Securities Corporation, A.G. Edwards & Sons, Inc., Lehman Brothers Inc. Prudential Securities Incorporated and Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, are acting as representatives (the "Representatives"). The Underwriting Agreement provides for the purchase by the Underwriters, subject to the terms and conditions set forth therein, of an aggregate of _____ Common Units representing limited partner interests in the Partnership (the "Firm Units"). The Partnership has also agreed to grant to the Underwriters an option (the "Option") to purchase up to an aggregate of _____ additional Common Units (the "Option Units") on the terms and for the purposes set forth in the Underwriting Agreement. The Firm Units and the Option Units are hereinafter collectively referred to as the "Units." This Agreement is the Price Determination Agreement referred to in the Underwriting Agreement.

Pursuant to Section 1 of the Underwriting Agreement, the undersigned agrees with the Representatives as follows:

The public offering price per Unit shall be $_____.

The purchase price per Firm Unit to be paid by the several Underwriters shall be $_____ representing an amount equal to the public offering price set forth above, less $___ per Unit.

The Partnership represents and warrants to each of the Underwriters that the representations and warranties of the Partnership set forth in Section 3 of the Underwriting Agreement are accurate, as though expressly made at and as of the date hereof.

As contemplated by the Underwriting Agreement, attached as Schedule 1 is a completed list of the several Underwriters, which shall be a part of this Agreement and the Underwriting Agreement.

THIS AGREEMENT SHALL BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK WITHOUT REGARD TO THE CONFLICT OF LAWS PRINCIPLES OF SUCH STATE.

If the foregoing is in accordance with your understanding of the agreement among the Underwriters and the Partnership, please sign and return to the Partnership a counterpart hereof, whereupon this instrument along with all counterparts and together with the Underwriting Agreement shall be a binding agreement among the Underwriters and the Partnership in accordance with its terms and the terms of the Underwriting Agreement.

Very truly yours,

STAR GAS PARTNERS, L.P.

By: STAR GAS CORPORATION, as General Partner

By: _____
Name:
Title:

Confirmed as of the date
first above mentioned:

PAINEWEBBER INCORPORATED
CIBC OPPENHEIMER CORP.
DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION
A.G. EDWARDS & SONS, INC.
LEHMAN BROTHERS INC.
PRUDENTIAL SECURITIES INCORPORATED
DAIN RAUSCHER WESSELS, A DIVISION OF DAIN RAUSCHER INCORPORATED

Acting on behalf of themselves
and as the Representatives
of the other several Underwriters
named in Schedule I to the Underwriting Agreement.

By: PAINEWEBBER INCORPORATED

By:_____
Name:
Title:

EXHIBIT B

SUBSIDIARIES

EXHIBIT C

_____, 1999

PAINEWEBBER INCORPORATED
CIBC OPPENHEIMER CORP.
DONALDSON, LUFKIN & JENRETTE SECURITIES CORPORATION
A.G. EDWARDS & SONS, INC.
LEHMAN BROTHERS INC.
PRUDENTIAL SECURITIES INCORPORATED
DAIN RAUSCHER WESSELS, A DIVISION OF DAIN RAUSCHER INCORPORATED
As Representatives of the
several Underwriters
c/o PaineWebber Incorporated
1285 Avenue of the Americas
New York, New York 10019

Dear Sirs:

In consideration of the agreement of the several Underwriters, for which PaineWebber Incorporated, CIBC Oppenheimer Corp., Donaldson, Lufkin & Jenrette Securities Corporation, A.G. Edwards & Sons, Inc., Lehman Brothers Inc., Prudential Securities Incorporated and Dain Rauscher Wessels, a division of Dain Rauscher Incorporated (the "Representatives") intend to act as Representatives to underwrite a proposed public offering (the "Offering") of Common Units (the "Common Units") of Star Gas Partners, L.P., a Delaware partnership (the "Partnership"), as contemplated by a registration statement with respect to such units filed with the Securities and Exchange Commission on Form S-3 (Registration No. 333-68329), the undersigned hereby agrees that the undersigned will not, for a period of 120 days after the commencement of the public offering of such units, without the prior written consent of PaineWebber Incorporated directly or indirectly offer, pledge, sell, contract to sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, or require any person to file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933 to register any Common Units or securities convertible into or exercisable or exchangeable for Common Units or warrants or other rights to acquire Common Units of which the undersigned is now, or may in the future become, the beneficial owner within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, other than in the case of the Partnership the Option Units, (other than pursuant to employee stock option plans as in existence on the date hereof or in connection with other employee incentive compensation arrangements consistent with past practice).

Very truly yours,

By: _____
Name:

Print Name: _____

EXHIBIT D

Form of Opinion of
Counsel to the Partnership
- --------------------------

Exhibit 5.1

Phillips Nizer Benjamin Krim & Ballon LLP
666 Fifth Avenue
New York, New York 10103-0084

February 23, 1999

Star Gas Partners, L.P.
2187 Atlantic Street
Stamford, CT 06912-0011

Re: Registration Statement on Form S-3,
as amended
File No. 333-68329

Dear Ladies and Gentlemen:

We refer to the above-captioned registration statement, as amended (the "Registration Statement") under the Securities Act of 1933, as amended, filed by Star Gas Partners, L.P., a Delaware limited partnership (the "Partnership"), with the Securities and Exchange Commission, relating to 8,947,368 common units (the "Common Units") of limited partner interests in the Partnership which are being offered for sale by the Partnership (including Common Units which may be sold upon exercise of the Underwriters' over-allotment option).

Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Registration Statement.

We have made such examination of law and have examined originals or copies, certified or otherwise authenticated to our satisfaction, of all such records, agreements and other instruments, certificates and orders of public officials, certificates of the General Partner and representatives of the partnership, and other documents that we have deemed necessary to render the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals, the conformity to the original thereof of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

Based on the foregoing, we are of the opinion that:

1. The Partnership has been duly formed and is validly existing as a limited partnership in good standing under the laws of the State of Delaware.

2. The Common Units have been duly authorized, and when issued in the manner set forth in the Registration Statement, will be validly issued, fully paid and non-assessable.

We are attorneys admitted to practice in the State of New York. Our opinion relates only to the laws of the State of New York, applicable federal law of the Untied States of America and the corporate and limited partnership laws of Delaware. We express no opinion on the law of any other jurisdiction.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm under the caption "Validity of Common Units" in the related Prospectus.

Very truly yours,

/s/ Phillips Nizer Benjamin Krim & Ballon LLP

PHILLIPS NIZER BENJAMIN KRIM & BALLON LLP

Exhibit 8.1

February 23, 1999

Star Gas Partners, L.P.
2187 Atlantic Street
Stamford, Connecticut 06902

Ladies and Gentlemen:

We have acted as special counsel to Star Gas Partners, L.P. (the "Partnership") in connection with the offering (the "Offering") of up to 8,947,368 common units representing limited partner interests ("Common Units") in the Partnership pursuant to the Registration Statement on Form S-3 of the Partnership (Registration No. 333-68329) relating to the Common Units (the "Registration Statement"). In connection therewith, we have participated in the preparation of the discussion set forth under the caption "Federal Income Tax Considerations" in the prospectus included in the Registration Statement (the "Prospectus"). Capitalized terms used and not otherwise defined herein are used as defined in the Prospectus.

The Discussion, subject to the disqualifications stated therein, constitutes our opinion as to the material United States federal income tax consequences for purchasers of Common Units pursuant to the Offering.

We hereby consent to the filing of this opinion as an exhibit to the Prospectus and to the use of our name in the Discussion. The issuance of such consent does not concede that we are an "expert" for the purposes of the Securities Act of 1933.

Sincerely,

ANDREWS & KURTH L.L.P.

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Star Gas Partners, L.P.

We consent to incorporation by reference in the registration statement to be filed on Form S-3 of Star Gas Partners, L.P. of our report dated November 13, 1998, relating to the consolidated balance sheets of Star Gas Partners, L.P. and subsidiary as of September 30, 1998 and 1997, and the related consolidated statements of operations, partners' capital and predecessor equity and cash flows for each of the years in the three-year period ended September 30, 1998 and related schedule, which report appears in the September 30, 1998 annual report on Form 10-K/A of Star Gas Partners, L.P.

Additionally, we consent to the incorporation by reference in the registration statement to be filed on Form S-3 of Star Gas Partners, L.P. of our report dated October 22, 1997 relating to the balance sheets of Pearl Gas Co. as of December 31, 1996 and 1995, and the related statements of income, shareholders' equity, and cash flows for the years then ended, which report appears in the November 24, 1997 current report on Form 8-K/A of Star Gas Partners, L.P.

Additionally, we consent to incorporation by reference in the registration statement to be filed on Form S-3 of Star Gas Partners, L.P. of our report dated February 16, 1999, relating to the consolidated balance sheets of Petroleum Heat and Power Co., Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, changes in shareholders' equity (deficiency) and cash flows for each of the years in the three-year period ended December 31, 1998 and related schedule, which report is included in the February 18, 1999 current report on Form 8-K of Star Gas Partners, L.P.

We also consent to the reference to our firm under the heading "Experts" in the prospectus.

KPMG LLP

Stamford, Connecticut

February 22, 1999