UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]

For the transition period from _________ to _________

Commission File Number: 33-98490

STAR GAS PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	06-1437793
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2187 Atlantic Street, Stamford, Connecticut	06902
(Address of principal executive office)	(Zip Code)

(203) 328-7300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Units	New York Stock Exchange
Senior Subordinated Units	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of Star Gas Partners, L.P. Common Units held by non-affiliates of Star Gas Partners, L.P. on December 11, 2000 was approximately $276,800,000. As of December 11, 2000 the number of Star Gas Partners, L.P. shares outstanding for each class of common stock was:

17,539,967	Common Units
2,589,797	Senior Subordinated Units
345,364	Junior Subordinated Units
325,729	General Partner Units

Documents Incorporated by Reference: None

STAR GAS PARTNERS, L.P.

2000 FORM 10-K ANNUAL REPORT

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PART I
ITEM 1. BUSINESS

Structure

Star Gas Partners, L.P. ("Star Gas Partners" or the "Partnership") is a diversified home energy distributor and services provider, specializing in home heating oil, propane, natural gas and electricity. Star Gas Partners is a Master Limited Partnership which at September 30, 2000 had 16.0 million common limited partner units (NYSE: "SGU" representing a 83.1% limited partner interest in Star Gas Partners) and 2.6 million senior subordinated units (trading symbol "SGH" representing a 13.4% limited partner interest in Star Gas Partners) outstanding. Additional Partnership interests in Star Gas Partners are represented by 0.3 million junior subordinated units (representing a 1.8% limited partner interest in Star Gas Partners) and 0.3 million general partner units (representing a 1.7% general partner interest in Star Gas Partners).

Operationally the Partnership is organized as follows:

- Star Gas Propane, L.P., ("Star Gas Propane" or the "propane segment") is a wholly owned subsidiary of Star Gas Partners. Star Gas Propane markets and distributes propane gas and related products to approximately 200,000 customers in the Midwest and Northeast.

- Petro Holdings, Inc. ("Petro" or the "heating oil segment"), is the nation's largest distributor of home heating oil and serves approximately 350,000 customers in the Northeast and Mid-Atlantic. Petro is an indirect wholly owned subsidiary of Star Gas Propane.

- Total Gas and Electric ("TG&E" or the "natural gas and electric reseller segment") is an energy reseller that markets natural gas and electricity to residential homeowners in deregulated energy markets in the Northeast and Mid-Atlantic states of New York, New Jersey, Pennsylvania, Florida and Maryland and serves approximately 110,000 residential customers. TG&E is currently a 72.7% owned subsidiary of the Partnership.

- Star Gas Partners ("Partners" or the "Public Master Limited Partnership") includes the office of the Chief Executive Officer and in addition has the responsibility for maintaining investor relations and investor reporting for the Partnership.

Business

The seasonal nature of the Partnership's business results in the sale of approximately 30% of its volume in the first fiscal quarter (October through December) and 45% of its volume in the second fiscal quarter (January through March) of each year, the peak heating season, because propane, heating oil and natural gas are primarily used for space heating in residential and commercial buildings. The Partnership generally realizes net income in both of these quarters and net losses during the quarters ending June and September. In addition, sales volume typically fluctuates from year to year in response to variations in weather, wholesale energy prices and other factors.

Propane Operations

The propane segment is primarily engaged in the retail distribution of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers. Propane customers are served from 91 branch locations and 56 satellite storage facilities in the Midwest and Northeast In addition to its retail propane business, the propane segment also serves wholesale customers from its underground cavern and storage facilities in Seymour, Indiana. Based on sales dollars, approximately 90% of propane sales were to retail customers and approximately 10% were to wholesale customers. Retail sales have historically had a greater profit margin, more stable customer base and less price sensitivity as compared to the wholesale business.

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, propane 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-1997, propane accounts for approximately 3.5% of household energy consumption in the United States.

Home Heating Oil Operations

Home heating oil customers are served from 24 branch locations in the Northeast and Mid-Atlantic regions, from which the heating oil segment installs and repairs 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 its basic home heating oil service, and are designed to maximize customer satisfaction and loyalty. For fiscal 2000, the heating oil segment's sales were comprised of approximately 78% from sales of home heating oil; 16% from the installation and repair of heating equipment; and 6% from the sale of other petroleum products, including diesel fuel and gasoline, to commercial customers.

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.

Natural Gas and Electricity Operations

The Partnership is an independent reseller of natural gas and electricity to residential homeowners and small commercial establishments in deregulated markets, through its 72.7% controlling interest in TG&E. In the markets in which TG&E operates, natural gas and electricity are available from wholesale natural gas producers and electricity generating companies. Substantially all of TG&E's natural gas was purchased from a major Texas wholesaler in fiscal 2000, with the balance from several other wholesalers. Natural gas is transported to the local utility company for TG&E, through purchased or assigned capacity on pipelines. All of TG&E's electricity in fiscal 2000 was purchased from a major New York State wholesaler which delivers the electricity to the local utility company. The local utility company then delivers the natural gas and electricity to TG&E customers using their existing distribution system. The local utility and TG&E coordinate delivery and billing, and also compete to sell natural gas and electricity to the ultimate consumer. Generally, TG&E pays the local utility a service charge to provide for certain customer related costs like meter reading and billing. Customers also pay a separate delivery charge to the local utility for bringing the natural gas or electricity from the customer's chosen supplier. In all but one market in which TG&E operates, both TG&E and local utility charges are itemized on one customer energy bill generated by the utility. For the remaining markets, TG&E directly bills the customer for the natural gas or electricity supplied.

Industry Characteristics

The retail propane and home heating oil industries are both mature, with total demand expected to remain relatively flat or to decline slightly. The Partnership believes 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 but 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 the propane segment and the heating oil segment have been active consolidators in each of their markets.

Historically, the local electric company provided its customers with all three aspects of electric service: generation, transmission and distribution. However, under deregulation, state Public Utility Commissions throughout the country are licensing Energy Supply Companies ("ESCs") to be approved as alternative suppliers of energy to end-users. ESCs will provide the "generation" function, supplying electricity to specific delivery points. ESCs are essentially the "manufacturers" of the electricity. ESCs also act as natural gas distributors, as they bring natural gas to the local utility for redistribution on the utility system to the ultimate end-user, the customer. The local utility companies will continue to provide the "transmission" and "distribution" function, acting as the distributor of the electricity and natural gas. Restructuring (commonly called deregulation) means that consumers now have the option to select a new provider for the commodity portion of their bill - a new supplier of electricity or natural gas. ESCs are often able to supply electricity or natural gas to end users at discounts when compared to what is paid to the current local utility.

Business Strategy

The Partnership's primary objective is to increase cash flow on a per unit basis. The Partnership intends to pursue this objective principally through (i) the pursuit of strategic acquisitions which capitalize on the Partnership's acquisition expertise and the highly fragmented propane and home heating oil distribution industries, (ii) the realization of operating efficiencies in existing and acquired operations, (iii) a focus on customer growth and retention, (iv) the continued enhancement in public awareness of the Partnership's quality brands and (v) the sale of rationally related products.

In the Partnership's New York and Mid-Atlantic regions, the home heating oil segment operates almost exclusively under the name of "Petro," rather than the acquired brand names previously in use. The Partnership has been building the "Petro" brand name by focusing on delivering premium service to its customers.

As the largest retail distributor of home heating oil and a leading retail distributor of propane in the United States, the Partnership is able to realize economies of scale in operating, marketing, information technology and other areas by spreading costs over a larger customer base. Additionally, the heating oil segment is using communication and computer technology that is generally not used by its competitors, which has allowed it to realize operating efficiencies.

Propane

Operations

The propane segment's retail propane operations are located primarily in the Northeast and Midwest regions of the United States:

NORTHEAST		MIDWEST		
Connecticut	New York	Indiana	Kentucky	Ohio
Stamford	Addison	Batesville	Dry Ridge	Bowling Green
Hartford	Poughkeepsie	Bedford	Glencoe	Cincinnati
	Washingtonville	Bluffton	Prospect	Columbiana
		College Corner	Shelbyville	Columbus
Maine		Columbia City		Defiance
Fairfield	Pennsylvania	Decatur		Deshler
Fryeburg	Hazleton	Ferdinand	Michigan	Dover
Randolph	Wellsboro	Greencastle	Big Rapids	Ft. Recovery
Skowhegan	Wind Gap	Jeffersonville	Charlotte	Hebron
Wells		Lawrence	Chassell	Ironton
Windham	Rhode Island	Linton	Coleman	Jamestown
	Davisville	Madison	Hillsdale	Johnstown
		New Salisbury	Kalamazoo	Kenton
Massachusetts		N. Manchester	Marquete	Lancaster
Belchertown		N. Webster	Munising	Lewisburg
Rochdale		Orland	Owosso	Lynchburg
Westfield		Portland	Somerset Center	Macon
Swansea		Remington	Vassar	Marysville
		Richmond		Maumee
		Rushville		McClure
New Hampshire		Seymour	West Virginia	Milford
(from Fryeburg, ME)		Shirley	(from Ironton, OH)	Mt. Orab
		Sulphur Springs		Mt. Vernon
		Versailles		North Star
New Jersey		Warren		Ripley
Maple Shade		Waterloo		Sabina
Tuckahoe		Winamac		Waverly
				West Union

The Partnership's propane segment serves approximately 200,000 customers in the Northeast and Midwestern states. In addition to selling propane, the propane segment also sells, installs and services equipment related to its propane distribution business, including heating and cooking appliances. At several Midwest locations bottled water is sold and water conditioning equipment is either sold or leased. Typical branch locations consist of an office, an appliance showroom and a warehouse and service facility, 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 for the most part involves large numbers of small deliveries averaging 100 to 150 gallons to each customer. Retail deliveries of propane are usually made to customers by means of the propane segment's fleet of bobtail and rack trucks.

Currently the propane segment has 527 bobtail and rack trucks. Propane is pumped from a 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. The propane segment also delivers propane to retail customers in portable cylinders, which typically are picked up and replenished at distribution locations, then returned to the retail customer. To a limited extent, the propane segment also delivers 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 fiscal 2000, the propane segment grew its residential customer base by approximately 0.5% through internal marketing efforts. In addition, the propane segment completed five acquisitions with approximately 28,700 customers with annual volumes of 20.6 million gallons. Approximately 64% of the propane segment's retail sales are made to residential customers and 36% of retail sales are made to commercial and agricultural customers. Sales to residential customers in fiscal year 2000 accounted for approximately 73% of propane gross profit on propane sales, reflecting the higher-margin nature of this segment of the market. In excess of 95% of the retail propane customers lease their tanks from the propane segment. 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. Over half of the propane segment's residential customers receive their propane supply under an automatic delivery system. The amount delivered is 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, the propane segment provides emergency service 24 hours a day, seven days a week, 52 weeks a year.

Competition

The propane industry 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. The propane segment believes that its superior service capabilities and customer responsiveness differentiates it from many of its 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, the Partnership believes that the ten largest multi-state marketers, including its propane segment, 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 the propane segment's 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.

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, the Partnership believes 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.

Home Heating Oil

Operations

The Partnership's heating oil segment serves approximately 350,000 customers in the Northeast and Mid-Atlantic states. In addition to selling home heating oil, the heating oil segment installs and repairs heating equipment. To a limited extent, it also markets other petroleum products. During the twelve months ended September 30, 2000, the total sales in the heating oil segment were comprised of approximately, 78% from sales of home heating oil; 16% from the installation and repair of heating equipment; and 6% from the sale of other petroleum products. The heating oil segment provides home heating equipment repair service 24 hours a day, seven days a week, 52 weeks a year, generally within four hours of a request. It also regularly provides various service incentives to obtain and retain customers. The heating oil segment is consolidating its operations under one brand name, which it is building by employing an upgraded, professionally trained and managed sales force, together with a professionally developed marketing campaign, including radio and print advertising media. The heating oil segment has a nationwide toll free telephone number, 1-800-OIL-HEAT, which it believes helps build customer awareness and brand identity.

As a result of a major strategic study, in 1996 the heating oil segment began to implement an operational restructuring program designed to take advantage of its size within the home heating oil industry. This program involves regionalization of its home heating oil operations into three profit centers, which allows it to operate more efficiently. In addition, this program enables the heating oil segment 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 the heating oil segment opened a regional customer service center on Long Island, New York. This state-of-the-art facility currently conducts all activities that interface with its approximately 110,000 Long Island and New York City home heating oil customers, including sales, customer service, credit and accounting. Since the establishment of this customer service center, eight full-function branches were consolidated into four strategically located delivery and service depots to serve the heating oil segment's customers more efficiently. Furthermore, in keeping with the focus of its operating strategy, late in 1997 the heating oil segment continued to reorganize select branch and corporate responsibilities in order to eliminate redundant functions and regionalize responsibilities where they can best serve customers and the home heating oil business.

Customers

The heating oil segment currently serves approximately 350,000 customers in the following 26 markets:

New York	Massachusetts	New Jersey
Bronx, Queens and Kings Counties	Boston (Metropolitan)	Camden
Dutchess County	Northeastern Massachusetts	Lakewood
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	Berks County	Newport
Southern Fairfield County	(Centered in Reading)	
(Metropolitan)	Bucks County	Maryland/Virginia/D.C.
	(Centered in Southampton)	Arlington
	Lebanon County	Baltimore
	(Centered in Palmyra)	Washington, D.C. (Metropolitan)

During the twelve months ended September 30, 2000, approximately 87% of the heating oil segment's heating oil sales were made to homeowners, with the remainder to industrial, commercial and institutional customers. In fiscal 2000, the heating oil segment experienced net account growth of approximately 1.3%, representing gains of approximately 13.8% and gross losses of 12.5%. Attrition for the heating oil segment for fiscal 1999 was 2.3%. Attrition of existing customers had averaged approximately 5% per year over the five years through 1998. 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 marketing and service programs and other incentives. While the heating oil segment often loses customers when they move from their homes, it is able to retain a majority of these homes by obtaining the new home purchaser as a customer. Approximately 90% of the heating oil 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. The heating oil segment delivers home heating oil approximately six times during the year to the average customer. The segment's practice is to bill customers promptly after delivery. In addition, approximately 36% of its customers are on a 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.

Approximately 45% of the heating oil segment's total sales are made to individual customers under an agreement pre-establishing the maximum sales price (or "capped price") of oil over a twelve month period. The maximum price at which oil is sold to these individual customers is renegotiated each year in light of current market conditions. The heating oil segment currently enters into forward purchase contracts, futures contracts, and option contracts to hedge a substantial portion of the oil it sells to these capped-price customers. This practice permits the heating oil segment to purchase oil at a fixed price in advance of its obligations to supply that oil, while hedging to some extent its exposure to cost fluctuations. 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.

Competition

The heating oil segment competes with heating oil distributors offering a broad range of services and prices, from full service distributors, like itself, to those offering delivery only. Long-standing customer relationships are typical in the industry. Like most companies in the home heating oil business, the heating oil segment provides 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 the heating oil segment 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. The heating oil segment also competes for retail customers with suppliers of alternative energy products, principally natural gas, propane, and electricity. 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. The heating oil segment believes that approximately 1% of its home heating oil customer base annually converts from home heating oil to natural gas.

Natural Gas and Electricity

Operations

The Partnership's natural gas and electricity segment serves approximately 110,000 customers in five states and the District of Columbia. In addition to selling natural gas and electricity, this segment has also begun to market equipment service contracts in selected markets. Since its acquisition by the Partnership on April 7, 2000 through September 30, 2000, the total sales in the natural gas and electricity segment were comprised of 68% from sales of approximately 9.7 million therms of natural gas and 32% from sales of approximately 111.4 million kilowatts of electricity.

Customers

The natural gas and electricity segment currently serves 110,000 customers in the following markets:

New York	New Jersey	Maryland
Buffalo	Central New Jersey	Baltimore
Orange County	Southern New Jersey	
Rockland County		**Washington, D.C.**
Westchester County	**Florida**	
New York City		
	Southern Florida	**Pennsylvania**
		Philadelphia

For fiscal 2000, approximately 98% of the natural gas and electricity segment's sales were made to homeowners, with the remainder to industrial and commercial customers. Since its acquisition by the Partnership, this segment has added a net 30,000 customers. New accounts are obtained through the utilization of a third party marketing firm on a commission basis. Approximately 60% of its customers are on a budget payment plan, whereby their estimated purchases are paid for in a series of equal monthly payments over a twelve month period.

Competition

The natural gas and electricity segment's primary competition is with the local utility company. In many markets, however, the utility prefers that a customer buys from a independent reseller in that the utility tariff structure is commodity neutral. The utility makes its money by transporting the commodity and not from the sale of the commodity. Other competitors fall into two distinct categories; national or local marketing companies. National marketing companies are generally pipeline, producer, or utility subsidiaries. These companies have mainly focused their attention on large commercial and industrial customers. Local companies typically only service one or two utility markets. These companies generally do not have the ability to offer equipment service and maybe capital constrained.

Suppliers and Supply Arrangements

Propane Segment

The propane segment obtains propane from over 13 sources, all of which are domestic or Canadian companies, including BP Canada Energy Marketing Corp., Dynegy Inc., Ferrell North America, Gas Supply Resources, Inc., Kinetic Resources, U.S.A., Marathon Oil Company, Markwest Hydrocarbons, ExxonMobil LPG, Sea-3 Inc., Shell Canada Limited, Sun Mid America Marketing & Refining, Tejas Natural Gas Liquids LLC, and Tosco Refining L.P. Supplies from these sources have traditionally been readily available, although there is no assurance that supplies of propane will be readily available in the future.

Substantially all of the propane supply for the propane segment's 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, 2000, none of the propane segment's Northeast suppliers accounted for more than 10% of its Northeast volume. The propane segment typically supplies its Midwest retail and wholesale operations by a combination of: (1) spot purchases from suppliers at Mont Belvieu, Texas, that are transported by pipeline to the propane segment's 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, Texas storage facilities and is one of the largest conduits of supply for the U.S. propane industry. The Seymour facility allows the propane segment to buy and store large quantities of propane during periods of low demand that generally occur during the summer months. The Partnership believes that this ability allows it to achieve cost savings to an extent generally not available to competitors in the propane segment's Midwest markets. The Partnership believes that its diversification of suppliers will enable it to purchase all of its supply needs at market prices if supplies are interrupted from any of these sources without a material disruption of its operations.

Heating Oil Segment

The heating oil segment obtains fuel oil in either barge, pipeline, or truckload quantities, and has contracts with over 80 terminals for the right to temporarily store heating oil at facilities it does not own. Purchases are made under supply contracts or on the spot market. The home heating oil segment has market price based contracts for substantially all of its petroleum requirements with 12 different suppliers, the majority of which have significant domestic sources for their product, and many of which have been suppliers for over 10 years. The segment's current suppliers are: Amerada Hess Corporation; Citgo Petroleum Corp.; Coastal New York; Equiva Trading Co., Global Companies, LLC; Transmontaigne Product Services Inc.; Mieco, Inc.; Mobil Oil Corporation; Northville Industries, 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 the supply contracts do not establish in advance the price of fuel oil. This price, like the price to most of its home heating oil customers, is based upon market prices at the time of delivery. The Partnership believes that its policy of contracting for substantially all of its supply needs with diverse and reliable sources will enable it to obtain sufficient product should unforeseen shortages develop in worldwide supplies. The Partnership also believes that relations with its current suppliers are satisfactory.

Natural Gas and Electricity Operations

The TG&E segment purchases natural gas at either the well-head, the pipeline pooling point or delivered to the city gate. Purchases are at market based pricing with 11 different suppliers. The segment's current suppliers are: Amerada Hess Corporation, Con Edison Solutions, Inc., Crown Energy Services, Inc., Duke Energy Trading & Marketing, Inc., Equitable Energy, LLC., Niagara Mohawk Energy Marketing, Inc., Perry Gas Companies, Inc., Sempra Fuel, Scana Energy Marketing, Inc., Southern Companies, Inc., and Sprague Energy Corp. All of the segment's electricity requirements are purchased at market from Niagara Mohawk Energy Marketing, Inc.

Employees

As of September 30, 2000, the propane segment had 723 full-time employees, of whom 49 were employed by the corporate office and 674 were located in branch offices. Of these 674 branch employees, 232 were managerial and administrative; 304 were engaged in transportation and storage and 138 were engaged in field servicing. Approximately 67 of the segment'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, 2000, the home heating oil segment had 1,873 employees, of whom 523 were office, clerical and customer service personnel; 705 were heating equipment repairmen; 263 were oil truck drivers and mechanics; 197 were management and staff and 185 were employed in sales. In addition, approximately

330 seasonal employees are rehired annually to support the requirements of the heating season. The heating oil segment has approximately 750 employees which 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.

As of September 30, 2000, the TG&E segment had 53 employees, of whom 46 were office, clerical and customer service personnel; 5 were management and staff and 2 were employed in sales.

Government Regulations

The Partnership is 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, the Partnership has not been named as a party to any litigation in which it is 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, the Partnership conducts 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 the Partnership's employees, and, in certain cases, independent environmental consulting firms review historical records and databases and conduct physical investigations of the property to look for evidence of hazardous substances, compliance violations and the existence of underground storage tanks.

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

Total Gas & Electric is an authorized supplier of electric and/or gas in the states of Pennsylvania, New York, New Jersey, Maryland, Connecticut and Florida which allow consumers to choose their electric and/or gas supplier. TG&E is either licensed and/or registered to serve as an alternative competitive supplier in each state. The incumbent utility continues to serve as the transmission and distribution company which delivers the commodity, and in many instances continues to send customers the monthly bill for the energy delivered. However, TG&E offers an alternative for the commodity portion of the consumers bill. As an alternative supplier, TG&E is subject to oversight by state public utility commissions, including licensing or registration requirements, information regarding rates and conditions of service, and in some instances annual filing requirements regarding numbers of customers, numbers of complaints, energy portfolio components, and other information relative to the company's conduct of operations.

ITEM 2. PROPERTIES

Propane Segment

As of September 30, 2000, the propane segment owned 74 of its 91 branch locations and 45 of its 56 satellite storage facilities and leased the balance. In addition, it owns the Seymour facility, in which it stores propane for itself and third parties. The propane segment's corporate headquarters are located in Stamford, Connecticut and is leased.

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, 2000, Star Gas Propane had a fleet of 13 tractors, 30 transport trailers, 527 bobtail and rack trucks and 389 other service and pick-up trucks, the majority of which are owned.

As of September 30, 2000, the propane segment owned approximately 297 bulk storage tanks with typical capacities of 12,000 to 30,000 gallons; 251,000 stationary customer storage tanks with typical capacities of 24 to 1,000 gallons; and 35,000 portable propane cylinders with typical capacities of 5 to 24 gallons. The Partnership's obligations under its borrowings are secured by liens and mortgages on all of its real and personal property.

Heating Oil Segment

The heating oil segment provides services to its customers from 24 branches/depots and 9 satellites, 9 of which are owned and 24 of which are leased, in 26 marketing areas in the Northeast and Mid-Atlantic Regions of the United States. The heating oil's corporate headquarters is located in Stamford, Connecticut and is leased. As of September 30, 2000, the heating oil segment had a fleet of 727 truck and transport vehicles and 889 services vans. The Partnership's obligations under its borrowings are secured by liens and mortgages on all of its real and personal property.

TG&E Segment

The natural gas and electric reseller segment provides services to its customers from its Fort Lauderdale, Florida corporate headquarters which is leased. This segment does not have a significant number of vehicles.

The Partnership believes its existing facilities are maintained in good condition and are suitable and adequate for its present needs. In addition, there are numerous comparable facilities available at similar rentals in each of its marketing areas should they be required.

ITEM 3. LEGAL PROCEEDINGS - LITIGATION

Litigation

The Partnership's 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 the Partnership is a defendant in various legal proceedings and litigation arising in the ordinary course of business. The Partnership maintains insurance policies with insurers in amounts and with coverages and deductibles as the general partner believes are reasonable and prudent. However, the Partnership cannot assure that this insurance will be adequate to protect it 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 the Partnership's products.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders of the Partnership during the fourth quarter ended September 30, 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S UNITS AND RELATED MATTERS

The common units, representing common limited partner interests in the Partnership, are listed and traded on the New York Stock Exchange, Inc. ("NYSE") under the symbol "SGU". The common units began trading on the NYSE on May 29,

1998. From December 20, 1995 through May 28, 1998, the common units were traded on the NASDAQ National Market under the symbol "SGASZ."

The Partnership's senior subordinated units began trading on the NYSE on March 29, 1999 under the symbol "SGH." The Senior Subordinated Units became eligible to receive distributions in February 2000, and the first distribution was made in August 2000. The following tables set forth the high and low closing price ranges for the common units, the senior subordinated units and the cash distribution declared per common unit and senior subordinated unit for the fiscal years indicated.

	SGU - Common Unit Price Range				Distributions	
	High		Low		Declared Per Unit	
Three Months Ending	1999	2000	1999	2000	1999	2000
December 31,	$21.75	$16.88	$14.50	$12.88	$0.550	$0.575
March 31,	$19.88	$15.88	$13.75	$13.25	$0.550	$0.575
June 30,	$17.25	$16.00	$13.94	$13.00	$0.575	$0.575
September 30,	$17.94	$17.94	$16.00	$15.19	$0.575	$0.575

	SGH - Senior Subordinated Unit Price Range				Distributions	
	High		Low		Declared Per Unit	
Three Months Ending	1999	2000	1999	2000	1999	2000
December 31,	-	$9.00	-	$4.88	-	-
March 31,	$8.125	$6.12	$7.000	$4.38	-	-
June 30,	$8.875	$6.75	$6.125	$4.50	-	-
September 30,	$9.625	$9.19	$8.500	$6.06	-	$0.250

As of September 30, 2000, there were approximately 618 holders of record of the Partnership's common units, and approximately 106 holders of record of the Partnership's senior subordinated units.

There is no established public trading market for the Partnership's 345,364 Junior Subordinated Units and 325,729 general partner units.

In general, the Partnership distributes to its partners on a quarterly basis, all of its Available Cash in the manner described below. Available Cash is defined for any of the Partnership's fiscal quarters, as 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 (i) provide for the proper conduct of the business; (ii) comply with applicable law, any of its debt instruments or other agreements; or (iii) 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 it from distributing the minimum quarterly distribution on all common units and any common unit arrearages for the next four quarters. The full definition of Available Cash is set forth in the Agreement of Limited Partnership of the Partnership. The information concerning restrictions on distributions required in this section is incorporated herein by reference to the Partnership's Consolidated Financial Statements which begin on page F-1 of this Form 10-K.

ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth selected historical and other data of the Partnership and the Predecessor Company and should be read in conjunction with the more detailed financial statements included elsewhere in this report. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Selected Financial Data is derived from the financial information of the Partnership and should be read in conjunction therewith.

(in thousands, except per unit data)	Partnership/Predecessor Company				
	Fiscal Year Ended September 30,				
Statement of Operations Data:	1996/(a)/	1997	1998	1999/(e)/	2000
Sales	$ 119,634	$ 135,159	$ 111,685	$ 224,020	$ 744,664
Costs and expenses:					
Cost of sales	58,557	72,211	49,498	131,649	501,589
Delivery and branch expenses	34,750	36,427	37,216	86,489	156,862
General and administrative expenses	6,457	6,818	6,065	11,634	20,005
TG&E customer acquisition expense	-	-	-	-	2,082
Unit compensation expense	-	-	-	-	649
Net gain (loss) on sales of assets	(260)	(295)	(271)	(83)	143
Depreciation and amortization	9,680	10,242	11,462	22,713	34,708
Operating income (loss)	9,930	9,166	7,173	(28,548)	28,912
Interest expense, net	7,124	6,966	7,927	15,435	26,784
Amortization of debt issuance costs	128	163	176	347	534
Income (loss) before income taxes	2,678	2,037	(930)	(44,330)	1,594
Minority interest in net loss of TG&E	-	-	-	-	251
Income tax expense (benefit)	85	25	25	(14,780)	492
Net income (loss)	$ 2,593	$ 2,012	$ (955)	$ (29,550)	$ 1,353
General Partner's interest in net income (loss)		40	(19)	(587)	24
Limited Partner's interest in net income (loss)		$ 1,972	$ (936)	$ (28,963)	$ 1,329
Net income (loss) per unit /(b)/	$ 0.11/(d)/	$ 0.37	$ (0.16)	$ (2.53)	$ 0.07
Cash distribution declared per common unit	$ 1.17/(d)/	$ 2.20	$ 2.20	$ 2.25	$ 2.30
Cash distribution declared per senior sub. unit	-	-	-	-	$ 0.25
Weighted average number of limited partner units	5,271	5,271	6,035	11,447	18,288
Balance Sheet Data (end of period):					
Current assets	$ 17,842	$ 14,165	$ 17,947	$ 86,868	$ 126,990
Total assets	156,913	147,469	179,607	539,344	618,976
Long-term debt	85,000	85,000	104,308	276,638	310,414
Partners' Capital	61,398	51,578	57,347	150,176	139,178
Summary Cash Flow Data:					
Net Cash provided by operating activities	$ 9,982	$ 18,964	$ 9,264	$ 10,795	$ 20,364
Net Cash used in investing activities	(6,954)	(4,905)	(13,276)	(2,977)	(65,172)
Net Cash provided by (used in) financing activities	(2,649)	(14,276)	4,238	(4,441)	51,226
Other Data:					
Earnings before interest, taxes, depreciation and amortization, TG&E customer acquisition expense and unit compensation expense, less net gain (loss) on sales of equipment (EBITDA) /(c)/	$ 19,870	$ 19,703	$ 18,906	$ (5,752)	$ 66,210
Retail propane gallons sold	96,294	94,893	98,870	99,457	107,557
Heating oil gallons sold	-	-	-	74,039	345,684

ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA (Continued)

(a) Reflects the results of operations of the Predecessor Company for the period October 1, 1995 through December 20, 1995 and the results of the Partnership from December 20, 1995 through September 30, 1996. The operating results for the year ended September 30, 1996 were combined to facilitate an analysis of the fundamental operating data.

(b) Net income (loss) per unit is computed by dividing the limited partners' interest in net income (loss) by the weighted average number of limited partner units outstanding.

(c) EBITDA is defined as operating income (loss) plus depreciation and amortization, TG&E customer acquisition expense and unit compensation expense, less net gain (loss) on sales of assets. EBITDA should not be considered as 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), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. The definition of "EBITDA" set forth above may be different from that used by other companies.

(d) Represents net income per unit and cash distributions paid per unit for the period December 20, 1995 through September 30, 1996.

(e) The results of operations for the year ended September 30, 1999 include Petro's results of operations from March 26, 1999. Since Petro was acquired after the heating season, the results for the year ended September 30, 1999 include expected third and fourth fiscal quarters losses but do not include the profits from the heating season. Accordingly, results of operations for the year ended September 30, 1999 presented are not indicative of the results to be expected for a full year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statement Regarding Forward-Looking Disclosure

This Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act which represent the Partnership's expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on the Partnership's financial performance, the price and supply of home heating oil, propane, natural gas and electricity and the ability of the Partnership to obtain new accounts and retain existing accounts. All statements other than statements of historical facts included in this Report including, without limitation, the statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and elsewhere herein, are forward-looking statements. Although the Partnership believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Partnership's expectations ("Cautionary Statements") are disclosed in this Report, including without limitation and in conjunction with the forward-looking statements included in this report. All subsequent written and oral forward-looking statements attributable to the Partnership or persons acting on its behalf are expressly qualified in their entirety by the Cautionary Statements.

Overview

In analyzing the financial results of the Partnership, the following matters should be considered.

The Petro acquisition was made on March 26, 1999. Accordingly, the results of operations for the year ended September 30, 2000 include Petro's results for the entire year whereas the results for the previous fiscal year only include Petro's results from March 26, 1999 Since Petro was acquired after the heating season, the results for the year ended September 30, 1999 include expected third and fourth fiscal quarters losses but do not include the profits from the heating season. Accordingly, results of operations for the year ended September 30, 1999 presented are not indicative of the results to be expected for a full year.

The Total Gas and Electric acquisition was made on April 7, 2000. Accordingly, the results of operations for the year ended September 30, 2000 include TG&E's results from April 7, 2000.

The primary use of heating oil, propane and natural gas is for space heating in residential and commercial applications. As a result, weather conditions have a significant impact on financial performance and should be considered when analyzing changes in financial performance. In addition, gross margins vary according to customer mix. For example, sales to residential customers generate higher profit margins than sales to other customer groups, such as agricultural customers. Accordingly, a change in customer mix can affect gross margins without necessarily impacting total sales.

FISCAL YEAR ENDED SEPTEMBER 30, 2000
COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 1999

Volume

For fiscal 2000, retail volume of propane and heating oil increased 279.7 million gallons, or 161.2%, to 453.2 million gallons, as compared to 173.5 million gallons for fiscal 1999. This increase was due to 271.6 million gallons of additional volume provided by the heating oil segment and a 8.1 million gallon increase in the propane segment. While retail propane volume was favorably impacted by acquisitions and internal growth, a 2.5 million gallon reduction in agriculture sales and slightly warmer temperatures negatively impacted volumes. The abnormal weather conditions during the first fiscal quarter resulted in a very dry fall harvest, which significantly reduced propane demand for crop drying. In the Partnership's propane operating areas, temperatures for fiscal 2000 were 0.6% warmer than in the prior year's comparable period and 11.4% warmer than normal.

Sales

For fiscal 2000, sales increased $520.7 million, or 232.2%, to $744.7 million, as compared to $224.0 million for fiscal 1999. This increase was attributable to $454.5 million additional sales provided by the heating oil segment, $23.6 million of TG&E sales and a $42.6 million increase in propane sales. Propane sales increased due to higher selling prices in response to higher propane supply costs and from the increased retail volume. Sales in the propane division also rose by $2.6 million due to an increased focus on the sales of rationally related products.

Cost of Product

For fiscal 2000, cost of product increased $303.0 million, or 374.6%, to $383.8 million, as compared to $80.8 million for fiscal 1999. This increase was due to $247.0 million of additional costs attributable to the heating oil segment, $22.0 million of TG&E cost of product and for higher propane supply cost of $34.0 million. While both propane selling prices and propane supply costs increased on a per gallon basis, the increase in selling prices was more than the increase in supply costs, which resulted in an increase in per gallon margins.

Cost of Installation, Service and Appliances

For fiscal 2000, cost of installation, service and appliances increased $66.9 million, or 131.5%, to $117.8 million, as compared to $50.9 million for fiscal 1999. This increase was primarily due to $66.2 million of additional costs relating to the heating oil segment's cost of installation and service.

Delivery and Branch Expenses

For fiscal 2000, delivery and branch expenses increased $70.4 million, or 81.4%, to $156.9 million, as compared to $86.5 million for fiscal 1999. This increase was due to $67.4 million of additional heating oil operating costs and $3.0 million of additional operating costs for the propane segment. The increase for the propane segment was due to additional cost of acquired propane companies and expenses related to the propane segment's tank set program, which has increased same store residential volume by approximately 2%.

Depreciation and Amortization

For fiscal 2000, depreciation and amortization expenses increased $12.0 million, or 52.8%, to $34.7 million, as compared to $22.7 million for fiscal 1999. This increase was primarily due to $11.8 million of additional heating oil segment depreciation and amortization.

General and Administrative Expenses

For fiscal 2000, general and administrative expenses increased $8.4 million, or 72.4%, to $20.0 million, as compared to $11.6 million for fiscal 1999. This increase was due to the inclusion of an additional $4.3 million of general and administrative expenses for the heating oil segment, $2.0 million of TG&E general and administrative expenses, a $1.1 million increase in general and administrative expenses at the Partnership level and a $1.0 million increase for the propane segment. The increase in expenses at the Partnership level was primarily due to a full year inclusion of expenses for the office of the chief executive officer. The $1.0 million increase in general and administrative expenses at the propane segment was largely due to an increase in acquisition travel related expenditures as well as for normal inflationary increases.

TG&E Customer Acquisition Expense

For fiscal 2000, TG&E customer acquisition expense was $2.1 million. This TG&E

segment expense is for the cost of acquiring new accounts through the services of a third party direct marketing company. Since its acquisition, TG&E added approximately 50,000 new customers.

Unit Compensation Expense

For fiscal 2000, unit compensation expense was $0.6 million. This expense was incurred under the Employee Unit Incentive Plans whereby certain employees and directors were granted senior subordinated units as incentive for increased efforts during employment and as an inducement to remain in the service of the Partnership.

Interest Expense, net

For fiscal 2000, net interest expense increased $11.3 million, or 73.5%, to $26.8 million, as compared to $15.4 million for fiscal 1999. This change was primarily due to $9.9 million of additional interest expense at the heating oil segment, $0.6 million of net interest expense for TG&E and additional interest expense for the financing of the propane acquisitions.

Income Tax Expense (Benefit)

For fiscal 2000, income tax expense increased $15.3 million to $0.5 million, as compared to an income tax benefit of $14.8 million for fiscal 1999. The change was primarily due to $12.0 million of deferred tax benefits for the heating oil segment and $2.9 million of deferred tax benefits at the propane segment level for fiscal 1999. These tax benefits resulted from the deferred tax assets generated by operating losses incurred in fiscal 1999 by the heating oil segment and by losses incurred by a certain propane company subsidiary.

Net Income (Loss)

For fiscal 2000, net income increased $31.0 million, to $1.4 million, as compared to a net loss of $29.6 million for fiscal 1999. Additional net income provided by the heating oil segment was $35.4 million, TG&E incurred a $3.3 million net loss for the period, while a $1.2 million larger loss was incurred at the partnership level for the full year inclusion of cost as previously mentioned. The $0.2 million increase in net income for the propane segment was due to the segment's acquisition program, internal growth and a per gallon improvement in gross profit margins, offset by the reduction in deferred income tax benefit.

Earnings before interest, taxes, depreciation and amortization, TG&E customer acquisition expense and unit compensation expense, less net gain (loss) on sales of equipment (EBITDA)

Earnings before interest, taxes, depreciation and amortization, TG&E customer acquisition expense and unit compensation expense, less net gain (loss) on sales of equipment (EBITDA) increased $72.0 million, to $66.2 million for fiscal 2000, as compared to a negative EBITDA of $5.8 million for the prior fiscal year. This increase was due to $69.6 million of additional EBITDA generated by the heating oil segment, a $3.9 million increase in the propane segment, a $1.1 million decrease in the EBITDA generated at the partnership level and $0.5 million of negative EBITDA for TG&E. The increase in the propane segment was due to additional EBITDA provided by propane acquisitions, propane internal growth and higher per gallon propane gross profit margins. EBITDA should not be considered as 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), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. The definition of "EBITDA" set forth above may be different from that used by other companies.

FISCAL YEAR ENDED SEPTEMBER 30, 1999
COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 1998

Volume

Retail volume of propane and heating oil increased 74.6 million gallons, or

75.5%, to 173.5 million gallons for fiscal 1999, as compared to 98.9 million gallons for fiscal 1998. This increase was due to 74.0 million gallons of additional volume provided by the heating oil segment from March 26, 1999 to September 30, 1999. Retail propane was 99.5 million gallons for the year ended September 30, 1999, 0.6 million gallons more than the prior year. While retail propane volume increased due to acquisitions, a residential internal growth rate of 4.5% and slightly colder temperatures, these positive impacts aggregating 7.2 million gallons were offset by a 6.6 million decrease in agricultural volume. The abnormal weather conditions during the first fiscal quarter resulted in a very dry fall harvest, which caused propane demand for crop drying to be at its lowest level since 1991. In the Partnership's propane operating areas, temperatures for the year ending September 30, 1999, were 2.1% colder than in the prior year's comparable period and 10.1% warmer than normal.

Sales

Sales increased $112.3 million, or 100.6%, to $224.0 million for fiscal 1999, as compared to $111.7 million for fiscal 1998. This increase was attributable to $116.4 million of additional sales provided by the heating oil segment, which were partially offset by a $4.1 million decline in the propane segment. Propane sales declined due to lower agricultural sales and lower selling prices in response to a decline in propane supply costs. This decline was partially offset by additional propane sales attributable to propane acquisitions, slightly colder temperatures and propane segment internal growth.

Cost of Product

Cost of product increased $33.9 million, or 72.2%, to $80.8 million for fiscal 1999, as compared to $46.9 million for fiscal 1998. This increase was due to $42.4 million of costs attributable to the heating oil segment, partially offset by lower propane supply cost of $8.5 million. While both propane selling prices and propane supply costs declined on a per gallon basis, the decline in selling prices was less than the decline in supply costs, which resulted in an increase in per gallon margins across all propane market segments.

Cost of Installation, Service and Appliances

Cost of installation, service and appliances increased $48.3 million, to $50.9 million for fiscal 1999, as compared to $2.6 million for fiscal 1998. This increase was primarily due to $47.7 million of costs relating to the heating oil segment.

Delivery and Branch Expenses

Delivery and branch expenses increased $49.3 million, or 132.4%, to $86.5 million for fiscal 1999, as compared to $37.2 million for fiscal 1998. This increase was primarily due to the inclusion of $45.5 million of heating oil operating costs. In addition, propane operating expenses increased by $3.8 million due to $ 1.4 million of operating expenses related to acquisitions, $1.1 million of costs associated with the segment's marketing initiatives and normal expense increases of 2.8% or $1.3 million. The marketing initiative contributed to the propane segment experiencing a residential internal growth rate of 4.5%.

Depreciation and Amortization

Depreciation and amortization expenses increased $11.2 million, or 98.2%, to $22.7 million for fiscal 1999, as compared to $11.5 million for fiscal 1998. This increase was primarily due to $10.5 million of heating oil segment depreciation and amortization with the remainder attributable to the impact of propane acquisitions and other fixed asset additions.

General and Administrative Expenses

General and administrative expenses increased $5.5 million, or 91.8%, to $11.6 million for fiscal 1999, as compared to $6.1 million for fiscal 1998. This increase was primarily due to the inclusion of $4.9 million of heating oil general and administrative expenses.

Interest Expense, net

Net interest expense increased $7.5 million, or 94.7%, to $15.4 million for fiscal 1999, as compared to $7.9 million for fiscal 1998. This change was primarily due to $7.1 million of interest expense incurred by the heating oil segment and an increase in borrowings associated with propane acquisitions.

Income Tax Expense (Benefit)

For fiscal 1999, the income tax benefit was $14.8 million as compared to an income tax expense of $0.02 million for fiscal 1998. This change was due to $11.9 million of deferred tax benefits for the heating oil segment and $2.9 million of deferred tax benefits at the propane segment level. These tax benefits resulted from the deferred tax asset generated by operating losses incurred since the acquisition of the heating oil segment and by the losses incurred by a certain propane company subsidiary.

Net Income (Loss)

The net loss was $29.6 million for fiscal 1999, as compared to a net loss of $1.0 million for fiscal 1998. This change was due to the $29.9 million seasonally related net loss from the heating oil segment, partially offset by additional net income from the propane segment largely as a result of its $2.9 million deferred income tax benefit.

Earnings before interest, taxes, depreciation and amortization, TG&E customer acquisition expense and unit compensation expense less net gain (loss) on sales of equipment (EBITDA)

Earnings before interest, taxes, depreciation and amortization, TG&E customer acquisition expense and unit compensation expense less net gain (loss) on sales of equipment (EBITDA) decreased $24.7 million to a negative $5.8 million for fiscal 1999, as compared to $18.9 million for fiscal 1998. This decrease was due to the seasonally related EBITDA loss of $24.0 million incurred by the heating oil segment. Since the heating oil division was acquired after the heating season, the results for the year ended September 30, 1999 included expected third and fourth fiscal quarter losses but do not include the profits from the heating season. Accordingly, results of operations for the year ended September 30, 1999 presented are not indicative of the results to be expected for a full year of operations on a combined basis. Propane segment EBITDA increased by $0.8 million as the volume growth provided by acquisitions and internal growth offset the effects of the poor grain drying season and the increases in operating expenses associated with acquisitions and internal marketing. EBITDA should not be considered as 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), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. The definition of "EBITDA" set forth above may be different from that used by other companies.

Liquidity and Capital Resources

During February 2000, the Partnership sold 1.7 million common units (including 0.2 million of overallotment units exercised), the net proceeds of which, net of underwriter's discounts, commissions, and offering expenses was $22.6 million. These funds combined with net cash provided by operating activities of $20.4 million, $28.7 million of long-term debt ($27.5 million of privately placed debt and $1.2 million in acquisition notes), $48.2 million in net credit and acquisition facility borrowings, $1.1 million in proceeds from the sale of fixed assets, and $0.9 million in cash acquired in an acquisition amount to $121.9 million. Such funds were used for capital expenditures of $7.6 million, acquisitions of $59.6 million, distributions of $35.6 million, debt repayment of $9.4 million and other financing activities of $3.3 million. As a result of the above activity, cash increased by $6.4 million to $10.9 million.

During July 2000, the holders of $11.2 million of the heating oil segment's 9.0% Senior Notes exercised their option to extend the first sinking fund payment of such notes by one year to October 1, 2001. In accordance with the terms of this election, the interest rate on this portion of the Senior Notes has been increased to 10.9%.

For fiscal 2001, the Partnership anticipates paying interest of approximately $30.0 million and anticipates growth and maintenance capital additions of approximately $15 million. In addition, the Partnership plans to pay distributions on its units in accordance with the partnership agreement. The Partnership also plans to pursue strategic acquisitions as part of its business strategy and to prudently fund such acquisitions through a combination of debt and equity. Based on its current cash position, bank credit availability and net cash from operating activities, the Partnership expects to be able to meet all of its obligations for fiscal 2001.

Accounting Principles Not Yet Adopted

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) as amended by SFAS No. 137 and No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires the recognition of all derivative instruments as assets or liabilities in the Partnership's balance sheet and measurement of those instruments at fair value and requires that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The accounting treatment of changes in fair value is dependent upon whether or not a derivative instrument is designated as a hedge and if so, the type of hedge. For derivatives designated as Cash Flow Hedges, changes in fair value are recognized in other comprehensive income until the hedged item is recognized in earnings. For derivatives recognized as Fair Value Hedges, changes in fair value are recognized in the income statement and are offset by related results of the hedged item. Changes in the fair value of derivative instruments, which are not designated as hedges are recognized in earnings as they occur.

The Partnership periodically hedges a portion of its oil, propane and natural gas purchases through futures, options, collars and swap agreements. The purpose of the hedges is to provide a measure of stability in the volatile environment of oil, propane and natural gas prices and to manage its exposure to commodity price risk under certain existing sales commitments.

The Partnership adopted SFAS No. 133 on October 1, 2000, and recorded its derivatives at fair market value. As a result of adopting the Standard, the Company recognized an approximate $1.5 million increase in net income and a $10.5 million increase in additional other comprehensive income which will be recorded as a cumulative effect of a change in accounting principle in the first quarter ending December 31, 2000.

ITEM 7A.
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Partnership is exposed to interest rate risk primarily through its bank credit facilities. The Partnership utilizes these borrowings to meet its working capital needs and also to fund the short-term needs of its acquisition program.

At September 30, 2000, the Partnership had outstanding borrowings of approximately $67.3 million under its Bank Credit Facilities. In the event that interest rates associated with these facilities were to increase 100 basis points, the impact on future cash flows would be a $0.7 million annually.

The Partnership also selectively uses derivative financial instruments to manage its exposure to market risk related to changes in the current and commodity market prices of home heating oil, propane and natural gas. The Partnership does not hold derivatives for trading purposes. The value of market sensitive derivative instruments is subject to change as a result of movements in market prices. Consistent with the nature of hedging activity, associated unrealized gains and losses would be offset by corresponding decreases or increases in the purchase price the Partnership would pay for the home heating oil, propane or natural gas being hedged. Sensitivity analysis is a technique used to evaluate the impact of hypothetical market value changes. Based on a hypothetical ten percent increase in the cost of home heating oil, propane or natural gas at September 30, 2000, the potential unrealized gain on the Partnership's hedging activity would be increased by $8.2 million to an unrealized gain of $20.8 million; and conversely a hypothetical ten percent decrease in the cost of home heating oil, propane or natural gas would be decreased by $8.3 million to an unrealized gain of $4.3 million.

ITEM 8.
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SEE INDEX TO FINANCIAL STATEMENTS PAGE F-1

ITEM 9.
CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON
ACCOUNTING AND FINANCIAL DISCLOSURE
NONE

PART III
ITEM 10.
DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Partnership Management

Star Gas LLC is the general partner of the Partnership. The membership interests in Star Gas LLC are owned by Audrey L. Sevin, Irik P. Sevin, and Hanseatic Americas Inc. The General Partner manages and operates the activities of the Partnership. Unitholders do not directly or indirectly participate in the management or operation of the Partnership. The General Partner owes a fiduciary duty to the Unitholders. However, the Partnership agreement contains provisions that allow the General Partner to take into account the interest of parties other than the Limited Partners' in resolving conflict of interest, thereby limiting such fiduciary duties. Notwithstanding any limitation on obligations or duties, the General Partner will be liable, as the general partner of the Partnership, for all debts of the Partnership (to the extent not paid by the Partnership), except to the extent that indebtedness or other obligations incurred by the Partnership are made specifically non-recourse to the General Partner.

William P. Nicoletti and I. Joseph Massoud, who are neither officers nor employees of the General Partner nor directors, officers or employees of any affiliate of the General Partner, have been appointed to serve on the Audit Committee of the General Partner's Board of Directors. The Audit Committee has the authority to review, at the request of the General Partner, specific matters as to which the General Partner believes there may be a conflict of interest in order to determine if the resolution of such conflict proposed by the General Partner is fair and reasonable to the Partnership. Any matters approved by the Audit Committee will be conclusively deemed fair and reasonable to the Partnership, approved by all partners of the Partnership and not a breach by the General Partner of any duties it may owe the Partnership or the holders of Common Units. In addition, the Audit Committee reviews the external financial reporting of the Partnership, recommends engagement of the Partnership's independent accountants and reviews the Partnership's procedures for internal auditing and the adequacy of the Partnership's internal accounting controls. With respect to the 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.

As is commonly the case with publicly traded limited partnerships, the Partnership does not directly employ any of the persons responsible for managing or operating the Partnership. The management and workforce of Star Gas Propane and certain employees of Petro manage and operate the Partnership's business as officers of the General Partner and its Affiliates. See Item 1 - Business--Employees.

Directors and Executive Officers of the General Partner

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

Name	Age	Position with the General Partner
Irik P. Sevin/(b)/......................................	53	Chairman of the Board and Chief Executive Officer
William G. Powers, Jr..................................	47	Executive Vice President - Heating Oil and Member of the Office of President
Joseph P. Cavanaugh.....................................	63	Executive Vice President - Propane and Member of the Office of President
George Leibowitz..	63	Chief Financial Officer
Richard F. Ambury.......................................	43	Vice President and Treasurer

James Bottiglieri..	44	Vice President
Audrey L. Sevin..	74	Secretary
Paul Biddelman/(a)/(b)/..................................	54	Director
Thomas J. Edelman..	49	Director
I. Joseph Massoud/(c)/...................................	32	Director
William P. Nicoletti/(c)/................................	55	Director
Stephen Russell/(a)/.....................................	60	Director

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

Irik P. Sevin has been the Chairman of the Board of Directors of Star Gas LLC since March 1999. From December 1993 to March 1999, Mr. Sevin served as Chairman of the Board of Directors of Star Gas Corporation, the predecessor general partner. Mr. Sevin has been a Director of Petro since its organization in October 1983, and Chairman of the Board of Petro since January 1993 and served as 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 Executive Vice President of the heating oil division and member of the Office of the President of Star Gas LLC since March 1999. From December 1997 to March 1999 Mr. Powers served as President of Petro. Mr. Powers served as President and Chief Executive Officer of Star Gas Corporation, the predecessor general partner from December 1993 to November 1997. From 1984 to 1993 Mr. Powers was employed by Petro where he served in various capacities, including Regional Operations Manager and Vice President of Acquisitions. 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 Executive Vice President of the propane division and member of the Office of the President of Star Gas LLC since March 1999. From December 1997 to March 1999 Mr. Cavanaugh served as President and Chief Executive Officer of Star Gas Corporation, the predecessor general partner. From October 1985 to December 1997, Mr. Cavanaugh held various financial and management positions with Petro. Prior to his current appointment Mr. Cavanaugh was also active in the Partnership's management with the development of safety/compliance programs, assisting with acquisitions and their subsequent integration into the Partnership.

George Leibowitz has been Chief Financial Officer of Star Gas LLC since March 1999. From April 1997 to March 1999, Mr. Leibowitz served as Treasurer of Petro; and 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 and Treasurer of Star Gas LLC since March 1999. From February 1996 to March 1999, Mr. Ambury served as Vice President - Finance of Star Gas Corporation, the predecessor general partner. Mr. Ambury was employed by Petro from June 1983 through February 1996, where he served in various accounting/finance capacities. From 1979 to 1983, Mr. Ambury was employed by a predecessor firm of KPMG, a public accounting firm. Mr. Ambury has been a Certified Public Accountant since 1981.

James J. Bottiglieri has been Vice President of Star Gas LLC since March 1999, and has served as Controller of Petro since 1994. Mr. Bottiglieri 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, a public accounting firm. Mr. Bottiglieri has been a Certified Public Accountant since 1980.

Audrey L. Sevin has been a Director of Star Gas LLC since March 1999 and was a Director of Star Gas Corporation, the predecessor general partner from December 1993 to March 1999. Mrs. Sevin served as the Secretary of Star Gas Corporation from June 1994 to March 1999. Mrs. Sevin had 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 in May 1981.

Paul Biddelman, has been a Director of Star Gas LLC since March 1999 and was a Director of Star Gas Corporation, the predecessor general partner from December 1993 to March 1999. Mr. Biddelman had 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 is a director of Celadon Group, Inc., Insituform Technologies, Inc., Six Flags, Inc. and System One Technologies, Inc.

Thomas J. Edelman has been a Director of Star Gas LLC since March 1999 and was a Director of Star Gas Corporation, the predecessor general partner from December 1993 to March 1999. Mr. Edelman had been a Director of Petro since its organization in October 1983. Mr. Edelman has been Chairman of Patina Oil & Gas Corporation since its formation in May 1996. Mr. Edelman also serves as Chairman of Range Resources Corporation. He co-founded Snyder Oil Corporation and was its President and a Director from 1981 through February 1997. From 1975 to 1981, he was a Vice President of The First Boston Corporation. Mr. Edelman also serves as a Director of Paradise Music & Entertainment, Inc.

I. Joseph Massoud has been a Director of Star Gas LLC since October 1999. Since 1998 he has been President of The Compass Group International LLC, a private equity investment firm based in Westport, CT. From 1995 to 1998, Mr. Massoud was employed by Petro as a Vice President. From 1993 to 1995, Mr. Massoud was a Vice President of Colony Capital, Inc., a Los Angeles based private equity firm specializing in acquiring distressed real estate and corporate assets.

William P. Nicoletti has been a Director of Star Gas LLC since March 1999 and was a Director of Star Gas Corporation, the predecessor general partner from November 1995 to March 1999. Mr. Nicoletti is Managing Director of Nicoletti & Company Inc., a private investment banking firm servicing clients in the energy and transportation industries. In addition, Mr. Nicoletti serves as a Senior Advisor to the Energy Investment Banking Group of McDonald Investments Inc. From March 1998 until July 1999, Mr. Nicoletti was a Managing Director and co-head of Energy Investment Banking for McDonald Investments Inc. Prior to forming Nicoletti & Company in 1991, Mr. Nicoletti was a Managing Director and head of Energy Investment Banking for PaineWebber Incorporated. Previously, he held a similar position at E.F. Hutton & Company Inc. He is a member of the managing board of Atlas Pipeline Partners GP, LLC, the general partner of Atlas Pipeline Partners, L.P., a master limited partnership that operates natural gas pipeline gathering systems. He is also a director of StatesRail, Inc., a short-line railroad holding company.

Stephen Russell has been a Director of Star Gas LLC since October 1999 and was a director of Petro from July 1996 to March 1999. He has been Chairman of the Board and Chief Executive Officer of Celadon Group Inc., an international transportation company, since its inception in July 1986. Mr. Russell has been a member of the Board of Advisors of the Johnson Graduate School of Management, Cornell University since 1983.

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

Meetings and Compensation of Directors

During fiscal 2000, the Board of Directors met seven times. All Directors attended each meeting except for one meeting not attended by Mr. Russell and two meetings not attended by Mr. Edelman. Star Gas LLC pays each director including the chairman, an annual fee of $27,000. Members of the audit committee receive an additional $5,000 per annum. Messers. Biddelman, Edelman, Massoud, Nicoletti and Russell were each granted 8,500 Restricted Senior Subordinated Units on August 30, 2000. One-fifth of the units immediately vested with the remaining units vesting in four equal installments if the Partnership achieves specifies performance objectives in each of the respective fiscal years. The value of the vested grant in fiscal 2000 was $9,988 for each director.

Committees of the Board of Directors

Star Gas LLC's Board of Directors has an Audit Committee, a Compensation

Committee and a Distribution Committee. The members of each committee are appointed by the Board of Directors for a one-year term and until their respective successors are elected.

Audit Committee

The duties of the Audit Committee are described above under "Partnership Management".

The current members of the Audit Committee are William P. Nicoletti and I. Joseph Massoud. During fiscal 2000, the audit committee met six times. Members of the Audit Committee may not be employees of Star Gas LLC.

Compensation Committee

The current members of the Compensation Committee are Paul Biddelman and Stephen Russell. The duties of the Compensation Committee are (i) to determine the annual salary, bonus and other benefits, direct and indirect, of any and all named executive officers (as defined under Regulation S-K promulgated by the Securities and Exchange Commission) and (ii) to review and recommend to the full Board any and all matters related to benefit plans covering the foregoing officers and any other employees. During fiscal 2000, the Compensation Committee met three times.

Distribution Committee

The current members of the Distribution Committee are Irik Sevin and Paul Biddelman. The duties of the Distribution Committee are to discuss and review the Partnership's distributions. During fiscal 2000, the Distribution Committee met four times.

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 the behalf of Star Gas Partners, including the cost of compensation which is 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 Star Gas Partners for which a reasonable fee would be charged as determined by the general partner.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the annual salary, bonuses and all other compensation awards and payouts to the President and Chief Executive Officer and to certain named executive officers of the General Partner for services rendered to Star Gas Partners and its subsidiaries during the fiscal years ended September 30, 2000, 1999 and 1998.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying UARs
Irik P. Sevin,	2000	$ 500,000	$511,250/(6)/	$11,650/(8)/	$723,188/(9)(10)/	400,000/(11)/
Chairman of the Board and	1999	$ 325,000/(1)/	$225,000	$ 2,900/(8)/		
Chief Executive Officer	1998	$ 150,000	-	-		
William G. Powers, Jr.,	2000	$ 250,000	$182,750/(6)/	$12,900/(8)/		
Executive Vice President/(2)/	1999	$ 125,000/(3)/	$ 75,000	$ 3,900/(8)/	_/(10)/	
	1998	$ 37,500	-	-		
Joseph P. Cavanaugh,	2000	$ 225,000	$ 89,250	$18,768/(7)/		
Executive Vice President/(4)/	1999	$ 225,000	$ 50,000	$18,768/(7)/	_/(10)/	
	1998	$ 181,262	-	$14,076/(7)/		
George Leibowitz,	2000	$ 292,500/(5)/	$ 37,625/(6)/	$10,225/(8)/		
Chief Financial Officer	1999	$ 202,500/(5)/	$ 100,000	$ 2,150/(8)/	_/(10)/	
Richard F. Ambury,	2000	$ 180,000	$ 83,375/(6)/	$27,657/(7)/		
Vice President and Treasurer	1999	$ 160,000	$ 70,000	$26,032/(7)/	_/(10)/	
	1998	$ 150,000	$ 37,500	$26,032/(7)/		

(1) Amount does not include $175,000 of compensation paid by Petro prior to its acquisition by the Partnership.
(2) Mr. Powers assumed the position of President and Chief Executive Officer of Petro on November 30, 1997.
(3) Amount does not include $125,000 of compensation paid by Petro prior to its acquisition by the Partnership.
(4) Mr. Cavanaugh joined the Partnership on December 1, 1997.
(5) This amount represents payments made pursuant to an employment contract (see "Employment Contracts" section of this document). The 1999 amount does not include $264,000 of compensation paid by Petro prior to its acquisition by the Partnership.
(6) Fiscal 2000 bonus amount includes the value of Senior Subordinated Units granted and vested in fiscal 2000 under the Partnership's Employee Unit Incentive Plan as follows; Irik P. Sevin - $117,500, William G. Powers, Jr. -$47,000, Joseph P. Cavanaugh - $35,250, George Leibowitz - $17,625 and Richard F. Ambury - $29,375. Mr. Sevin was also granted 20,300 Senior Subordinated Units in December 2000 in lieu of cash compensation for his 2000 bonus performance at a value of $168,750 on the grant date. (7) These amount represent funds paid in lieu of contributions to the Partnership's retirement plans. (8) These amounts represent contributions under Petro's defined contribution retirement plan. (9) This award represents the granting of 87,000 Restricted Senior Subordinated units that vest equally in four installments on December 1, 2001, December 1, 2002, December 1, 2003 and December 1, 2004. Distributions on the restrictive units will accrue (to the extend declared) from June 30, 2000.
(10) As of September 30, 2000, the following Restricted grants of Senior Subordinated Units granted under the Partnership's Employee Unit Incentive Plan valued at the September 30, 2000 closing price were outstanding as follows: Irik P. Sevin -$720,000 (80,000 units), William G. Powers, Jr. - $288,000 (32,000 units), Joseph P. Cavanaugh - $216,000 (24,000 units), George Leibowitz -$108,000 (12,000 units) and Richard F. Ambury - $180,000 (20,000 units).
(11) Mr. Sevin was also granted an option to acquire shares in TG&E equal to five percent of TG&E's outstanding shares as of March 21, 2001.

Option/UAR Grants in Last Fiscal Year

Name	Number of Securities Underlying UAR's Granted	Percent of Total UAR's Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Unit Price Appreciation for Option Term 5%	10%
Irik P. Sevin/(c)/	350,000	86%	$8.625	(a)	$269,587	$550,464
Irik P. Sevin	50,000	14%	$8.3125	(b)	$ 24,375	$ 48,375

(a) The Restricted Unit Appreciation Rights vest in four equal installments on January 31, 2001, December 1, 2001, December 1, 2002 and December 1, 2003. The grantee will be entitled to receive payment in cash for these UARs equal to the excess of the fair market value (as defined) of a Senior Subordinated Unit on the vesting date over the exercise price.

(b) The Restricted Unit appreciation rights vest on December 1, 2001. The grantee will be entitled to receive payment in cash for these UARs equal to the excess of the fair market value (as defined) of a Senior Subordinated Unit on the vesting date over the excise price.

(c) Mr. Sevin was also granted an option to acquire shares in TG&E equal to five percent of TG&E's outstanding shares as of March 31, 2001. The exercise price is based upon a formula using TG&E's EBITDA (as defined) and includes a minimum and maximum exercise price. These options vest in three equal annual installments on April 1, 2001, April 1, 2002 and April 1, 2003.

Aggregated Option/UAR Exercises in Last Fiscal Year
and Fiscal Year End Option/UAR Values

Name	Number of Unexercised UARs at September 30, 2000 Exercisable(E)/Unexercisable(U)	Value of In the Money UARs at September 30, 2000
Irik P. Sevin	400,000 (U)	$162,500

Long-Term Incentive Plans - Awards in Last Fiscal Year

Name	Number of Restricted Senior Subordinated Units	Performance or Other Period Until Payout	Value of Restricted Units Based on September 30, 2000 Closing Price
Irik P. Sevin	80,000	(a)	$720,000
William G. Powers, Jr.	32,000	(a)	$288,000
Joseph P. Cavanaugh	24,000	(a)	$216,000
George Leibowitz	12,000	(a)	$108,000
Richard F. Ambury	20,000	(a)	$180,000

(a) Represents restricted grant of Senior Subordinated Units under the Partnership's employee incentive unit plan on June 27, 2000. These units vest annually in four equal installments if the Partnership achieves specified performance objectives measured by distributable cash flow (as defined) in each of the respective fiscal years. The distributable cash flow objective for fiscal years 2001 through 2004 are $2.19 per unit, $2.29 per unit, $2.39 per unit and $2.49 per unit, respectively. These grants will not be paid distributions while the securities remain restricted.

Employment Contracts

Agreement with George Leibowitz

Petro entered into an employment agreement with Mr. Leibowitz, effective April 1, 1997 as modified, which provides (i) for an indefinite period, but ending not earlier than June 30, 2001 for 60% employment at an annual salary of $180,000. Upon termination of this agreement, there will be a final period of 6 months at an annual salary of $135,000 for 45% employment. In addition, if terminated by the Partnership, all remaining senior subordinated unit grants will vest and (ii) payments of $18,750 per month for April 1997 to March 2000 were made.

401(k) Plans

The Star Gas Employee Savings Plan is a voluntary defined contribution plan covering non-union and union employees who have attained the age of 21 and who have completed one year of service. Participants in the plan may elect to contribute a sum not to exceed 15% of a participant's compensation. For non-union employees, Star Gas Propane contributes a matching amount equaling the participant's contribution not to exceed 3% of the participant's compensation. In addition, the plan allows Star Gas Propane to contribute an additional discretionary amount, which will be allocated to each participant based on such participant's compensation as a percentage of total compensation of all participants.

Messrs. Sevin, Powers and Leibowitz are covered under a 401(K) defined contribution plan maintained by Petro. Participants in the plan may elect to contribute a sum not to exceed 15% of a participant's compensation or $10,500. Under this plan, Petro makes a 4% core contribution of a participant's compensation up to $160,000 and matches 2/3 of each amount that a participant contributes.

ITEM 12.
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the beneficial ownership as of November 15, 2000 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 and officers of Star Gas LLC;
(2) each of the named executive officers of Star Gas LLC; and
(3) all directors and executive officers of Star Gas LLC as a group.

The address of each person is c/o Star Gas Partners, L.P. at 2187 Atlantic Street, Stamford, Connecticut 06902-0011. An asterisk in the percentage column refers to a percentage less than one percent.

	Common Units		Senior Subordinated Units		Junior Subordinated Units		General Partner Units(a)	
Name	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Star Gas LLC	-	- %	-	- %	-	- %	325,729	100%
Irik P. Sevin	-	-	20,000	*	53,426	15.5	325,729(b)	100
Audrey L. Sevin	-	-	-	-	153,131	44.3	325,729(b)	100
Hanseatic Americas, Inc.	500,000	2.9%	-	-	138,807	40.2	325,729(b)	100
Paul Biddelman	-	-	1,980	*	-	-	-	-
Thomas Edelman	-	-	79,180(c)	3.1	-	-	-	-
I. Joseph Massoud	519	*	1,700	*	-	-	-	-
William P. Nicoletti	-	-	1,700	*	-	-	-	-
Stephen Russell	-	-	1,700	*	-	-	-	
Richard F. Ambury	2,125	*	5,039	*	-	-	-	-
George Leibowitz	-	-	3,000	*	-	-	-	-
James Bottiglieri	1,500	*	4,000	*	-	-	-	-
Joseph P. Cavanaugh	1,000	*	6,058	*	-	-	-	-
William G. Powers, Jr.	1,000	*	8,000	*	-	-	-	-
All officers and directors and Star Gas LLC as a group (12 persons)	6,144	*	132,357	5.1	206,557	59.8%	325,729	100%

(a) For purpose of this table, the number of General Partner Units is deemed to include the 0.01% General Partner interest in Star Gas Propane.

(b) Assumes each of Star Gas LLC owners may be deemed to beneficially own all of Star Gas LLC's general partner units, however, they disclaim beneficial ownership of these units.

(c) Includes senior subordinated units owned by Mr. Edelman's wife and trust for the benefit of his minor children.

* Amount represents less than 1%.

Section 16(a) of the Securities Exchange Act of 1934 requires the General Partner's officers and directors, and persons who own more than 10% of a registered class of the Partnership's equity securities, to file reports of beneficial ownership and changes in beneficial ownership with the Securities and Exchange Commission ("SEC"). Officers, directors and greater than 10 percent unitholders are required by SEC regulation to furnish the General Partner with copies of all Section 16(a) forms.

Based solely on its review of the copies of such forms received by the General Partner, or written representations from certain reporting persons that no Form 5's were required for those persons, the General Partner believes that during fiscal year 2000 all filing requirements applicable to its officers, directors, and greater than 10 percent beneficial owners were met in a timely manner.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Partnership and the General Partner have certain ongoing relationships with Petro and its affiliates. Affiliates of the General Partner, including Petro, perform certain administrative services for the General Partner on behalf of the Partnership. Such affiliates do not receive a fee for such services, but are reimbursed for all direct and indirect expenses incurred in connection therewith.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

See "Index to Consolidated Financial Statements and Financial Statement Schedule" set forth on page F-1.

2. Financial Statement Schedule.

See "Index to Consolidated Financial Statements and Financial Statement Schedule" set forth on page F-1.

3. Exhibits.

See "Index to Exhibits" set forth on page 32.

(b) Reports on Form 8-K.

The Partnership did not file a Form 8-K during the quarter ended September 30, 2000.

INDEX TO EXHIBITS

Exhibit Number	Description
4.2	Form of Agreement of Limited Partnership of Star Gas Partners, L.P.(2)
4.3	Form of Agreement of Limited Partnership of Star Gas Propane, L.P.(2)
10.1	Form of Credit Agreement among Star Gas Propane, L.P. and certain banks (3)
10.2	Form of Conveyance and Contribution Agreement among Star Gas Corporation, the Partnership and the Operating Partnership.(3)
10.3	Form of First Mortgage Note Agreement among certain insurance companies, Star Gas Corporation and Star Gas Propane L.P.(3)
10.4	Intercompany Debt(3)
10.5	Form of Non-competition Agreement between Petro and the Partnership(3)
10.6	Form of Star Gas Corporation 1995 Unit Option Plan(3)
10.7	Amoco Supply Contract(3)
10.8	Stock Purchase Agreement dated October 20, 1997 with respect to the Pearl Gas Acquisition(4)
10.9	Conveyance and Contribution Agreement with respect to the Pearl Gas Acquisition(4)
10.10	Second Amendment dated as of October 21, 1997 to the Credit Agreement dated as of December 13, 1995 among the Operating Partnership, Bank Boston, N.A. and NationsBank, N.A.(4)
10.11	Note Agreement, dated as of January 22, 1998, by and between Star Gas and The Northwestern Mutual Life Insurance Company(6)
10.12	Third Amendment dated April 15, 1998 to the Bank Credit Agreement (8)
10.13	Fourth Amendment dated November 3, 1998 to the Bank Credit Agreement (9)
10.14	Agreement and Plan of Merger by and among Petroleum Heat and Power Co., Inc., Star Gas Partners, L.P., Petro/Mergeco, Inc., and Star Gas Propane, L.P. (2)
10.15	Exchange Agreement (2)
10.16	Amendment to the Exchange Agreement dated as of February 10, 1999 (2)
10.17	Seventh amendment dated June 18, 1999 to the Credit Agreement dated December 13, 1995, between Star Gas Propane, L.P. and BankBoston, N.A. and NationsBank, N.A.(10)
10.18	Amendment No. 2 dated as of February 15, 2000, to the Credit Agreement, dated as of March 15 (12)
10.19	$12,500,000 8.67% First Mortgage Notes, Series A, due March 30, 2012 $15,000,000 8.72% First Mortgage Notes, Series B, due March 30, 2015 dated as of March 30, 2000(12)
10.20	Eighth amendment dated June 30, 2000 to the Credit Agreement dated December 13, 1995, between Star Gas Propane, L.P. and Fleet National Bank formerly known as BankBoston, N.A., and Bank of America, N.A. formerly known as NationsBank, N.A.(13)
10.21	June 2000 Star Gas Employee Unit Incentive Plan(13)
10.22	$40,000,000 Senior Secured Note Agreement(14)
21	Subsidiaries of the Registrant(6)

23.1 Consent of KPMG LLP(1) 24.1 Powers of Attorney (11) 27.0 Financial Data Schedule (1)

(1) Filed herewith.
(2) 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.
(3) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-1, File No. 33-98490, filed with the Commission on December 13, 1995.
(4) Incorporated by reference to the same Exhibit to Registrant's Periodic Report on Form 8-K, as amended, as filed with the Commission on October 23 and 29, 1997.
(5) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-1, File No. 333-40855, filed with the Commission on December 11, 1997.
(6) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-3, File No. 333-47295, filed with the Commission on March 4, 1998.
(7) Incorporated by reference to the same Exhibit to Registrant's Statement on Form S-4, File No. 333-49751, filed with the Commission on April 9, 1998.
(8) Incorporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 7, 1998.
(9) Incorporated by reference to the same Exhibit to Registrant's Annual Report on Form 10-K filed with the Commission on November 24, 1998.
(10) Incorporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 11, 1999.
(11) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-3MEF, File No. 333-85497, filed with the Commission on August 18, 1999.
(12) In corporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Commission on April 26, 2000.
(13) Incorporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q field with the Commission on August 10, 2000.
(14) In Accordance with item 601(B)(4)(iii) of Regulation S-K, the Partnership will provide a copy of this document to the SEC upon request.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the General Partner has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

Star Gas Partners, L.P.
By: Star Gas LLC (General Partner)

/s/Irik P. Sevin

By: Irik P. Sevin
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the date indicated:

Signature	Title	Date
/s/ Irik P. Sevin Irik P. Sevin Star Gas LLC	Chairman of the Board, Chief Executive Officer and Director	December 21, 2000
/s/ George Leibowitz George Leibowitz (Principal Financial and Accounting Officer)	Chief Financial Officer Star Gas LLC	December 21, 2000
/s/ Audrey L. Sevin	Director Star Gas LLC	

Audrey L. Sevin		December 21, 2000
/s/ Paul Biddelman Paul Biddelman	Director Star Gas LLC	December 21, 2000
/s/ Thomas J. Edelman Thomas J. Edelman	Director Star Gas LLC	December 21, 2000
/s/ I. Joseph Massoud I. Joseph Massoud	Director Star Gas LLC	December 21, 2000
/s/ William P. Nicoletti William P. Nicoletti	Director Star Gas LLC	December 21, 2000
/s/ Stephen Russell Stephen Russell	Director Star Gas LLC	December 21, 2000

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes therein.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

The Partners of Star Gas Partners, L.P.:

We have audited the consolidated financial statements of Star Gas Partners, L.P. and Subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Star Gas Partners, L.P. and Subsidiaries as of September 30, 1999 and 2000 and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2000, in conformity with generally accepted accounting principles of the United States. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Stamford, Connecticut KPMG LLP
December 14, 2000

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 1999	September 30, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 4,492	$ 10,910
Receivables, net of allowance of $948 and $1,956, respectively	42,295	66,858
Inventories	26,317	34,407
Prepaid expenses and other current assets	13,764	14,815
Total current assets	86,868	126,990
Property and equipment, net	154,967	171,300
Long-term portion of accounts receivable	5,590	7,282
Intangibles and other assets, net	291,919	313,404
Total assets	$ 539,344	$ 618,976
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	$ 12,939	$ 27,874
Working capital facility borrowings	3,150	24,400
Current maturities of long-term debt	1,391	16,515
Accrued expenses	43,044	42,410
Unearned service contract revenue	14,007	15,654
Customer credit balances	31,094	37,943
Total current liabilities	105,625	164,796
Long-term debt	276,638	310,414
Other long-term liabilities	6,905	4,588
Partners' Capital:		
Common unitholders	145,906	134,672
Subordinated unitholders	5,878	6,090
General partner	(1,608)	(1,584)
Total Partners' Capital	150,176	139,178
Total Liabilities and Partners' Capital	$ 539,344	$ 618,976

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per unit data)	Years Ended September 30, 1998	1999	2000
Sales:			
Product	$ 103,114	$ 177,936	$ 642,712
Installation, service and appliances	8,571	46,084	101,952
Total sales	111,685	224,020	744,664
Costs and expenses:			
Cost of product	46,909	80,786	383,828
Cost of installation, service and appliances	2,589	50,863	117,761
Delivery and branch	37,216	86,489	156,862
Depreciation and amortization	11,462	22,713	34,708
General and administrative	6,065	11,634	20,005
TG&E customer acquisition expense	-	-	2,082
Unit compensation expense	-	-	649
Net gain (loss) on sales of assets	(271)	(83)	143
Operating income (loss)	7,173	(28,548)	28,912
Interest expense, net	7,927	15,435	26,784
Amortization of debt issuance costs	176	347	534
Income (loss) before income taxes and minority interest	(930)	(44,330)	1,594
Minority interest in net loss of TG&E	-	-	251
Income tax expense (benefit)	25	(14,780)	492
Net income (loss)	$ (955)	$ (29,550)	$ 1,353
General Partner's interest in net income (loss)	$ (19)	$ (587)	$ 24
Limited Partners' interest in net income (loss)	$ (936)	$ (28,963)	$ 1,329
Basic and diluted net income (loss) per Limited Partner unit	$ (0.16)	$ (2.53)	$ .07
Basic and diluted weighted average number of Limited Partner units outstanding	6,035	11,447	18,288

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
Years Ended September 30, 1998, 1999 and 2000

(in thousands, except per unit amounts)

	Number of Units										
	Common	Sub.	Senior Sub.	Junior Sub.	General Partner	Common	Sub.	Senior Sub.	Junior Sub.	General Partner	Total Partners' Capital
Balance as of September 30, 1997	2,875	2,396	-	-	-	$47,573	$4,034	-	-	$ (29)	$51,578
Contribution of assets, net	148					3,399				68	3,467
Issuance of Common Units, net	809					15,745				344	16,089
Issuance of Common Units in connection with an acquisition	27					600				12	612
Net loss						(728)	(208)			(19)	(955)

Distributions ($2.20 per unit)						(7,903)	(5,272)			(269)	(13,444)
Balance as of September 30, 1998	3,859	2,396	-	-	-	58,686	(1,446)	-	-	107	57,347
Exchange of ownership in connection with the Star Gas / Petro Transaction		(2,396)	2,477	345	326	(8,958)	(2,754)	11,903	797	(988)	-
Issuance of Units in equity offerings (including exercise of overallotments)	10,076					135,816					135,816
Issuance of Units in redemption of Petro's 12 7/8% Preferred Stock	401					5,399					5,399
Issuance of Units in redemption of Petro's Junior Preferred Stock	103					1,459					1,459
Net loss						(26,141)	4,200	(6,165)	(857)	(587)	(29,550)
Distributions ($2.25 per common unit)						(19,484)				(140)	(19,624)
Other	(61)					(871)		200			(671)
Balance as of September 30, 1999	14,378	-	2,477	345	326	145,906	-	5,938	(60)	(1,608)	150,176
Issuance of Common Units	1,667					22,611					22,611
Issuance of Senior Subordinated Units			110					649			649
Net income						1,122		182	25	24	1,353
Distributions ($2.30 per common unit)						(34,967)					(34,967)
Distributions ($0.25 per senior Sub. unit)								(644)			(644)
Balance as of September 30, 2000	16,045	-	2,587	345	326	$134,672	$ -	$6,125	$ (35)	$(1,584)	$139,178

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended September 30,		
	1998	1999	2000
Cash flows from operating activities:			
Net income (loss)	$ (955)	$ (29,550)	$ 1,353
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	11,462	22,713	34,708
Amortization of debt issuance cost	176	347	534
Minority interest in net loss of TG&E	-	-	(251)
Unit compensation expense	-	-	649
Provision for losses on accounts receivable	239	371	2,669
(Gains) loss on sales of assets	271	83	(143)
Deferred tax benefit	-	(14,946)	-
Changes in operating assets and liabilities, net of amounts acquired:			
Decrease (increase) in receivables	342	27,954	(22,327)
Increase in inventories	(3,705)	(1,962)	(6,272)
Decrease (increase) in other assets	198	(8,460)	(3,134)
Increase (decrease) in accounts payable	81	(1,922)	6,589
Increase in other current and long-term liabilities	1,155	16,167	5,989
Net cash provided by operating activities	9,264	10,795	20,364
Cash flows from investing activities:			
Capital expenditures	(5,015)	(7,383)	(7,560)
Proceeds from sales of fixed assets	315	207	1,136
Cash acquired in acquisition	1,825	19,151	876
Acquisitions	(10,401)	(14,952)	(59,624)
Net cash used in investing activities	(13,276)	(2,977)	(65,172)
Cash flows from financing activities:			
Working capital facility borrowings	20,300	20,350	104,450
Working capital facility repayments	(15,530)	(21,970)	(85,801)
Acquisition facility borrowings	30,000	21,000	65,800
Acquisition facility repayments	(21,000)	(16,700)	(36,200)
Repayment of debt, net	(23,000)	(198,062)	(9,426)
Proceeds from issuance of debt	11,000	87,552	28,726
Distributions	(13,444)	(19,624)	(35,611)
Increase in deferred charges	-	(944)	(442)
Proceeds from issuance of Common Units, net	16,089	136,065	22,611
Redemption of preferred stock	-	(11,746)	-
Other	(177)	(362)	(2,881)
Net cash provided by (used in) financing activities	4,238	(4,441)	51,226

Net increase (decrease) in cash	226	3,377	6,418
Cash at beginning of period	889	1,115	4,492
Cash at end of period	$ 1,115	$ 4,492	$ 10,910

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1) Partnership Organization

Star Gas Partners, L.P. ("Star Gas Partners" or the "Partnership") is a diversified home energy distributor and services provider, specializing in heating oil, propane, natural gas and electricity. Star Gas Partners is a Master Limited Partnership whose 16.0 million common limited partner units (trading symbol "SGU" representing a 83.1% limited partner interest in Star Gas Partners) and 2.6 million senior subordinated units (trading symbol "SGH" representing a 13.4% limited partner interest in Star Gas Partners) are traded on the New York Stock Exchange. Additional interest in Star Gas Partners are comprised of 0.3 million junior subordinated units (representing a 1.8% limited partner interest in Star Gas Partners) and 0.3 million general partner units (representing a 1.7% general partner interest in Star Gas Partners).

The Partnership acquired Petro on March 26, 1999 in a series of transactions which closed concurrently (see footnote 7). This acquisition was accounted for under the purchase method of accounting. Petro, Star Gas Partners and Star Gas Propane entered into a merger agreement. Under the terms of this agreement, a newly formed subsidiary of Star Gas Propane was merged with Petro, with Petro surviving the merger as a wholly-owned indirect subsidiary of Star Gas Propane.

Operationally the Partnership is organized as follows:

- Petro Holdings, Inc. ("Petro" or the "heating oil segment"), is the nation's largest distributor of home heating oil and serves approximately 350,000 customers in the Northeast and Mid-Atlantic. Petro is an indirect wholly owned subsidiary of Star Gas Propane, L.P.

- Star Gas Propane, L.P., ("Star Gas Propane" or the "propane segment") is a wholly owned subsidiary of Star Gas Partners. Star Gas Propane markets and distributes propane gas and related products to more than 200,000 customers in the Midwest and Northeast.

- Total Gas and Electric ("TG&E" or the "natural gas and electric reseller segment") is an energy reseller that markets natural gas and electricity to residential homeowners in deregulated energy markets in the Northeast and Mid-Atlantic states of New York, New Jersey, Pennsylvania and Maryland and serves approximately 110,000 residential customers. TG&E is a 72.7% owned subsidiary of the Partnership.

2) Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements for the period October 1, 1997 through March 25, 1999 include the accounts of Star Gas Partners, L.P., and subsidiaries, principally Star Gas Propane. Beginning March 26, 1999, the Consolidated Financial Statements also include the accounts and results of operations of Petro. Beginning April 7, 2000, the Consolidated Financial Statements also include the accounts and results of operations of TG&E. The Partnership consolidates 72.7% of TG&E's balance sheet. Revenue and expenses are also consolidated with the Partnership with a deduction for the net loss allocable to the minority interest, which amount could be limited based upon the equity of the minority interest. All material intercompany items and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Sales of propane, heating oil, natural gas, electricity and propane/heating oil equipment are recognized at the time of delivery of the product to the customer or at the time of sale or installation. Revenue from repairs and maintenance service is recognized upon completion of the service. Payments received from customers for heating oil equipment service contracts are deferred and amortized into income over the terms of the respective service contracts, on a straight-line basis, which generally do not exceed one year.

Basic and Diluted Net Income (Loss) per Limited Partner Unit

Net income (loss) per Limited Partner Unit is computed by dividing net income (loss), after deducting the General Partner's interest, by the weighted average number of Common Units, Senior Subordinated Units and Junior Subordinated Units outstanding.

Cash Equivalents

The Partnership considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

Inventories

Inventories are stated at the lower of cost or market and are computed on a first-in, first-out basis.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the depreciable assets using the straight-line method.

Intangible Assets

Intangible assets include goodwill, covenants not to compete, customer lists and deferred charges.

Goodwill is the excess of cost over the fair value of net assets in the acquisition of a company. The Partnership amortizes goodwill using the straight-line method over a twenty-five year period.

Covenants not to compete are non-compete agreements established with the owners of an acquired company and are amortized over the respective lives of the covenants, which are generally five years.

Customer lists are the names and addresses of the acquired company's patrons. Based on the historical retention experience of these lists, Star Gas Propane amortizes customer lists on a straight-line method over fifteen years, Petro amortizes customer lists on a straight-line method over seven to ten years and TG&E amortizes customer lists on a straight-line method over ten years.

Deferred charges represent the costs associated with the issuance of debt instruments and are amortized using the interest method over the lives of the related debt instruments.

It is the Partnership's policy to review intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Partnership determines that the carrying values of intangible assets are recoverable over their remaining estimated lives through undiscounted future cash flow analysis. If such a review should indicate that the carrying amount of the intangible assets is not recoverable, it is the Partnership's policy to reduce the carrying amount of such assets to fair value.

Advertising Expenses

Advertising costs are expensed as they are incurred.

Customer Credit Balances

Customer credit balances represent pre-payments received from customers pursuant to a budget payment plan (whereby customers pay their estimated annual usage on a fixed monthly basis) and the payments made have exceeded the charges for deliveries.

Environmental Costs

The Partnership expenses, on a current basis, costs associated with managing hazardous substances and pollution in ongoing operations. The Partnership also accrues for costs associated with the remediation of environmental pollution when it becomes probable that a liability has been incurred and the amount can be reasonably estimated.

Derivatives and Premiums

The Partnership uses derivatives to hedge the price risk associated with the products it sells to guaranteed maximum price customers and to some extent natural gas and heating oil inventory on hand. The realized gains and losses from these derivatives are matched with the inventory being hedged and are included with cost of goods sold. Premiums paid for derivatives are capitalized and amortized as part of cost of goods sold over the lives of the related instruments.

TG&E Customer Acquisition Expense

TG&E customer acquisition expense represents the purchase of new accounts form a third party direct marketing company for the Partnership's natural gas and electric reseller division. Such cost are charged as incurred upon acquisition of new customers.

Employee Unit Incentive Plan

When applicable, the Partnership accounts for stock-based compensation arrangements in accordance with APB No. 25. Compensation costs for fixed awards on pro-rata vesting are recognized straight-line over the vesting period. The Partnership adopted an employee unit incentive plan to grant certain employees senior subordinated units of limited partner interest of the Partnership ("incentive units"), as an incentive for increased efforts during employment and as an inducement to remain in the service of the Partnership. Grants of incentive units vest twenty percent immediately, with the remaining amount vesting over four consecutive installments if the Partnership achieves annual targeted distributable cash flow. The Partnership records an expense for the incentive units granted, which require no cash contribution, over the vesting period for those units which are probable of being issued.

Income Taxes

The Partnership is a master limited partnership. As a result, for Federal income tax purposes, earnings or losses are allocated directly to the individual partners. Except for the Partnership's corporate subsidiaries, no recognition has been given to Federal income taxes in the accompanying financial statements of the Partnership. While the

Partnership's corporate subsidiaries will generate non-qualifying Master Limited Partnership revenue, dividends from the corporate subsidiaries to the Partnership are included in the determination of Master Limited Partnership income. In addition, a portion of the dividends received by the Partnership from the corporate subsidiaries will be taxable to the partners. Net earnings for financial statement purposes will differ significantly from taxable income reportable to partners as a result of differences between the tax basis and financial reporting basis of assets and liabilities and due to the taxable income allocation requirements of the Partnership agreement.

For all corporate subsidiaries of the Partnership excluding TG&E, a consolidated Federal income tax return is filed. TG&E files a separate Federal income tax return. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Accounting Changes

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133) as amended by SFAS No. 137 and No. 138. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires the recognition of all derivative instruments as assets or liabilities in the Partnership's balance sheet and measurement of those instruments at fair value and requires that a company formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The accounting treatment of changes in fair value is dependent upon whether or not a derivative instrument is designated as a hedge and if so, the type of hedge. For derivatives designated as Cash Flow Hedges, changes in fair value are recognized in other comprehensive income until the hedged item is recognized in earnings. For derivatives recognized as Fair Value Hedges, changes in fair value are recognized in the income statement and are offset by related results of the hedged item. Changes in the fair value of derivative instruments, which are not designated as hedges or which do not qualify for hedge accounting are recognized in earnings as they occur.

The Partnership periodically hedges a portion of its oil, propane and natural gas purchases through futures, options, collars and swap agreements. The purpose of the hedges is to provide a measure of stability in the volatile environment of oil, propane and natural gas prices and to manage its exposure to commodity price risk under certain existing sales commitments.

The Partnership will adopt SFAS No. 133 on October 1, 2000, and will record its derivatives at fair market value. As a result of adopting the Standard, the Company will recognize an approximate $1.5 million increase in net income and a $10.5 million increase in additional other comprehensive income which will be recorded as a cumulative effect of a change in accounting principle in the first quarter ending December 31, 2000.

3) Quarterly Distribution of Available Cash

In general, the Partnership distributes to its partners on a quarterly basis all "Available Cash." Available Cash generally means, with respect to any fiscal quarter, all cash on hand at the end of such 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 the Partnership's business, (2) comply with applicable law or any of its debt instruments or other agreements or (3) in certain circumstances provide funds for distributions to the common unitholders and the senior subordinated unitholders during the next four quarters. 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 the Partnership from distributing the Minimum Quarterly Distribution ("MQD") on all common units and any common unit arrearages thereon with respect to the next four quarters. Certain restrictions on distributions on 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.

The senior subordinated units, the junior subordinated units, and general partner units are each a separate class of interest in Star Gas Partners, and the rights of holders of those interests to participate in distributions differ from the rights of the holders of the common units.

The Partnership intends to distribute to the extent there is sufficient Available Cash, at least a MQD of $0.575 per common unit, or $2.30 per common unit on a yearly basis. 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 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.

In July 2000, the Partnership announced based on its results in fiscal 2000, that in addition to its regular quarterly distribution of $0.575 on its common units, that it would commence quarterly distributions on its senior subordinated units at an initial rate of $0.25 per unit.

The subordination period will end once the Partnership has met the financial tests stipulated in the partnership agreement, but it generally cannot end before October 1, 2003. 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.

The subordination period will generally extend until the first day of any quarter beginning on or after October 1, 2003 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.

(4) Segment Reporting

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Partnership has four reportable segments, retail distribution of heating oil, a retail distribution of propane, reselling of natural gas and electricity, and the public master limited partnership, Star Gas Partners. Management has chosen to organize the enterprise under these four segments in order to leverage the expertise it has in each industry, allow each segment to continue to strengthen its core competencies and provide a clear means for evaluation of operating results.

The Partnership reevaluated what it considers to be corporate type expenses which are better measured at the partnership level during fiscal 2000. As a result of this realignment, $0.3 million and $1.1 million of general and administrative expenses previously recorded as heating oil segment and propane segment expenses, respectively, were reclassed to the public master limited partnership segment for fiscal 1999.

The heating oil segment is primarily engaged in the retail distribution of home heating oil, related equipment services, and equipment sales to residential and commercial customers. It operates primarily in the Northeast and Mid-Atlantic states. Home heating oil is principally used by the Partnership's residential and commercial customers to heat their homes and buildings, and as a result, weather conditions have a significant impact on the demand for home heating oil.

The propane segment is primarily engaged in the retail distribution of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers, in the Midwest and the Northeast. Propane is used primarily for space heating, water heating and cooking by the Partnership's residential and commercial customers and as a result, weather conditions also have a significant impact on the demand for propane.

The natural gas and electric reseller segment is primarily engaged in offering natural gas and electricity to residential consumers in deregulated energy markets. In deregulated energy markets, customers have a choice in selecting energy suppliers to power and / or heat their homes. TG&E operates in nine markets in the Northeast/Mid-Atlantic states where competition for energy suppliers range from independent resellers, like TG&E, to large public utilities.

The public master limited partnership segment includes the office of the Chief Executive Officer and has the responsibility for maintaining investor relations and investor reporting for the Partnership.

The following are the statements of operations and balance sheets for each segment as of and for the periods indicated. The heating oil segment was consolidated with the propane segment beginning March 26, 1999, and the electric and natural gas reselling segment (TG&E) was added beginning April 7, 2000. There were no inter-segment sales.

(in thousands)	Years Ended September 30,								
	1999				2000				
Statement of Operations	Heating Oil	Propane	Partners	Consol.	Heating Oil	Propane	TG&E	Partners	Consol.
Sales:									
Product	$ 80,279	$ 97,657	$ -	$177,936	$481,466	$137,643	$ 23,603	$ -	$642,712
Installation, service and appliance	36,120	9,964	-	46,084	89,411	12,541	-	-	101,952
Total sales	116,399	107,621	-	224,020	570,877	150,184	23,603	-	744,664
Costs and expenses:									
Cost of product	42,409	38,377	-	80,786	289,424	72,378	22,026	-	383,828
Cost of installation, service, and appliances	47,661	3,202	-	50,863	113,836	3,925	-	-	117,761
Delivery and branch	45,470	41,019	-	86,489	112,820	44,042	-	-	156,862
Depreciation and amortization	10,531	12,182	-	22,713	22,373	11,916	416	3	34,708
General and administrative	4,889	5,305	1,440	11,634	9,202	6,266	2,041	2,496	20,005
TG&E customer acquisition expense	-	-	-	-	-	-	2,082	-	2,082
Unit compensation expense	-	-	-	-	-	-	-	649	649
Net gain (loss) on sales of assets	7	(90)	-	(83)	6	137	-	-	143
Operating income (loss)	(34,554)	7,446	(1,440)	(28,548)	23,228	11,794	(2,962)	(3,148)	28,912
Interest expense, net	7,128	8,307	-	15,435	17,069	9,509	635	(429)	26,784
Amortization of debt issuance costs	167	180	-	347	343	191	-	-	534
Income (loss) before income taxes and minority interest	(41,849)	(1,041)	(1,440)	(44,330)	5,816	2,094	(3,597)	(2,719)	1,594
Minority interest in net loss of TG&E	-	-	-	-	-	-	251	-	251
Income tax expense (benefit)	(11,900)	(2,880)	-	(14,780)	400	90	2	-	492
Net income (loss)	$(29,949)	$ 1,839	$ (1,440)	$(29,550)	$ 5,416	$ 2,004	$ (3,348)	$ (2,719)	$ 1,353
Capital expenditures	$ 2,323	$ 5,060	$ -	$ 7,383	$ 3,478	$ 3,927	$ 155	$ -	$ 7,560

(in thousands)	September 30, 1999				September 30, 2000				
Balance Sheets	Heating Oil	Propane	Partners	(1) Consol.	Heating Oil	Propane	TG&E	Partners	(1) Consol.
Assets									
Current assets:									
Cash and cash equivalents	$ 4,270	$ 222	$ -	$ 4,492	$ 6,288	$ 2,765	$ 222	$ 1,635	$ 10,910
Receivables, net	35,960	6,335	-	42,295	51,475	9,976	5,407	-	66,858
Inventories	16,498	9,819	-	26,317	21,637	8,636	4,134	-	34,407
Prepaid expenses and other current assets	13,678	1,156	-	13,764	12,502	1,017	2,157	-	14,815
Total current assets	70,406	17,532	-	86,868	91,902	22,394	11,290	1,635	126,990
Property and equipment, net	39,849	115,118	-	154,967	39,026	132,008	266	-	171,300
Long-term portion of accounts receivable	5,590	-	-	5,590	7,282	-	-	-	7,282
Investment in subsidiaries	-	83,533	152,478	-	-	69,309	-	143,036	-
Intangibles and other assets, net	236,981	54,938	-	291,919	236,069	63,003	14,174	158	313,404
Total assets	$ 352,826	$ 271,121	$ 152,478	$ 539,344	$ 374,279	$ 286,714	$ 26,360	$ 144,829	$ 618,976

Liabilities and Partners' Capital	Heating Oil	Propane	Partners	(1) Consol.	Heating Oil	Propane	TG&E	Partners	(1) Consol.
Current Liabilities:									
Accounts payable	$ 7,366	$ 5,573	$ -	$ 12,939	$ 11,887	$ 7,436	$ 8,551	$ -	$ 27,874
Working capital facility borrowings	-	3,150	-	3,150	17,000	800	6,600	-	24,400
Current maturities of long-term debt	1,391	-	-	1,391	7,669	8,846	-	-	16,515
Accrued expenses									

and other current liabilities	39,012	4,231	-	43,044	36,882	4,006	1,521	-	42,410
Due to affiliate	(300)	(1,140)	1,440	-	(1,115)	(3,674)	-	4,789	-
Unearned service contract revenue	14,007	-	-	14,007	15,654	-	-	-	15,654
Customer credit balances	26,657	4,437	-	31,094	26,101	9,805	2,037		37,943
Total current liabilities	88,133	16,251	1,440	105,625	114,078	27,219	18,709	4,789	164,796
Long-term debt	174,338	102,300	-	276,638	186,397	122,154	1,863	-	310,414
Other long-term liabilities	6,822	92	-	6,905	4,495	93	-	-	4,588
Partners' Capital:									
Equity Capital	83,533	152,478	151,038	150,176	69,309	137,248	5,788	140,040	139,178
Total liabilities and Partners' Capital	$ 352,826	$ 271,121	$ 152,478	$ 539,344	$ 374,279	$ 286,714	$ 26,360	$ 144,829	$ 618,976

(1) The consolidated amounts include the necessary entries to eliminate the investment in Petro Holdings, Star Gas Propane and TG&E.

5) Inventories

The components of inventory were as follows:

(in thousands)	September 30, 1999	September 30, 2000
Propane gas	$ 7,678	$ 6,323
Propane appliances and equipment	2,141	2,313
Fuel oil	9,959	14,263
Fuel oil parts and equipment	6,539	7,374
Natural gas	-	4,134
	$ 26,317	$ 34,407

Substantially all of the Partnership's propane supplies for the Northeast retail operations are purchased under supply contracts. Certain of the supply contracts provide for minimum and maximum amounts of propane to be purchased thereunder, and provide for pricing in accordance with posted prices at the time of delivery or include a pricing formula that typically is based on current market prices. Historically, spot purchases from Mont Belvieu, Texas sources accounted for approximately one-third of the Partnership's total volume of propane purchases. In addition, the three single largest suppliers in the aggregate account for less than half of total propane purchases.

The Partnership obtains home heating oil in either barge or truckload quantities, and has contracts with over 80 terminals for the right to temporarily store its heating oil at facilities not owned by the Partnership. Purchases are made pursuant to supply contracts or on the spot market. The Partnership has market price based contracts for substantially all its petroleum requirements with 12 different suppliers, the majority of which have significant domestic sources for their product, and many of which have been suppliers for over 10 years. Typically supply contracts have terms of 12 months. All of the supply contracts provide for maximum and in some cases minimum quantities, and in most cases the price is based upon the market price at the time of delivery.

The Partnership is an independent reseller of natural gas and electricity to residential homeowners in deregulated markets, through its 72.7% controlling interest in TG&E. In the markets in which TG&E operates, natural gas and electricity are available from wholesale natural gas producers and electricity generating companies. Substantially all of TG&E's natural gas was purchased from a major Texas wholesaler, with the balance from regional wholesalers, who transport the natural gas to the incumbent utility company for TG&E, through purchased or assigned capacity using existing pipelines.

Additionally, all of TG&E's electricity was purchased from a major New York State wholesaler, who transports the electricity to the incumbent utility company, through scheduled deliveries using existing electric lines.

The incumbent utility company then delivers the natural gas and electricity to TG&E customers using existing pipelines and electric lines. The incumbent utility and TG&E coordinate delivery and billing, and also compete to sell the natural gas and electricity to the ultimate consumer. Generally, customers pay the incumbent utility a service charge to cover customer related costs like meter readings, billing, equipment and maintenance. Customers also pay a separate delivery charge to the incumbent utility for bringing the natural gas or electricity from the customer's chosen supplier. The energy service company is then paid by the customer for the natural gas or electricity that was supplied. In most markets in which TG&E operates, these charges are itemized on one customer energy bill from the utility company. In other markets, TG&E directly bills the customer for the natural gas or electricity supplied.

The Partnership may enter into forward contracts with Mont Belvieu suppliers, heating oil suppliers or refineries which call for a fixed price for the product to be purchased based on current market conditions, with delivery occurring at a later date. In most cases the Partnership has entered into similar agreements to sell this product to customers for a fixed price based on market conditions. In the event that the Partnership enters into these types of contracts without a subsequent sale, it is exposed to some market risk. Currently, the Partnership does not have any contracts that if market conditions were to change, would have a material affect on its financial statements.

Concentration of Revenue with Guaranteed Maximum Price Customers

Approximately 45% of the volume sold in the Partnership's heating oil segment is sold to individual customers under an agreement pre-establishing the maximum sales price of home heating oil over a twelve month period. The maximum price at which home heating oil is sold to these capped-price customers is generally renegotiated prior to the heating season of each year based on current market conditions. The heating oil segment currently enters into forward purchase contracts, futures contracts and option contracts for a substantial majority of the heating oil it sells to these capped-price customers in advance and at a fixed cost. Should events occur after a capped-sales price is established that increases the cost of home heating oil above the amount anticipated, margins for the capped-price customers whose heating oil was not purchased in advance would be lower than expected, while those customers whose heating oil was purchased in advance would be unaffected. Conversely, should events occur during this period that decrease the cost of heating oil below the amount anticipated, margins for the capped-price customers whose heating oil was purchased in advance could be lower than expected, while those customers whose heating oil was not purchased in advance would be unaffected or higher than expected.

In accordance with SFAS No. 80, "Accounting for Futures Contracts," futures contracts are classified as a hedge when the item to be hedged exposes the company to price risk and the futures contract reduces that risk exposure. Future contracts that relate to transactions that are expected to occur are accounted for as a hedge when the significant characteristics and expected terms of the anticipated transactions are identified and it is probable that the anticipated transaction will occur. If a transaction does not meet the criteria to qualify as a hedge, it is considered to be speculative. Any gains or losses associated with futures contracts which are classified as speculative are recognized in the current period. There were no speculative transactions during fiscal 2000. If a futures contract that has been accounted for as a hedge is closed or matures before the date of the anticipated transaction, the accumulated change in value of the contract is carried forward and included in the measurement of the related transaction. Option contracts are accounted for in the same manner as futures contracts.

To hedge a substantial portion of the purchase price associated with heating oil gallons anticipated to be sold to its guaranteed maximum price customers, the heating oil segment at September 30, 2000 had outstanding 88 million gallons of futures contracts to buy heating oil with a notional value of $71 million and a fair market value of $79.4 million; 62.6 million gallons of futures contracts to sell heating oil with a notional value of $49.7 million and a fair market value of $55.7 million; 101 million gallons of option contracts to buy heating oil with a notional value of $57.9 million and a fair market value of $68.3 million; and 108 million gallons of option contracts to sell heating oil. None of the Company's outstanding options to sell heating oil, which allow the Company the right to sell heating oil at a fixed price are currently in the money at September 30, 2000. The contracts expire at various times with no contract expiring later than July 2001.

To hedge a substantial portion of the purchase price associated with propane gallons anticipated to be sold to its fixed price customers, the propane segment at September 30, 2000 had outstanding futures contracts to buy 7.6 million gallons of propane with a notional value of $3.2 million and a fair market value totaling $3.0 million. The option contract expires in March 2001.

To hedge a substantial portion of its natural gas inventories, the TG&E segment at September 30, 2000, had outstanding futures contracts to sell 670,000 dekatherms of natural gas with a notional value of $2.8 million and fair market value of $3.4 million.

At September 30, 2000 the unrealized gains (losses) on the heating oil segment's, propane segment's and TG&E's hedging activity was approximately $12.7 million, $(0.2) million and $(0.6) million, respectively. The heating oil segment's hedging activity is designed to help it achieve its planned margins and represents approximately 52% of the expected total home heating oil volume sold in a twelve month period. The propane segment's hedging activity is also designed to help it achieve its planned margins and represents approximately 5% of the expected total propane volume sold in a twelve month period. TG&E's hedging activity is also designed to help achieve its planned margins and represents a hedge on 100% of its required physical inventory of natural gas at September 30, 2000.

The carrying amount of all hedging financial instruments at September 30, 2000 was approximately $1.7 million and is included in Prepaid Expenses on the Consolidated Balance Sheet. The risk that counterparties to such instruments may be unable to perform is minimized by limiting the counterparties to major oil companies and major financial institutions, including the New York Mercantile Exchange. The Partnership does not expect any losses due to counterparty default.

6) Property, Plant and Equipment

The components of property, plant, and equipment and their estimated useful lives were as follows:

(in thousands)	September 30, 1999	September 30, 2000	Estimated Useful Lives
Land	$ 8,669	$ 10,688	
Buildings and leasehold improvements	21,370	22,295	4 - 30 years
Fleet and other equipment	34,470	39,600	3 - 30 years
Tanks and equipment	113,774	131,901	8 - 30 years
Furniture and fixtures	14,396	17,500	5 - 12 years
Total	192,679	221,984	
Less accumulated depreciation	37,712	50,684	
Total	$ 154,967	$ 171,300	

7) Intangibles and Other Assets

The components of intangibles and other assets were as follows at the indicated dates:

(in thousands)	September 30, 1999			September 30, 2000				
	Propane	Heating Oil	Total	Propane	Heating Oil	TG&E	Partners	Total
Goodwill	$ 28,858	$146,764	$175,622	$ 36,622	$150,807	$ 6,629	$ --	$194,058
Covenants not to compete	2,361	--	2,361	3,586	3,314	--	--	6,900
Customer lists	38,004	94,842	132,846	41,272	102,759	6,077	--	150,108
Deferred charges	3,102	2,760	5,862	3,546	3,300	--	161	7,007
Total intangibles	72,325	244,366	316,691	85,026	260,180	12,706	161	358,073
Less accumulated amortization	17,604	7,839	25,443	22,290	24,430	361	3	47,084
Net intangibles	54,721	236,527	291,248	62,736	235,750	12,345	158	310,989
Other assets	217	454	671	267	319	1,829		2,415
Intangibles and other assets	$ 54,938	$236,981	$291,919	$ 63,003	$236,069	$ 14,174	$ 158	$313,404

In 1999 the Partnership acquired Petro in a four part transaction ("Star Gas / Petro Transaction"), which closed concurrently. This acquisition was accounted for under the purchase method of accounting.

Merger and Exchange

Petro, Star Gas Partners and Star Gas Propane entered into a merger agreement (the "merger agreement"). Under the terms of the merger agreement, a newly formed subsidiary of Star Gas Propane was merged with 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 were exchanged (the "Exchange"), was converted into 0.11758 senior subordinated units (2,476,797 senior subordinated units issued in total);

- each outstanding share of Petro junior convertible preferred stock was converted into 0.13064 common units (102,848 total common units); and

- each outstanding share of Petro Series C exchangeable preferred stock due 2009 was converted into the right to receive $10.69 in cash per share plus accrued and unpaid dividends, except for an aggregate of 505,000 shares of Series C preferred stock that were converted into an aggregate of 400,531 common units, plus accrued and unpaid dividends on the preferred, with the right to receive an additional 175,000 Senior Subordinated Units contingent upon Petro achieving certain operating results.

The Exchange occurred immediately prior to the merger and was comprised of the following elements.

(a) Certain holders of Petro common stock, consisting of Irik P. Sevin, Audrey L. Sevin, Hanseatic Corp. and Hanseatic Americas Inc., who are referred to as the "LLC Owners," formed Star Gas LLC, to which they contributed their outstanding shares of Petro common stock in exchange for all of the limited liability company interests in Star Gas LLC. Star Gas LLC contributed those shares to Star Gas Partners in exchange for general partner units (325,729 general partner units). In addition, the LLC Owners contributed their remaining shares of Petro common stock to Star Gas Partners in exchange for junior subordinated units (345,364 junior subordinated units).

(b) Other Petro common stockholders who were affiliates of Petro contributed shares of Petro common stock to Star Gas Partners in exchange for Star Gas Partners senior subordinated units. The senior subordinated units, junior subordinated units and general partnership units can earn, pro rata, 303,000 additional senior subordinated units each year that the heating oil segment meets certain financial goals. A maximum of 909,000 additional senior subordinated units can be issued.

Financings and Refinancings

Star Gas Partners offered and sold to the public 9.0 million common units in an equity offering (including 230,000 overallotment common units), the net proceeds of which were approximately $118.8 million. Petro offered and sold, in a private placement, $90.0 million of senior secured notes, the net proceeds of which were approximately $87.6 million. Star Gas Partners and Petro Holdings guaranteed the notes.

All of the $118.8 million of net proceeds of the equity offering, together with the $87.6 million of net proceeds from the debt offering and $5.4 million of Petro's cash were used:

- to redeem $80.2 million principal amount of Petro's 12 1/4% Senior Subordinated Debentures due 2005, $48.7 million principal amount of Petro's 10 1/8% Senior Subordinated Notes due 2003, $74.3 million principal amount of Petro's 9 3/8% Senior Subordinated Debentures due 2006 and the $17.4 million of Petro's 12 7/8% preferred stock at an aggregate redemption price of $201.3 million;

- to repurchase Petro's 1989 preferred stock at an aggregate redemption price of $4.2 million; and

- to pay $6.3 million of the expenses of the transaction.

In addition, Star Gas Partners issued 0.4 million of common units to redeem certain holder's $12.6 million Petro 12 7/8% preferred stock.

New General Partner

Since Star Gas Corporation is a wholly-owned subsidiary of Petro, which became a subsidiary of the Partnership in the transaction, it was no longer able to serve as Star Gas Partners' general partner. Star Gas Partners' new general partner is Star Gas LLC, which is owned by the LLC Owners. The Partnership agreement allows for the removal of the General Partner by a 2/3 vote of the common unitholders. Star Gas LLC's sole business activity is being the general partner.

Amendment of Partnership Agreement

In order to complete the transaction, certain amendments to the Partnership agreement were required, including increasing the Minimum Quarterly Distribution ("MQD") from $0.55 to $0.575 per unit, or $2.30 per unit annually. The increase in the MQD raised the threshold needed to end the subordination period (see footnote 3).

7) Intangibles and Other Assets - (continued)

The table below summarizes the allocation by the Partnership of the excess of purchase price over book value related to the 1999 acquisition of Petro. The allocation of the purchase price was based on the results of an appraisal of property, plant and equipment, customer lists and the March 26, 1999 recorded values for tangible assets and liabilities as follows:

	(in thousands)
Consideration given for the exchange of Petro shares	$ 20,822
Fair market value of Petro's assets and liabilities as of March 26, 1999:	
Current assets	(107,102)

Property, plant and equipment	(40,109)
Value of Petro's investment in the Partnership	(21,864)
Current liabilities	78,792
Long-term debt	276,568
Deferred income taxes	12,000
Other liabilities	7,251
Preferred stock	12,978
Junior preferred stock	1,459
Sub-total	219,973
Total value assigned to intangibles and other assets	$ 240,795

Consisting of:	Customer lists	$ 94,000
	Goodwill	146,080
	Other assets	715
	Total	$ 240,795

The fair market value for property, plant and equipment, excluding real estate, was established using the replacement 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 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.

8) Long-Term Debt and Bank Facility Borrowings

Long-term debt consisted of the following at the indicated dates:

(in thousands)	September 30, 1999	September 30, 2000
Propane Segment:		
8.04% First Mortgage Notes (a)	$ 85,000	$ 85,000
7.17% First Mortgage Notes (a)	11,000	11,000
8.70% First Mortgage Notes (a)	-	27,500
Acquisition Facility Borrowings (b)	6,300	7,500
Working Capital Facility Borrowings (b)	3,150	800
Heating Oil Segment:		
7.92% Senior Notes (c)	90,000	90,000
9.0% Senior Notes (d)	62,697	61,779
10.25% Senior and Subordinated Notes (e)	4,246	4,137
Working Capital Facility Borrowings (f)	-	17,000
Acquisition Facility Borrowings (f)	7,000	34,000
Acquisition Notes Payable (g)	8,764	1,135
Subordinated Debentures (h)	3,022	3,015
TG&E Segment:		
Working Capital Facility Borrowings (i)	-	6,600
Acquisition Facility Borrowings(i)	-	1,400
14.5% Junior Convertible Subordinated Notes Payable(j)	-	463
	281,179	351,329
Less current maturities	(1,391)	(16,515)
Less working capital facility borrowings	(3,150)	(24,400)
Total	$ 276,638	$ 310,414

8) Long-Term Debt and Bank Facility Borrowings - (continued)

(a) In December 1995, Star Gas Propane assumed $85.0 million of first mortgage notes (the "First Mortgage Notes") with an annual interest rate of 8.04% in connection with the initial Partnership formation. In January 1998, Star Gas Propane issued an additional $11.0 million of First Mortgage Notes with an annual interest rate of 7.17%. In March 2000, the Star Gas Propane segment issued $27.5 million of 8.70% First Mortgage Notes. Obligations under the First Mortgage Note Agreements are secured, on an equal basis with Star Gas Propane's obligations under the Star Gas Propane Bank Credit Facilities, by a mortgage on substantially all of the real property and liens on substantially all of the operating facilities, equipment and other assets of Star Gas Propane. The First Mortgage Notes will require semiannual prepayments, without premium on the principal thereof, beginning on March 15, 2001 and have a final maturity of March 30, 2015. Interest on the Notes is payable semiannually in March and September. The First Mortgage Note Agreements contain various restrictive and affirmative covenants applicable to Star Gas Propane; the most restrictive of these covenants relate to the incurrence of additional indebtedness and restrictions on dividends, certain investments, guarantees, loans, sales of assets and other transactions.

(b) The Star Gas Propane Bank Credit Facilities currently consist of a $25.0 million Acquisition Facility and a $18.0 million Working Capital Facility. At September 30, 2000, $7.5 million and $0.8 million was borrowed under the Acquisition Facility and Working Capital Facility, respectively. The agreement governing the Bank Credit Facilities contains covenants and default provisions generally similar to those contained in the First Mortgage Note Agreements. The Bank Credit Facilities bear interest at a rate based upon, at the Partnership's option, either the London Interbank Offered Rate plus a margin or a Base Rate (each as defined in the Bank Credit Facilities). The Partnership is required to pay a fee for unused commitments which amounted to $0.1 million in each of fiscal years ending September 30, 1998, through September 30, 2000. For fiscal 1999 and 2000, the weighted average interest rate on borrowings under these facilities was 7.13% and 8.68%, respectively. At September 30, 2000 the interest rate on the borrowings outstanding was 8.25%.

In November 2000, the Working Capital Facility was extended and will expire on June 30, 2003, but may be extended annually thereafter with the consent of the banks. Borrowings under the Acquisition Facility, based upon the extension, will revolve until September 30, 2002, after which time any outstanding loans thereunder, will amortize in quarterly principal payments with a final payment due on September 30, 2005. However, there must be no amount outstanding under the Working Capital Facility for at least 30 consecutive days during each fiscal year.

(c) Petro issued $90.0 million of 7.92% Senior Secured Notes in six separate series in a private placement to institutional investors as part of its acquisition by the Partnership. The Senior Secured Notes are guaranteed by Star Gas Partners and are secured equally and ratably with Petro's existing senior debt and bank credit facilities by Petro's cash, accounts receivable, notes receivable, inventory and customer list. Each series of Senior Secured Notes will mature between April 1, 2003 and April 1, 2014. Only interest 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 agreements for the senior secured notes contain various negative and affirmative covenants, the most restrictive of the covenants include 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, do not meet the requirements in the agreement for the period of the four most recent fiscal quarters ending on or prior to the date of the dividend or distribution.

(d) The Petro 9.0% Senior Secured Notes which pay interest semiannually were issued under agreements that are substantially identical to the agreements under which the $90.0 million of Senior Secured Notes were issued, including negative and affirmative covenants. The 9.0% Senior Notes are guaranteed by Star Gas Partners. The notes have various sinking fund payments of which the largest are $15.5 million due on October 1, 2000, $15.4 million due on October 1, 2001 and a final maturity payment of $30.3 million due on October 1, 2002. All such notes are redeemable at the option of the Partnership, in whole or in part upon payment of a premium as defined in the note agreement. The holders of these notes have the right to extend each of the above mentioned maturities for a one year period at an annual rate of 10.9%. This election was exercised in August 2000, extending $11.2 million of the original maturities of October 1, 2000 to October 1, 2001.

8) Long-Term Debt and Bank Facility Borrowings - (continued)

(e) The Petro 10.25% Senior and Subordinated Notes which pay interest quarterly also were issued under agreements that are substantially identical to the agreements under which the $90.0 million and the 9.0% Senior Notes were issued. These notes are also guaranteed by Star Gas Partners. Petro is required to repay quarterly payments totaling $2.1 million in fiscal 2001 and to make a final maturity payment of $2.0 million on January 15, 2002. No premium is payable in connection with these required payments. In connection with a one year extension exercised by the noteholders the interest rate increased to 14.1%.

(f) The Petro Bank Facilities consist of three separate facilities; a $40 million working capital facility, a $10 million insurance letter of credit facility and a $50 million acquisition facility. At September 30, 2000, $17.0 million was outstanding under the working capital facility; $9.8 million of the insurance letter of credit was used; $34.0 million was outstanding under the acquisition facility, along with an additional $0.7 million outstanding from the acquisition facility in the form of letter of credits (see footnote g below). 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 45 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 contains covenants and default provisions generally similar to those contained in the note agreement for the senior secured notes. The heating oil segment is required to pay a commitment fee which amounted to $0.3 million for fiscal 1999 and $0.5 million for fiscal 2000. For fiscal 1999 and 2000, the weighted average interest rate in borrowings under these facilities was 8.19% and 8.15%, respectively. As of September 30, 2000 the interest rate on the borrowings outstanding was 9.27%. In December 2000 the working capital facility was increased to $70.0 million and up to $20.0 million of the acquisition facility can be used for working capital purposes.

(g) These Petro notes were issued in connection with the purchase of fuel oil dealers and other notes payable and are due in monthly and quarterly installments. Interest is at various rates ranging from 7% to 15% per annum, maturing at various dates through 2004. Approximately $0.7 million of letter of credits issued under the Petro Bank Acquisition Facility are issued to support these notes.

(h) Petro also has 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 12 1/4% subordinated notes were issued were amended to eliminate substantially all of the covenants provided by the indentures.

(i) The TG&E Bank Facilities currently consist of a $3.0 million Acquisition Facility and a $10.0 million Working Capital Facility and are secured by substantially all of the assets of TG&E. At September 30, 2000, $1.4 million and $6.6 million was borrowed under the Acquisition Facility and Working Capital Facility, respectively. These facilities are guaranteed by Star Gas Partners, such guarantee being subordinate to the Petro guarantee. The agreement covering the Bank Credit Facilities contains various restrictive and affirmative covenants and default provisions applicable to TG&E; the most restrictive of these covenants relate to the incurrence of additional indebtedness and restrictions on certain investments, guarantees, loans, sale of assets and other transactions. The Bank Credit Facilities bear interest at a rate based upon, at the Partnership's option, either the London Interbank Offered Rate plus a margin or a Base Rate (each as defined in the Bank Credit Facilities). The Partnership is required to pay a fee for unused commitments which amounts to less than $0.1 million for fiscal 2000. For fiscal 2000, the weighted average interest rate on borrowings under these facilities was 9.90%. At September 30, 2000 the interest rate on the borrowings outstanding was 10.03%.

The Working Capital Facility will expire on April 5, 2001. The Acquisition Facility will revolve until April 5, 2001, after which time any outstanding loans thereunder, will be due as a single payment eighteen months thereafter.

(j) These TG&E notes were issued to the minority interest equity holders of TG&E and are due on December 31, 2005. The notes bear interest at a rate of 14.5% and are convertible, at the option of the holder, into common shares of TG&E at the rate of one share for each $23.333 in principal amount of the convertible notes.

As of September 30, 2000, the Partnership was in compliance with all debt covenants. As of September 30, 2000, the maturities during fiscal years ending September 30 are set forth in the following table:

	(in thousands)
2001	$ 40,915
2002	57,597
2003	69,133
2004	18,661
2005	21,749
Thereafter	143,274
	$351,329

9) Acquisitions

During fiscal 2000, the Partnership acquired nine unaffiliated retail heating oil dealers, five unaffiliated retail propane dealers and a 72.7% controlling interest in an electricity and natural gas reseller (see footnote 1). The aggregate consideration for these acquisitions accounted for by the purchase method of accounting was approximately $59.6 million.

During fiscal 1999, the Partnership acquired three unaffiliated retail propane dealers with an aggregate cost of $16.2 million and also acquired Petro. The Partnership has also acquired three unaffiliated heating oil dealers with an aggregate cost of $1.7 million during fiscal 1999.

During fiscal 1998, the Partnership acquired seven unaffiliated retail propane dealers with an aggregate cost of $35.6 million.

The following table indicates the allocation of the aggregate purchase price paid and the respective periods of amortization assigned for the 1999 and 2000 acquisitions other than for Petro (see Intangibles and Other Assets footnote):

(in thousands)	1999	2000	Useful Lives
Land	$ 288	$ 1,794	-
Buildings	400	650	30 years
Furniture and equipment	35	679	10 years
Fleet	1,082	4,103	5-30 years
Tanks and equipment	6,738	16,049	5-30 years
Customer lists	4,817	17,458	7-15 years
Restrictive covenants	21	4,539	5 years
Goodwill	3,886	18,170	25 years
Minority interest	-	1,578	-
Working capital	630	(5,396)	-
Total	$17,897	$59,624	

The acquisitions were accounted for under the purchase method of accounting. Purchase prices have been allocated to the acquired assets and liabilities based on their respective fair market values on the dates of acquisition. The purchase prices in excess of the fair values of net assets acquired were classified as intangibles in the

Consolidated Balance Sheets. Sales and net income have been included in the Consolidated Statements of Operations from the respective dates of acquisition.

The following unaudited pro forma information presents the results of operations of the Partnership and the acquisitions previously described, as if the acquisitions had taken place on October 1, 1998.

(in thousands)	Years Ended September 30,	
	1999	2000
Sales	$ 610,231	$ 798,012
Net income (loss)	$ (2,882)	$ 2,978
General Partner's interest in net income (loss)	$ (59)	$ 53
Limited Partners' interest in net income (loss)	$ (2,823)	$ 2,925
Basic and Diluted net income (loss) per limited partner unit	$ (0.15)	$ 0.15

10) Employee Benefit Plans

Propane Segment

The propane segment has a 401(k) plan which covers certain eligible non-union and union employees. Subject to IRS limitations, the 401(k) plan provides for each employee to contribute from 1.0% to 15.0% of compensation. The propane segment contributes to non-union participants a matching amount up to a maximum of 3.0% of compensation. Aggregate matching contributions made to the 401(k) plan during fiscal 1998, 1999 and 2000 were $0.3 million, $0.3 million and $0.4 million, respectively. The propane segment also makes monthly contributions on behalf of its union employees to a union sponsored defined benefit plan which amounted to $0.4 million for each of the fiscal years 1998 through 2000.

Heating Oil Segment

The heating oil segment has a 401(k) plan which covers certain eligible non-union and union employees. Subject to IRS limitations, the 401(k) plan provides for each employee to contribute from 1.0% to 17.0% of compensation. The Partnership makes a 4% core contribution of a participant's compensation and matches 2/3 of each amount a participant contributes up to a maximum of 2.0% of a participant's compensation. The Partnership's aggregate contributions to the heating oil segment's 401(k) plan during fiscal 1999 and 2000 were $1.5 million and $3.1 million, respectively.

As a result of the Petro acquisition, the Partnership assumed Petro's pension liability. Effective December 31, 1996, the heating oil segment consolidated all of its defined contribution pension plans and froze the benefits for nonunion personnel covered under defined benefit pension plans. In 1997, the heating oil segment froze the benefits of its New York City union defined benefit pension plan as a result of operation consolidations. Benefits under the frozen defined benefit plans were generally based on years of service and each employee's compensation. The Partnership's pension expense for all defined benefit plans during fiscal 1999 and 2000 were $0.2 million and $0.3 million, respectively.

The following tables provide a reconciliation of the changes in the heating oil segment's plan benefit obligations, fair value of assets, and a statement of the funded status at the indicated dates:

(in thousands) Reconciliation of Benefit Obligations	Nine Months Ended September 30, 1999	Year Ended September 30, 2000
Benefit obligations at beginning of year	$ 27,377	$ 24,486
Service cost	-	-
Interest cost	1,300	1,778
Actuarial (gain) loss	(2,346)	624
Benefit payments	(1,112)	(1,524)
Settlements	(733)	(1,343)
Benefit obligation at end of year	$ 24,486	$ 24,021
Reconciliation of Fair Value of Plan Assets		
Fair value of plan assets at beginning of year	$ 21,038	$ 21,069
Actual return on plan assets	75	1,217
Employer contributions	1,801	2,054
Benefit payments	(1,112)	(1,524)
Settlements	(733)	(1,343)
Fair value of plan assets at end of year	$ 21,069	$ 21,473
Funded Status		
Benefit obligation	$ 24,486	$ 24,021
Fair value of plan assets	21,069	21,473
Unrecognized transition (asset) obligation	(30)	-
Unrecognized prior service cost	-	-
Unrecognized net actuarial (gain) loss	(1,445)	(659)
Prepaid (accrued) benefit cost	$ (4,892)	$ (3,207)
Weighted-Average Assumptions Used in the Measurement of the Company's Benefit Obligation as of the period indicated		
Discount rate	7.5%	7.5%
Expected return on plan assets	8.5%	8.5%
Rate of compensation increase	N/A	N/A

In addition, the heating oil segment made contributions to union-administered pension plans of $1.1 million for fiscal 1999 and $2.2 million for fiscal 2000.

11) Income Taxes

Income tax expense (benefit) was comprised of the following for the indicated periods:

(in thousands)	Years Ended September 30, 1998	1999	2000
Current:			
Federal	$ -	$ -	$ -
State	25	166	492
Deferred	-	(14,946)	-
	$ 25	$(14,780)	$ 492

The sources of the deferred income tax expense (benefit) and the tax effects of each were as follows:

(in thousands)	Years Ended September 30, 1999	2000
Excess of tax over book (book over tax) depreciation	$ 401	$ (619)
Excess of (book over tax) amortization expense	(1,324)	(2,252)

Excess of tax over book (book over tax) vacation expense	146	(172)
Excess of tax over book restructuring expense	88	212
Excess of tax over book (book over tax) bad debt expense	305	(118)
Excess of tax over book supplemental benefit expense	49	262
Excess of tax over book pension contribution	342	692
Other, net	(12)	12
Utilization of net operating loss carryforward	-	2,054
Recognition of tax benefit of net operating loss to the extent of current and previous recognized temporary differences	(14,941)	-
Change in valuation allowance	-	(71)
	$(14,946)	$ -

The components of the net deferred taxes and the related valuation allowance for the years ended September 30, 1999 and September 30, 2000 using current rates are as follows:

(in thousands)	Years Ended September 30,	
Deferred Tax Assets:	1999	2000
Net operating loss carryforwards	$ 28,525	$ 26,471
Excess of book over tax vacation expense	1,757	1,929
Excess of book over tax restructuring expense	534	322
Excess of book over tax bad debt expense	270	388
Excess of book over tax supplemental benefit expense	709	447
Other, net	321	309
Total deferred tax assets	32,116	29,866
Valuation allowance	(16,448)	(16,377)
Net deferred tax assets	$ 15,668	$ 13,489
Deferred Tax Liabilities:		
Excess of tax over book depreciation	$ 7,596	$ 6,977
Excess of tax over book amortization	7,014	4,762
Excess of tax over book pension contribution	1,058	1,750
Total deferred tax liabilities	$ 15,668	$ 13,489
Net deferred taxes	$ -	$ -

11) Income Taxes - (continued)

In order to fully realize the net deferred tax assets the Partnership's corporate subsidiaries will need to generate future taxable income. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based upon the level of current taxable income and projections of future taxable income of the Partnership's corporate subsidiaries over the periods which the deferred tax assets are deductible, management believes it is more likely than not that the Partnership will realize the benefits of these deductible differences, net of existing valuation allowance at September 30, 2000. The amount of deferred tax assets considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced.

At September 30, 2000, the Company had net income tax loss carryforwards for Federal income tax reporting purposes of approximately $66 million of which approximately $20.3 million are limited in accordance with Federal income tax law. The losses are available to offset future Federal taxable income through 2019.

12) Lease Commitments

The Partnership has entered into certain operating leases for office space, trucks and other equipment.

The future minimum rental commitments at September 30, 2000 under operating leases having an initial or remaining non-cancelable term of one year or more are as follows:

(in thousands)	Heating Oil Segment	Propane Segment	TG&E	Total
2001	$ 3,226	$ 1,618	$ 70	$ 4,914
2002	3,157	1,430	72	4,659
2003	3,481	1,183	74	4,738
2004	3,455	853	-	4,308
2005	2,942	122	-	3,064
Thereafter	17,047	133	-	17,180
Total minimum lease payments	$ 33,308	$ 5,339	$ 216	$ 38,863

The Partnership's rent expense was $1.2 million, $4.4 million and $8.0 million in 1998, 1999 and 2000, respectively.

13) Unit Grants

In June 2000, the Partnership granted 552 thousand restricted senior subordinated units to senior management and outside directors. These units were granted under the Partnership's Employee and Director Incentive Unit Plans. One-fifth of the units immediately vested with the remaining units vesting annually in four equal installments if the Partnership achieves specified performance objectives for each of the respective fiscal years. The Partnership recognized $649 of unit compensation expense for these units for the year ended September 30, 2000.

In September 2000, the Partnership granted 350 thousand unit appreciation rights and 87 thousand restricted senior subordinated units to Irik P. Sevin. The unit appreciation rights vest in four equal installments on January 31, 2001, December 1, 2001, December 1, 2002 and December 1, 2003. The exercise price for these unit appreciation rights is $8.625. Mr. Sevin will be entitled to receive payment in cash for these rights equal to the excess of the fair market value of a senior subordinated unit on the vesting date over the exercise price. The grant of restricted senior subordinated units will invest in four equal installments on December 1 of 2001 through 2004. Distributions on the restrictive units will accrue to the extent declared.

14) Supplemental Disclosure of Cash Flow Information

(in thousands)	Years Ended September 30,		
	1998	1999	2000
Cash paid during the period for:			
Income taxes	$ 8	$ 106	$ 4,047
Interest	$ 7,915	$ 15,703	$ 28,912
Non-cash investing activities:			
Acquisitions:			
Working capital	$ (1,945)		
Net long-term assets	$ (25,134)	$ (2,945)	
Assumption of debt	$ 23,000		
Deferred income tax liability		$ 2,945	
Non-cash financing activities:			
Issuance of Common Units	$ 3,999	$ 6,858	
Additional General Partner interest	$ 80		
Redemption of preferred stock		$ (6,858)	

15) Commitments and Contingencies

In the ordinary course of business, the Partnership is threatened with, or is named in, various lawsuits. The Partnership is not a party to any litigation which individually or in the aggregate could reasonably be expected to have a material adverse effect on the Partnership.

16) Related Party Transactions

Prior to March 26, 1999, the Partnership was managed by the Star Gas

Corporation, a wholly owned subsidiary of Petro. Pursuant to the Partnership Agreement that was in effect at the time, Star Gas Corporation was entitled to reimbursement for all direct and indirect expenses incurred or payments it made on behalf of the Partnership, and all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by Star Gas Corporation in connection with operating the Partnership's business. Indirect expenses were allocated to the Partnership on a basis consistent with the type of expense incurred. For example, services performed by employees of Star Gas Corporation on behalf of the Partnership were reimbursed on the basis of hours worked and rent expense was reimbursed on the proportion of the square footage leased by the Partnership. For the fiscal years ended September 30, 1998 and 1999 (until the Star Gas / Petro Transaction resulting in Star Gas Corporation being replaced as the General Partner by Star Gas LLC), the Partnership reimbursed Star Gas Corporation and Petro $19.6 million and $10.2 million, respectively, representing salary, payroll tax and other compensation paid to the employees of the Star Gas Corporation. In addition, the Partnership reimbursed Petro $0.8 million and $0.4 million for the fiscal years ended September 30, 1998 and 1999, respectively, relating to the Partnership's share of the costs incurred by Petro in conducting the operations of a certain shared branch location which included managerial services.

17) Subsequent Events

Cash Distribution

On October 25, 2000, the Partnership announced that it would pay cash distributions of $0.575 per Common Unit and $0.25 per unit on its Senior Subordinated Units. The distributions were paid on November 14, 2000 to holders of record as of November 8, 2000.

Debt Refinancing

On October 25, 2000, the heating oil division completed a refinancing of $40 million of indebtedness incurred under its bank acquisition facility through the issuance of a like amount of senior notes to three institutional purchasers. The senior notes bear interest at the rate of 8.96% per year and have an average life of seven and a quarter years with a final maturity date of November 1, 2010.

Equity Offering

During October and November 2000, the Partnership sold approximately 1.5 million Common Units in a publicly underwritten offering. The offering price was $16.625 per unit. Approximately $12.8 million of the net proceeds were used to repay a portion of the amounts outstanding under the Partnership's bank acquisition facilities. The balance of the net proceeds were designated to fund acquisitions and for growth capital expenditures.

18) Disclosures About the Fair Value of Financial Instruments

Cash, Accounts Receivable, Notes Receivable and Other Current Assets,
Bank Facility Borrowings, Accounts Payable and Accrued Expenses

The carrying amount approximates fair value because of the short maturity of these instruments.

Long-Term Debt

The fair values of each of the Partnership's long-term financing instruments, including current maturities, are based on the amount of future cash flows associated with each instrument, discounted using the Partnership's current borrowing rate for similar instruments of comparable maturity.

The estimated fair value of the Partnership's long-term debt is summarized as follows:

(in thousands)	At September 30, 1999		At September 30, 2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	$278,029	$279,631	$326,929	$320,540

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

19) Earnings Per Limited Partner Units

(in thousands, except per unit data)	September 30,		
	1998	1999	2000
Basic Earnings Per Unit:			
Net income (loss)	$ (955)	$(29,550)	$ 1,353
Less: General Partner's interest in net income (loss)	(19)	(587)	24
Limited Partner's interest in net income (loss)	$ (936)	$(28,963)	$ 1,329
Common Units	3,639	8,830	15,438
Senior Subordinated Units	-	1,283	2,505
Junior Subordinated Units	-	179	345
Subordinated Units	2,396	1,155	-
Weighted average number of Limited Partner units outstanding	6,035	11,447	18,288
Basic earnings (losses) per unit	$ (0.16)	$ (2.53)	$ .07
Diluted Earnings Per Unit:			
Effect of dilutive securities	$ -	$ -	$ -
Limited Partner's interest in net income (loss)	$ (936)	$(28,963)	$ 1,329
Effect of dilutive securities	-	-	-
Weighted average number of Limited Partner units outstanding	6,035	11,447	18,288
Diluted earnings (losses) per unit	$ (0.16)	$ (2.53)	$ .07

20) Selected Quarterly Financial Data (unaudited)

The seasonal nature of the Partnership's business results in the sale by the Partnership of approximately 30% of its volume in the first fiscal quarter and 45% of its volume in the second fiscal quarter of each year. The Partnership generally realizes net income in both of these quarters and net losses during the quarters ending June and September.

The results of operations for the year ended September 30, 1999 include Petro's results of operations from March 26, 1999. Since the heating oil division was acquired after the heating season, the results for the year ended September 30, 1999 include expected third and fourth fiscal quarters losses but do not include the profits from the heating season. Accordingly, results of operations for the year ended September 30, 1999 presented are not indicative of the results to be expected for a full year. The TG&E acquisition was made on April 7, 2000. Accordingly, the results of operations for the year ended September 30, 2000 only include

TG&E's results from April 7, 2000.

(in thousands)	Three Months Ended				
	December 31, 1999	March 31, 2000	June 30, 2000	September 30, 2000	Total
Sales	$ 186,886	$ 321,695	$ 130,163	$ 105,920	$744,664
Operating income (loss)	16,080	58,930	(15,448)	(30,650)	28,912
Income (loss) before taxes and minority interest	9,478	51,902	(22,197)	(37,589)	1,594
Net income (loss)	9,365	51,687	(21,991)	(37,708)	1,353
Limited Partner interest in net income (loss)	9,191	50,772	(21,617)	(37,017)	1,329
Net income (loss) per Limited Partner Unit/(a)/	$ 0.53	$ 2.80	$ (1.15)	$ (1.95)	$ .07

	Three Months Ended				
	December 31, 1998	March 31, 1999	June 30, 1999	September 30, 1999	Total
Sales	$ 30,237	$ 52,101	$ 79,092	$ 62,590	$224,020
Operating income (loss)	3,523	14,753	(18,226)	(28,598)	(28,548)
Income (loss) before taxes	1,300	12,347	(23,575)	(34,402)	(44,330)
Net income (loss)	1,294	12,315	(18,213)	(24,946)	(29,550)
Limited Partner interest in net income (loss)	1,268	12,069	(17,849)	(24,451)	(28,963)
Net income (loss) per Limited Partner Unit/(a)/	$ 0.20	$ 1.75	$ (1.11)	$ (1.47)	$ (2.53)

(a) The sum of the quarters do not add-up to the total due to the weighting of Limited Partner Units outstanding.

Schedule II

Star Gas Partners, L.P.
VALUATION AND QUALIFYING ACCOUNTS
Years Ended September 30, 1998, 1999 and 2000
(in thousands)

			Additions		
Year	Description	Balance at Beginning of Year	Charged to Costs & Expenses	Other Changes Add(Deduct)	Balance at End of Year
1998	Allowance for doubtful accounts	$273	239	(260)/(a)/	$252
1999	Allowance for doubtful accounts	$252	371	1,437/(b)/ (1,112)/(a)/	$948
2000	Allowance for doubtful accounts	$948	2,669	5,330/(c)/ (6,991)/(a)/	$1,956

(a) Bad debts written off (net of recoveries).
(b) Amount acquired as part of the Petro acquisition.
(c) Amount acquired as part of the TG&E acquisition.

Exhibit 23.1

Consent of Independent Auditors

The Partners of
Star Gas Partners, L.P.:

We consent to incorporation by reference in the registration statements No. 333-75701 on Form S-3 and Nos. 333-49751, 333-94031, 333-40138 and 333-46714 on Form S-4 of Star Gas Partners, L.P. of our report dated December 14, 2000, relating to the consolidated balance sheets of Star Gas Partners, L.P. and Subsidiaries as of September 30, 1999 and 2000 and the related consolidated statements of operations, partners' capital and cash flows for each of the years in the three-year period ended September 30, 2000 and related schedule, which report appears in the September 30, 2000 annual report on Form 10-K of Star Gas Partners, L.P.

/s/ KPMG LLP
Stamford, Connecticut
December 14, 2000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM STAR GAS PARTNERS, L.P. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2000 AND CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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