UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 1998

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)

____

(Former name, former address and former fiscal year, if changed since last report)

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 the number of shares outstanding of each of the issuer's classes of common stock, as of February 11, 1999:

Star Gas Partners, L.P. 3,858,999 Common Units

2,396,078 Subordinated Units

STAR GAS PARTNERS, L.P. AND SUBSIDIARY

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STAR GAS PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	SEPTEMBER 30, 1998	DECEMBER 31, 1998 (UNAUDITED)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,115	$ 5,831
Receivables, net of allowance of $252 and $221, respectively	5,279	9,153

Inventories	10,608	9,898
Prepaid expenses and other current assets	945	632
Total current assets	17,947	25,514
Property and equipment, net	110,262	109,475
Intangibles and other assets, net	51,398	50,414
Total assets	$179,607	$185,403
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 3,097	$ 3,608
Bank credit facility borrowings	4,770	10,720
Current maturities of long-term debt	692	1,384
Accrued expenses	2,830	2,500
Accrued interest	485	2,390
Customer credit balances	6,038	4,684
Total current liabilities	17,912	25,286
Long-term debt	104,308	103,616
Other long-term liabilities	40	53
Partners' Capital:		
Common unitholders	58,686	57,347
Subordinated unitholder	(1,446)	(962)
General partner	107	63
Total Partners' Capital	57,347	56,448
Total Liabilities and Partners' Capital	$179,607	$185,403

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,	
	1997	1998
Sales	$41,844	$30,237
Costs and expenses:		
Cost of sales	21,650	11,978
Delivery and branch	10,153	10,295
Depreciation and amortization	2,785	3,008
General and administrative	1,369	1,429
Net (loss) on sales of assets	(48)	(4)
Operating income	5,839	3,523
Interest expense, net	2,086	2,178
Amortization of debt issuance costs	40	45
Income before income taxes	3,713	1,300
Income tax expense	6	6
Net income	$ 3,707	$ 1,294
General Partner's interest in net income	$ 74	$ 26

Limited Partners' interest in net income	$ 3,633	$ 1,268
Basic and diluted net income per Limited Partner unit	$ .66	$ .20
Weighted average number of Limited Partner units outstanding	5,474	6,255

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31,	
	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,707	$ 1,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,785	3,008
Amortization of debt issuance costs	40	45
Provision for losses on accounts receivable	110	(18)
Loss on sales of fixed assets	48	4
Changes in operating assets and liabilities net of Pearl Gas conveyance:		
Increase in receivables	(6,105)	(3,856)
Decrease in inventories	1,143	710
Decrease (increase) in other assets	(61)	313
Increase (decrease) in accounts payable	(20)	511
Increase in other current and long-term liabilities	333	233
Net cash provided by operating activities	1,980	2,244
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,085)	(1,312)
Proceeds from sales of fixed assets	72	39
Acquisition related costs	(360)	(12)
Cash acquired in conveyance	1,825	--
Net cash used in investing activities	(548)	(1,285)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Credit facility borrowings	11,060	10,450
Credit facility repayments	(11,060)	(4,500)
Acquisition facility borrowings	21,000	--
Acquisition facility repayments	(10,000)	--
Repayment of debt	(23,000)	--
Distributions	(2,958)	(2,193)
Proceeds from issuance of Common Units, net	15,745	--
General Partner contribution	344	--
Net cash provided by financing activities	1,131	3,757
Net increase in cash	2,563	4,716
Cash at beginning of period	889	1,115
Cash at end of period	$ 3,452	$ 5,831

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Interest	$ 337	$ 279
	========	=======
Non-cash investing activities:		
Acquisitions:		
Working capital	$ 1,945	
Net long-term assets	$ 24,522	
Assumption of note payable	$(23,000)	
Non-cash financing activities:		
Issuance of Common Units	$ (3,399)	
Additional General Partner interest	$ (68)	

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
(IN THOUSANDS, EXCEPT PER UNIT DATA)
(UNAUDITED)

	NUMBER OF UNITS					TOTAL
	COMMON	SUBORDINATED	COMMON	SUBORDINATED	GENERAL PARTNER	PARTNERS' CAPITAL
Balance as of September 30, 1998	3,859	2,396	$58,686	$(1,446)	$107	$57,347
Net Income			784	484	26	1,294
Distributions ($.55 per unit)			(2,123)		(70)	(2,193)
	-----	-----	-------	-------	----	-------
Balance as of December 31, 1998	3,859	2,396	$57,347	$ (962)	$ 63	$56,448
	=====	=====	=======	=======	====	=======

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998

1) BASIS OF PRESENTATION

The unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the interim periods presented. All adjustments to the financial statements were of a normal recurring nature.

The propane industry is seasonal in nature because propane is used primarily for heating in residential and commercial buildings. Therefore, the results of operations for the periods ended December 31, 1997 and December 31, 1998 are not necessarily indicative of the results to be expected for a full year.

Inventories

Inventories are stated at the lower of cost or market and are computed on a first-in, first-out basis. At the dates indicated, the components of inventory were as follows:

	SEPTEMBER 30, 1998	DECEMBER 31, 1998
Propane gas	$ 8,807	$8,186
Appliances and equipment	1,801	1,712
	$10,608	$9,898

2) BASIC AND DILUTED NET INCOME PER LIMITED PARTNER UNIT

Basic net income per Limited Partner Unit is computed by dividing net income, after deducting the General Partner's 2.0% interest, by the weighted average number of Common Units and Subordinated Units outstanding. Diluted net income per Limited Partner Unit reflects the dilutive effect of the unit option plan.

3) 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 company.

4) RELATED PARTY TRANSACTIONS

The Partnership has no employees except for certain employees of its corporate subsidiary, Stellar Propane Service Corporation and is managed by Star Gas Corporation (the "General Partner") a wholly owned subsidiary of Petroleum Heat and Power Co., Inc. Pursuant to the Partnership Agreement, the General Partner is entitled to reimbursement for all direct and indirect

4) RELATED PARTY TRANSACTIONS (CONTINUED)

expenses incurred or payments it makes on behalf of the Partnership, and all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by the General Partner in connection with operating the Partnership's business. Indirect expenses are allocated to the Partnership on a basis consistent with the type of expense incurred. For example, services performed by employees of the General Partner or Petro on behalf of the Partnership are reimbursed on the basis of hours worked and rent expense is reimbursed on the proportion of the square footage leased by the Partnership. For the three months ended December 31, 1998 the Partnership reimbursed the General Partner and Petro $5.2 million representing salary, payroll tax and other compensation paid to the employees of the General Partner and to Petro for certain corporate functions such as finance and compliance. In addition, the Partnership reimbursed Petro $0.2 million relating to the Partnership's share of the costs incurred by Petro in conducting the operations of a shared branch location.

5) PROPOSED ACQUISITION OF PETROLEUM HEAT AND POWER CO., INC.

On October 23, 1998, the Partnership and Petro jointly announced that they have signed a definitive merger agreement pursuant to which Petro would be acquired by the Partnership and would become a wholly owned subsidiary of the Partnership (the "Star Gas/Petro transaction"). It is anticipated that this acquisition will be accounted for using the purchase method of accounting. It was originally contemplated that this transaction would be effected through the sale of $120 million of publicly traded high yield debt and $140 million in additional Common Units. It is currently contemplated that this transaction will be effected through the private placement by Petro of $90 million of investment grade debt and the sale of $170 million in Common Units. In conjunction with this change, it is also contemplated that the exchange ratio used to calculate the number of Subordinated Units to be received by Petro shareholders will be modified from .13064 to .11758. This transaction would be effected through Petro shareholders exchanging their 26,452,270 shares of Petro Common Stock for 3,244,977 limited and general partnership units of the Partnership which will be subordinated to the existing Common Units of the Partnership.

The Partnership currently distributes to its partners, on a quarterly basis, all of its Available Cash, which is generally all of the cash receipts of the Partnership less all cash disbursements, with a targeted Minimum Quarterly Distribution ("MQD") of $0.55 per unit, or $2.20 per unit on an annualized basis. In connection with the Star Gas/Petro transaction, the Partnership will increase the MQD to $.575 per unit or $2.30 per unit on an annualized basis. This increase in the MQD reflects the expectation that the transaction will be accretive to the Partnership. The increase in the MQD will also serve to raise the threshold needed to end the subordination period.

Of the 3,244,977 subordinated Partnership units anticipated to be distributed to Petro shareholders, 2,491,500 will be Senior Subordinated Units and 753,477 will be Junior Subordinated Units and General Partner Units. The Senior Subordinated Units will be publicly registered and tradable (they are expected to be listed on the New York Stock Exchange) and will be subordinated with respect to distributions to the Partnership's Common Units.

The Junior Subordinated Units and General Partner Units will not be registered nor publicly tradable and will be subordinated to both the Common Units and the Senior Subordinated Units. The Senior Subordinated Units will be exchanged with holders of Petro's publicly traded Class A Common Stock and the Junior Subordinated Units and General Partner Units will be exchanged with individuals that currently own both Petro's Class C Common Stock and Class A Common Stock. Certain holders of Petro's Class C Common Stock will also exchange their shares for Senior Subordinated Units.

It is currently contemplated that 21,189,827 shares of Petro Common Stock will be exchanged for 2,491,500 Senior Subordinated Units of the Partnership. 5,262,443 shares of Petro Common Stock, held by certain individuals who currently own Petro Class C Common Stock, including Irik P. Sevin, Chairman of both Petro and of the General Partner of the Partnership and other members of a group that currently controls Petro, will be exchanged for 430,395 Junior Subordinated Units and 323,082 General Partnership Units which are economically equivalent to Junior Subordinated Units. The total value of the Senior Subordinated and Junior Subordinated units issued for Petro Common Stock is $50.9 million. In addition, the Partnership will pay $7.0 million of transaction expenses.

Pursuant to the subordination provision, distributions on the Partnership's Senior Subordinated Units may be made only after distributions of Available Cash on Common Units meet the MQD target. Distributions on the Partnership's Junior Subordinated Units and General Partner Units may be made only after distributions of Available Cash on Common Units and Senior Subordinated Units meet the MQD. The Subordination Period will generally extend until the Partnership earns and pays its MQD for three years. As a condition of the Star Gas/Petro transaction, the current Partnership Agreement will be amended so that no distribution will be paid on the Senior Subordinated Units, Junior Subordinated Units, or the General Partner Units except to the extent Available Cash is earned from operations.

Like many other publicly traded master limited partnerships, the Partnership Agreement contains a provision which provides the General Partner with incentive distributions in excess of certain targeted amounts. Following the Star Gas/Petro transaction, this provision will be modified so that should there be any such incentive distributions, they will be made pro rata to the holders of Senior Subordinated Units, Junior Subordinated

Units, and General Partner Units.

In connection with the Star Gas/Petro transaction, the Senior Subordinated Units, Junior Subordinated Units and General Partnership Units can earn, pro rata, an aggregate of up to 303,000 additional Senior Subordinated Units over a five year period for each year that Petro meets certain financial goals to a maximum of 909,000 additional Senior Subordinated Units.

Petro has completed an exchange offer agreement with institutional holders of an aggregate of $233 million or 98% of its public debt and preferred stock to permit the redemption of such securities at the closing of the Star Gas/Petro transaction. This agreement allows Petro to redeem its 9 3/8% Subordinated Debentures, 10 1/8% Subordinated Notes and 12 1/4% Subordinated Debentures at 100%, 100% and 103.5% of principal amount, respectively, plus accrued interest and also to redeem its 12 7/8% Preferred Stock at $23 per share, plus accrued and unpaid dividends.

In consideration for this early redemption right, Petro has agreed to issue to such holders 3.37 shares of newly issued Petro Junior Convertible Preferred Stock for each $1,000 in principal amount or liquidation preference of such securities. Each share of Petro Junior Convertible Preferred Stock will be exchangeable into .13064 of a Partnership Common Unit at the conclusion of the Star Gas/Petro transaction representing a maximum of 102,773 Common Units.

Petro currently has a 40.5% equity interest in the Partnership and the General Partner is a subsidiary of Petro. Prior to the Transaction, Petro owns 2,396,078 Subordinated Units and a 2.0% interest in the Partnership or the equivalent of 127,655 units. As part of the Transaction, the Subordinated Units and General Partner Interests will be contributed to the Partnership by Petro in exchange for 102,773 Common Units and 2,002,378 Senior Subordinated Units. The Common Units will be exchanged by Petro with the holders of Petro Junior Convertible Preferred Stock and the Senior Subordinated Units ultimately will be exchanged with certain holders of Petro's Common Stock. After completion of the Star Gas/Petro transaction, the Petro shareholders will own approximately 20% of the Partnership's equity through Subordinated Units and General Partner Units. The holders of the Partnership's Common Units (including an estimated 8.9 million Common Units that will be sold in the Partnership's proposed $170 million public offering) will own an aggregate of approximately 80% equity interest in the Partnership following the completion of the transaction. In connection with the Star Gas/Petro transaction, the General Partner of the Partnership will be a newly organized Delaware limited liability company that will be owned by Irik Sevin, Audrey Sevin and two entities affiliated with Wolfgang Traber.

A Special Committee of the Board of Directors of the General Partner acting on behalf of the holders of the Common Units, negotiated the terms of the Star Gas/Petro transaction. A.G. Edwards & Sons, Inc. was retained by the Special Committee as independent financial advisor, and has rendered an opinion that the Star Gas/Petro transaction is fair, from a financial point of view, to the holders of Common Units.

The completion of the Star Gas/Petro transaction is subject to the receipt of regulatory approvals, the approval of the Partnership's non-affiliated Common unitholders and non-affiliated Petro shareholders and other necessary partnership and corporate approvals.

6) SUBSEQUENT EVENT - CASH DISTRIBUTION

On January 26, 1999 the Partnership announced that it would pay a cash distribution of $0.55 per common unit and 2.0% general partner interest for the three months ended December 31, 1998. The distribution is payable on

February 15, 1999 to holders of record as of February 5, 1999. The Partnership decided not to pay a distribution on its subordinated units.

7) EQUITY OFFERING

In connection with the Petro acquisition, the Partnership filed on December 3, 1998 a registration statement to sell $136.0 million of additional Common Units representing limited partner interests. The Partnership intends to amend this registration statement to increase the amount raised to $170.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 1998 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 1997

OVERVIEW

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

Propane's primary use is for 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 the 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.

Lastly, the propane industry is seasonal in nature with peak activity occurring during the winter months. Accordingly, results of operations for the periods presented are not necessarily indicative of the results to be expected for a full year.

VOLUME

For the three months ended December 31, 1998, retail propane volume decreased 9.2 million gallons, or 23.7%, to 29.4 million gallons, as compared to 38.6 million gallons for the three months ended December 31, 1997. This decline was due to the impact of abnormal weather conditions, involving both warmer temperatures and a very dry fall harvest, which caused propane demand for crop drying to be at its lowest level since 1991. The abnormally warm weather not only impacted the volume associated with scheduled deliveries, but also resulted in certain customers delaying their first winter delivery to the second fiscal quarter. Partially offsetting these weather related impacts on volume sales was the additional volume provided by acquisitions. In the Partnership's operating areas, weather was 15.5% warmer than the prior year's comparable quarter and 13.5% warmer than normal.

For the three months ended December 31, 1998, wholesale propane volume declined by 3.3 million gallons to 6.3 million gallons, as compared to 9.6 million gallons for the three months ended December 31, 1997. This decline was primarily due to the above mentioned weather factors.

SALES

Sales declined $11.6 million or 27.7%, to $30.2 million for the three months ended December 31, 1998, as compared to $41.8 million for the three months ended

December 31, 1997. This decline was attributable to a reduction in wholesale and retail volume as well as lower selling prices. During the three months ended December 31, 1998, retail and wholesale selling prices declined versus the prior year's comparable quarter in response to lower propane supply costs.

COST OF SALES

Cost of sales declined \$9.7 million, or 44.7%, to \$12.0 million for the three months ended December 31, 1998, as compared to \$21.7 million for the three months ended December 31, 1997. This decline was due to lower volume sales and lower propane supply costs. While both selling prices and propane supply costs declined on a per gallon basis, the decline in selling prices was less than the decline in propane supply costs. This resulted in an increase in per gallon margins across all market segments.

DELIVERY AND BRANCH EXPENSES

Delivery and branch expenses increased \$0.1 million, or 1.4%, to \$10.3 million for the three months ended December 31, 1998, as compared to \$10.2 million for the three months ended December 31, 1997. While operating costs associated with acquisitions led to an increase in delivery and branch expenses of \$0.5 million, these costs were mostly offset by a \$0.4 million reduction in compensation expense due to the weather related volume decline.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense increased \$0.2 million to \$3.0 million for the three months ended December 31, 1998, as compared to \$2.8 million for the three months ended December 31, 1997. This increase was primarily due to additional depreciation and amortization expense associated with acquisitions.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were \$1.4 million for both the three months ended December 31, 1998 and the three months ended December 31, 1997.

INTEREST EXPENSE, NET

Interest expense, net increased \$0.1 million to \$2.2 million for the three months ended December 31, 1998, as compared to \$2.1 million for the three months ended December 31, 1997. This change was attributable to the increase in long-term borrowings to finance the fiscal 1998 acquisitions.

NET INCOME

Net income declined \$2.4 million to \$1.3 million for the three months ended December 31, 1998, as compared to \$3.7 million for the three months ended December 31, 1997. The decline was due to lower volume sales and increases in depreciation and interest expense relating to acquisitions.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION, LESS NET GAIN (LOSS) ON SALES OF EQUIPMENT (EBITDA)

Earnings before interest, taxes, depreciation and amortization less net gain (loss) on sales of equipment (EBITDA) decreased \$2.2 million to \$6.5 million for the three months ended December 31, 1998, as compared to \$8.7 million for the prior year's comparable quarter. This decline was due to the impact of abnormal weather conditions.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION, LESS NET GAIN (LOSS) ON SALES OF EQUIPMENT (EBITDA) (CONTINUED)

Despite 15.5% warmer weather, but for the impact of lower agricultural volume, EBITDA would have declined only \$0.6 million due to improved gross profit margins, lower same store operating costs and the additional EBITDA provided by acquisitions. 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

For the three months ended December 31, 1998, net cash provided by operating activities increased $0.2 million to $2.2 million, as compared to $2.0 million for the three months ended December 31, 1997. This increase was due to lower net working capital requirements for inventory, accounts receivable and other net assets which substantially offset a $2.4 million reduction in operating income.

Net cash used in investing activities increased $0.8 million to $1.3 million for the three months ended December 31, 1998, as compared to $0.5 million for the three months ended December 31, 1997. Cash flows from investing activities for the three months ended December 1997 were positively impacted by the $1.8 million in cash acquired in the Pearl Gas conveyance. Exclusive of this item, net cash used in 1998 decreased $1.1 million versus 1997, due primarily to a lower level of maintenance capital expenditures.

Net cash provided by financing activities increased $2.6 million to $3.7 million for the three months ending December 1998 versus $1.1 million for the prior year's comparable quarter due to a net $0.8 million reduction in Partnership distributions to subordinated unitholders and an increase in working capital borrowings of $1.8 million.

The Partnership's cash requirements for the remainder of fiscal 1999 include capital expenditures of approximately $1.5 million, interest payments on its First Mortgage Notes of $7.6 million and Partnership distributions. Based on its current cash position, bank credit availability and expected net cash from operating activities, the Partnership expects to be able to meet all of its above obligations for fiscal 1999, as well as all of its other current obligations as they become due.

YEAR 2000

The Year 2000 issue is the result of computer programs using only the last two digits to indicate the year. If uncorrected, such computer programs will not be able to interpret dates correctly beyond the year 1999 and, in some cases prior to that time (as some computer experts believe), which could cause computer system failures or other computer errors disrupting business operations. Recognizing the potentially severe consequences of the failure to be Year 2000 compliant, the Partnership's management has developed and implemented a Partnership-wide program to identify and remedy the Year 2000 issues.

The scope of the Partnership's Year 2000 readiness program includes the review and evaluation of the Partnership's information technology (IT) such as hardware and software utilized in the operation of the Partnership's business.

YEAR 2000 (CONTINUED)

If needed modifications and conversions are not made on a timely basis, the Year 2000 issue could cause interruption in delivering propane product to customers or prevent the Partnership from fulfilling their service needs. The Partnership is currently using internal and external resources to identify and correct systems that are not Year 2000 compliant.

Since the Partnership does not internally develop software for its own use, software developed externally is being evaluated for Year 2000 compliance. This software is being upgraded or replaced if it is determined that it is not compliant. As part of this program, the Partnership's systems are being evaluated for meeting current and future business needs and the Partnership is using this process as an opportunity to upgrade and enhance its information systems. The Partnership anticipates completing such upgrades and replacements as needed by September 1999. The Partnership expects that most of these costs will be capitalized, as they are principally related to adding new hardware and software applications and functionality. Other costs will continue to be expensed as incurred. Through December 1998, the Partnership estimates that incremental costs of approximately $0.2 million have been incurred related to Year 2000 issues and its ongoing information technology upgrade program. The current estimated cost to complete the upgrade and remediation of non-compliant systems is expected to be less than $0.4 million.

The Partnership's current estimates of the amount of time and costs necessary to remediate and test its computer systems are based on the facts and circumstances existing at this time. The estimates were made using assumptions of future events including the continued availability of existing resources, Year 2000 modification plans, implementation success by third-parties and other factors. New developments may occur that could affect the Partnership's estimates of the amount of time and costs necessary to modify and test its IT and non-IT systems for Year 2000 compliance.

Notwithstanding the substantive work involved in making all its systems Year 2000 compliant, the Partnership could still potentially experience disruptions to some aspects of its various activities and operations. The Partnership is developing contingency plans, primarily instituting manual backup systems, in the event that it experiences Year 2000 related disruptions.

In addition the Partnership has anticipated the possibility that not all of its vendors, suppliers and other third parties will have taken the necessary steps to adequately address their Year 2000 issues on a timely basis. In order to minimize the impact on the Partnership of non-compliance, the Partnership intends to contact all key suppliers and evaluate their Year 2000 readiness. If it is determined that these parties will not be Year 2000 compliant, the Partnership will prepare a contingency plan for those suppliers whose non-compliance could have a material effect on the Partnership's business activities.

ACCOUNTING PRINCIPLES NOT YET ADOPTED

The Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards SFAS No. 131 - "Disclosure about Segments of an Enterprise and Related Information." SFAS No. 131 requires disclosures about segments of an enterprise and related information such as different types of business activities and economic environments in which a business operates. This statement is effective for fiscal years beginning after December 15, 1997. Accordingly, the Partnership will not be required to adopt SFAS No. 131 until fiscal year end 1999.

ACCOUNTING PRINCIPLES NOT YET ADOPTED (CONTINUED)

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement is effective for fiscal years beginning after June 15, 1999. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that entities recognize all derivatives as either assets or liabilities and measure the instruments at fair value. The accounting for changes in fair value of a derivative depends upon the intended use of such derivative. The Partnership expects to adopt the provisions of SFAS 133 in first quarter of fiscal 2000. The Partnership is still evaluating the effects of SFAS 133.

The adoption of these standards is not expected to have a material effect on the Partnership's financial position or 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 propane 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 Results of Operations and Financial Condition" 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.

PART II: OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits Included Within:

10.16 Fifth Amendment dated January 22, 1999 to the Bank Credit Agreement

10.17 Form of Severance Agreement between Star Gas Corporation and Richard F. Ambury

10.18 Form of Severance Agreement between Star Gas Corporation and David R. Eastin

(27) Financial Data Schedule

(b) Reports on Form 8-K

The Partnership filed form 8-K on November 20, 1998 relating to the acquisition of Petroleum Heat and Power Co., Inc.

SIGNATURE

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

Star Gas Partners, L.P.

By: Star Gas Corporation (General Partner)

SIGNATURE	TITLE	DATE
/s/ Joseph P. Cavanaugh Joseph P. Cavanaugh	President Star Gas Corporation (Principal Executive Officer)	February 12, 1999
/s/ Richard F. Ambury Richard F. Ambury	Vice President Finance Star Gas Corporation (Principal Financial & Accounting Officer)	February 12, 1999

Exhibit 10.16

FIFTH AMENDMENT dated as of January 22, 1999 (this "Fifth Amendment"), to the Credit Agreement dated as of December 13, 1995 (as amended prior to the date hereof, the "Credit Agreement"), among Star Gas Propane, L.P., a Delaware limited partnership (the "Borrower"), the lenders party thereto, The First National Bank of Boston (now known as BankBoston, N.A.), as Administrative Agent (the "Administrative Agent"), and NationsBank, N.A., as Documentation Agent (the "Documentation Agent", and together with the Administrative Agent, the "Agents").

The Borrower has requested the Agents and the Lenders to make certain changes to the Credit Agreement. The parties hereto have agreed, subject to the terms and conditions hereof, to amend the Credit Agreement as provided herein.

Capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement (the Credit Agreement, as amended by, and together with, this Fifth Amendment, and as hereinafter amended, modified, extended or restated from time to time, being called the "Amended Agreement").

Accordingly, the parties hereto hereby agree as follows:

SECTION 1.01. Amendment to Section 6.31. Section 6.31(a) of the Credit Agreement is hereby deleted in its entirety and the following is hereby substituted in lieu thereof:

"(a) The Borrower will not permit the ratio on any day (the "date of determination") of (i) Total Funded Debt as of the last day of the Reference Period with respect to such date of determination to (ii) Consolidated Cash Flow for such Reference Period to be greater than the ratio set forth below opposite the calendar period during which such date of determination occurs:

Calendar Period	Ratio
January 1, 1996 through June 30, 1997	5.00:1.00
July 1, 1997 through September 30, 1997	4.75:1.00
October 1, 1997 through December 31, 1997	4.95:1.00
January 1, 1998 through September 30, 1998	5.00:1.00
The period ending December 31, 1998	5.40:1.00
January 1, 1999 through June 30, 1999	5.00:1.00
After June 30, 1999	4.50:1.00

Nothing contained in this amendment to Section 6.31 of the Credit Agreement is intended to modify the terms of Section 4.03 of the Credit Agreement.

SECTION 1.02. <u>Amendment to Section 9.01</u>. Section 9.01(c) of the Credit Agreement is hereby deleted in its entirety and the following is hereby deleted in its entirety and the following is hereby substituted in lieu thereof:

"(c) if to the Documentation Agent, to it at Three Allen Center, 333 Clay Street, Suite 4550, Houston, Texas 77002-4103, Attention of Daryl Patterson (Telecopy no. (713) 651-4808), with a copy to McGuire Woods Battle & Boothe LLP at NationsBank Corporate Center, 100 North Tryon Street, Suite 2900, Charlotte, NC 28202-4011, Attention of Marvin L. Rogers (Telecopy No. (704) 347-3838); and

SECTION 1.03. <u>Representations and Warranties</u>. The Borrower hereby represents and warrants to each of the Agents and the Lenders, as follows:

(a) The representations and warranties set forth in Article III of the Amended Agreement, and in each other Loan Document, are true and correct in all material respects on and as of the date hereof and on and as of the Fifth Amendment Effective Date (as hereinafter defined) with the same effect as if made on and as of the date hereof or the Fifth Amendment Effective Date, as the case may be, except to the extent such representations and warranties expressly relate solely to an earlier date.

(b) Each of the Borrower and the Subsidiaries is in compliance with all the terms and conditions of the Amended Agreement and the other Loan Documents on its part to be observed or performed and no Default or Event of Default has occurred or is continuing.

(c) The execution, delivery and performance by the Borrower of this Fifth Amendment have been duly authorized by the Borrower.

(d) This Fifth Amendment constitutes the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms.

(e) The execution, delivery and performance by the Borrower of this Fifth Amendment (i) will not violate (A) any provision of law, statute, rule or regulation, or of the agreement of limited partnership of the Borrower, (B) any order of any Governmental Authority or (C) any provision of any indenture, agreement or other instrument to which the Borrower is a party or by which it or any of its property may be bound and (ii) do not require any consents under, result in a breach of or constitute (with notice or lapse of time or both) a default or give rise to increased, additional, accelerated or guaranteed rights of any Person under any such indenture, agreement or other instrument.

SECTION 1.04. <u>Effectiveness</u>. This Fifth Amendment shall become effective only upon satisfaction of the following conditions precedent (the first date upon which each such condition has been satisfied being herein called the "<u>Fifth Amendment Effective Date</u>"):

(a) the Administrative Agent shall have received duly executed counterparts of this Fifth Amendment which, when taken together, bear the authorized signatures of the Borrower and the Required Lenders.

(b) The Agents shall be satisfied that the representations and warranties set forth in Section 1.03 are true and correct on and as of the Fifth Amendment Effective Date.

(c) There shall not be any action pending or any judgment, order or decree in effect which, in the judgment of the Agents or the Lenders, is likely to restrain, prevent or impose materially adverse conditions upon performance by the Borrower of its obligations under the Amended Agreement.

(d) The Agents shall have received such other documents, legal opinions, instruments and certificates relating to this Fifth Amendment as they shall reasonably request and such other documents, legal opinions, instruments and certificates shall be satisfactory in form and substance to the Agents and the Lenders. All corporate and other proceedings taken or to be taken in connection with this Fifth Amendment and all documents incidental thereto, whether or not referred to herein, shall be satisfactory in form and substance to the Agents and the Lenders.

(e) The Borrower shall have paid all fees and expenses referred to in Section 1.06 of this Fifth Amendment.

SECTION 1.05. APPLICABLE LAW. THIS FIFTH AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, EXCEPT TO THE EXTENT THAT THE FEDERAL LAWS OF THE UNITED STATES OF AMERICA MAY APPLY.

SECTION 1.06. Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Agents and the Lenders in connection with the preparation, negotiations execution, delivery and enforcement of this Fifth Amendment, including, but not limited to, the reasonable fees and disbursements of counsel and (ii) an amendment fee in the aggregate amount of $50,000 (the "Amendment Fee"), $30,000 of such Amendment Fee to be paid to BankBoston N.A. and $20,000 of such Amendment Fee to be paid to NationsBank, N.A.

SECTION 1.07. Counterparts. This Fifth Amendment may be executed in any number of counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one agreement.

SECTION 1.08. Loan Documents. Except as expressly set forth herein, the amendments provided herein shall not by implication or otherwise limit, constitute a waiver of, or otherwise affect the rights and remedies of the Lenders, the Agents, the Trustee or the other Secured Parties under the Amended Agreement or any other Loan Document, nor shall they constitute a waiver of any Default or Event of Default, nor shall they alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Amended Agreement or any other Loan Document. Each of the amendments provided herein shall apply and be effective only with respect to the provisions of the Amended Agreement specifically referred to by such amendments. Except as expressly amended herein, the Amended Agreement and the other Loan Documents shall continue in full force and effect in accordance with the provisions thereof. As used in the Amended Agreement, the terms "Agreement", "herein", "hereinafter", "hereunder", "hereto" and words of similar import shall mean, from and after the date hereof, the Amended Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Fifth Amendment to be duly executed by duly authorized officers, all as of the date first above written.

STAR GAS PROPANE, L.P., as Borrower

By: Star Gas Corporation, its General Partner

by____________________________________
Name:
Title:

BANKBOSTON, N.A.,
as Administrative Agent and as a Lender

by____
Name:
Title:

NATIONSBANK, N.A., as Documentation Agent
and as a Lender

by____
Name:
Title:

Exhibit 10.17

September 24, 1998

Mr. Richard F. Ambury
Vice President - Finance
Star Gas Propane, L.P.
2187 Atlantic Street
Stamford, CT 06902

Dear Rich:

As a condition of your employment with Star Gas Corporation ("Star"), a wholly-owned subsidiary of Petroleum Heat and Power Co., Inc. ("Petro") we agree that if your employment is terminated by Star without "cause" or voluntarily by you within six months after there has been a "change in circumstances" (each a "Termination") you will be entitled to receive a severance payment equal to 1.25 times your then basic annual salary. The term "cause" means fraud, dishonesty, illegal conduct or similar malfeasance or the failure to perform your duty in a professional manner, if such failure continues for a period of ten days after written notice. For purposes of this agreement, a "change in circumstances" shall be deemed to have occurred if for any reason other than for "cause" Star a) demotes employee reducing the employee's title, b) reduces employee's base salary or potential bonus compensation in a greater percentage than any other executive at Star, c) materially reduces employee authority or responsibility, or d) requires employee to change principal location of employee's employment by more than fifty (50) miles. If your employment is terminated for any other reason you will receive no severance payment.

However, if a Termination occurs during the period of 12 months following a "change of control", you will be entitled to receive a severance payment of an amount equal to 2.5 times your then basic annual salary. The term "change of control" shall be deemed to occur if at any time the holders of Petro's Class C Common Stock no longer own in the aggregate, either a) common stock having at least 51% of the total voting power of all Petro Common stock or b) if the businesses of Star and Petro are combined, 51% of the voting power of the equity securities of the ultimate parent of Star Gas Propane, L.P. or, if such ultimate parent is Star Gas Partners, L.P., the general partner of such ultimate parent.

If you are entitled to a severance payment, it shall be made to you within 15 days of termination.

You agree that you will not at any time, directly or indirectly, disclose or furnish to any other person, firm or corporation or use for your personal benefit any information concerning Star's method of conducting or doing business, its advertising or marketing programs, or its methods of obtaining customers, or any other confidential information of Star, including, without limiting the generality of the foregoing, the names of any propane distributors with which to your knowledge, Star has held any acquisition discussions, or which, to your knowledge have contacted Star to discuss a potential acquisition within the period of three years prior to the date of termination of your employment.

Please indicate your agreement with the foregoing by signing in the space provided below.

Sincerely,

Star Gas Corporation
By: Star Gas Propane, L.P.

By:____________________________
Joseph P. Cavanaugh

Accepted and Agreed:

____
Richard F. Ambury

Date:_______________________

Exhibit 10.18

September 24, 1998

Mr. David R. Eastin
Vice President - Operations
Star Gas Propane, L.P.
2187 Atlantic Street
Stamford, CT 06902

Dear David:

As a condition of your employment with Star Gas Corporation ("Star"), a wholly-owned subsidiary of Petroleum Heat and Power Co., Inc. ("Petro") we agree that if your employment is terminated by Star without "cause" or voluntarily by you within six months after there has been a "change in circumstances" (each a "Termination") you will be entitled to receive a severance payment equal to 1.25 times your then basic annual salary. The term "cause" means fraud, dishonesty, illegal conduct or similar malfeasance or the failure to perform your duty in a professional manner, if such failure continues for a period of ten days after written notice. For purposes of this agreement, a "change in circumstances" shall be deemed to have occurred if for any reason other than for "cause" Star a) demotes employee reducing the employee's title, b) reduces employee's base salary or potential bonus compensation in a greater percentage than any other executive at Star, c) materially reduces employee authority or responsibility, or d) requires employee to change principal location of employee's employment by more than fifty (50) miles. If your employment is terminated for any other reason you will receive no severance payment.

However, if a Termination occurs during the period of 12 months following a "change of control", you will be entitled to receive a severance payment of an amount equal to 2.5 times your then basic annual salary. The term "change of control" shall be deemed to occur if at any time the holders of Petro's Class C Common Stock no longer own in the aggregate, either a) common stock having at least 51% of the total voting power of all Petro Common stock or b) if the businesses of Star and Petro are combined, 51% of the voting power of the equity securities of the ultimate parent of Star Gas Propane, L.P. or, if such ultimate parent is Star Gas Partners, L.P., the general partner of such ultimate parent.

If you are entitled to a severance payment, it shall be made to you within 15 days of termination.

You agree that you will not at any time, directly or indirectly, disclose or furnish to any other person, firm or corporation or use for your personal benefit any information concerning Star's method of conducting or doing business, its advertising or marketing programs, or its methods of obtaining customers, or any other confidential information of Star, including, without limiting the generality of the foregoing, the names of any propane distributors with which to your knowledge, Star has held any acquisition discussions, or which, to your knowledge have contacted Star to discuss a potential acquisition within the period of three years prior to the date of termination of your employment.

Please indicate your agreement with the foregoing by signing in the space provided below.

Sincerely,

Star Gas Corporation
By: Star Gas Propane, L.P.

By: ____________________________

Joseph P. Cavanaugh

Accepted and Agreed:

____
David R. Eastin

Date:____________________

<ARTICLE> 5
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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM STAR GAS PARTNERS, L.P. AND SUBSIDIARY CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 1998 AND CONSOLIDATED STATEMENT OF OPERATIONS FOR THE INTERIM PERIOD OCTOBER 1, 1998 THROUGH DECEMBER 31, 1998 AND IS QUALIFIEDDD IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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<MULTIPLIER> 1,000

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