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, 1999

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 November 22, 1999 was approximately $213,280,000. As of November 22, 1999 the number of Star Gas Partners, L.P. shares outstanding for each class of common stock was:

14,377,467 Common Units

2,476,797 Senior Subordinated Units
345,364 Junior Subordinated Units
325,729 General Partner Units

Documents Incorporated by Reference: None

STAR GAS PARTNERS, L.P.

1999 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 leading distributor of propane and home heating oil in the United States. Star Gas Propane, L.P., ("Star Gas Propane" or the "Propane Segment") a wholly owned subsidiary of the Partnership, markets and distributes propane gas and related products to approximately 186,000 retail and wholesale customers in the Midwest and Northeast. Petro Holdings, Inc. ("Petro," "Heating Oil Segment," or the former Petroleum Heat and Power Co., Inc.), an indirect wholly owned subsidiary of Star Gas Propane, is the nation's largest distributor of home heating oil and related products and serves approximately 335,000 customers in the Northeast and Mid-Atlantic region of the United States. In the transaction described below, Petro was acquired by the Partnership. Prior to March 26, 1999, Petro had a 40.5% equity interest in the Partnership and a subsidiary of Petro was its general partner.

Acquisition of Petro

The Partnership acquired Petro in a four-part transaction ("Star Gas / Petro Transaction"), which closed concurrently.

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 in a transaction described below (the "Exchange"), was converted into 0.11758 senior subordinated units (2,476,797 senior subordinated units);
- 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. (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) Certain 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 Inc. 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 of 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.

Business

The Partnership is the seventh largest retail distributor of propane and the largest retail distributor of home heating oil in the United States. The propane segment serves approximately 186,000 customers in the Midwest and Northeast regions, and the heating oil segment serves approximately 335,000 customers in the Northeast and Mid-Atlantic regions. 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 (October through December) and 45% of its volume in the second fiscal quarter (January through March) of each year, the peak heating season, because both propane and heating oil are primarily used for 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 traditionally fluctuates from year to year in response to variations in weather, 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 78 branch locations and 53 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 than 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, it is usable as a flammable gas. Propane is colorless and odorless; an odorant is added to allow its detection. Propane is clean-burning, producing negligible amounts of pollutants when consumed. According to the American Petroleum Institute, the domestic retail market for propane is approximately 9.4 billion gallons annually. Based upon information contained in the Energy Information Administration's Annual Energy Review-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 it 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. Historically, the heating oil segment's sales are comprised of approximately 83% from sales of home heating oil; 13% from the installation and repair of heating equipment; and 4% from the sale of other petroleum products, including diesel fuel and gasoline, to commercial customers.

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.

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.

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 and (iv) the continued enhancement in public awareness of the Partnership's quality brands and the sale of rationally related products.

In the Partnership's New York and Mid-Atlantic regions, the home heating oil segment operates only under the name of "Petro," rather than the acquired brand names previously in use. The Partnership has been building this 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 base of sales. 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	Akron	Dry Ridge	Bowling Green
Hartford	Poughkeepsie	Batesville	Glencoe	Cincinnati
	Washingtonville	Bedford	Prospect	Columbus
Maine		Bluffton	Shelbyville	Defiance
Fairfield	Pennsylvania	College Corner		Deshler
Fryeburg	Hazleton	Columbia City	Michigan	Ft. Recovery
Skowhegan	Wellsboro	Decatur	Charlotte	Hebron
Wells	Wind Gap	Ferdinand	Hillsdale	Ironton
Windham		Greencastle	Owasso	Jamestown
	Rhode Island	Jeffersonville	Somerset Center	Kenton
Massachusetts	Davisville	Linton		Lancaster
Belchertown		Madison	West Virginia	Lewisburg
Rochdale		New Salisbury	(from Ironton, OH)	Lynchburg
Westfield		N. Manchester		Macon

Swansea	N. Webster	Marion
	Portland	Marysville
New Hampshire	Remington	Maumee
(from Fryeburg, ME)	Richmond	McClure
	Salem	Milford
New Jersey	Seymour	Mt. Orab
Maple Shade	Sulphur Springs	North Star
Tuckahoe	Versailles	Ripley
	Warren	Sabina
	Waterloo	Waverly
	Winamac	West Union

The propane segment also sells, installs and services equipment related to its propane distribution business, including heating and cooking appliances and, at some locations, rents water softeners and sells bottled water. 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 388 bobtail and rack trucks. Propane is pumped from the bobtail truck, which generally holds 2,000 to 3,000 gallons, into a stationary storage tank at the customer's premises. The capacity of these tanks ranges from approximately 24 gallons to approximately 1,000 gallons. 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 1999, the propane segment grew its residential customer base by 4.5% through internal marketing efforts. In addition, the propane segment completed three acquisitions with approximately 13,400 customers with annual volumes of 9.1 million gallons. Approximately 61% of the propane segment's retail sales are made to residential customers and 39% of retail sales are made to commercial and agricultural customers. Sales to residential customers in fiscal year 1999 accounted for approximately 70% 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.

Suppliers and Supply Arrangements

The propane segment obtains propane from over 12 sources, all of which are domestic or Canadian oil companies, including Amoco Canada Marketing Group, Domex, Inc., Dynegy Inc., Ferrell North America, Marathon Oil Company, Markwest Hydrocarbons, Mobil Oil Company, Sea-3 Inc., Shell Canada Limited, Sun Oil Company, 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, 1999, 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. For fiscal 1999 the propane segment's Midwest purchase volume was comprised of: 14% on the spot market from various Mont Belvieu, Texas sources; 34% from three refineries in Illinois, Kentucky and Michigan owned by Marathon Ashland Petroleum, LLC; 13% from three refineries in Illinois and Indiana owned by Amoco Canada Marketing Group; and the remaining propane from eighteen other refineries. 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.

Competition

The propane business is highly competitive. However, long-standing customer relationships are typical of the retail propane industry. The ability to compete effectively within the propane industry depends on the reliability of service, responsiveness to customers and the ability to maintain competitive prices. 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 335,000 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, 1999, the total sales in the heating oil segment were comprised of approximately, 78% from sales of home heating oil; 17% from the installation and repair of heating equipment; and 5% 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's business 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 335,000 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, 1999, approximately 87% of the heating oil segment's heating oil sales were made to homeowners, with the remainder to industrial, commercial and institutional customers. The heating oil segment's net attrition of existing customers has averaged approximately 5% per year over the five years through 1999. This rate represents the net of its annual gross customer loss rate of approximately 15% offset by customer gains of approximately 10% per year. In 1999, net attrition was approximately 2.3%, representing gains of approximately 11.9% and gross losses of 14.2%. 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 looses 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. In addition, 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 25% 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.

Suppliers and Supply Arrangements

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 11 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; Global Petroleum Corp.; Koch Refining Company, L.P.; Transmontaigne Product Services Inc.; Mieco, Inc.; Mobil Oil Corporation; Sprague Energy; Sun Oil Company; and Tosco Refining Co. Supply contracts typically have terms of 12 months. All of the supply contracts provide for maximum and in some cases minimum quantities. In most cases 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.

Employees

As of September 30, 1999, the propane segment had 670 full-time employees, of whom 46 were employed by the corporate office in Stamford, Connecticut and 624 were located in branch offices. Of these 624 branch employees, 211 were managerial and administrative; 302 were engaged in transportation and storage and 111 were engaged in field servicing. Approximately 75 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, 1999, the home heating oil segment had 1,727 employees, of whom 471 were office, clerical and customer service personnel; 655 were heating equipment repairmen; 241 were oil truck drivers and mechanics; 187 were management and staff and 173 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 700 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.

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.

ITEM 2. PROPERTIES

Propane Segment

As of September 30, 1999, the propane segment owned 64 of its 78 branch locations and 42 of its 53 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, located in Stamford, Connecticut, and its principal office and training facilities are 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, 1999, Star Gas Partners had a fleet of 6 tractors, 37 transport trailers, 388 bobtail and rack trucks and 295 other service and pick-up trucks, the majority of which are owned. The operations of the propane segment own 13 and lease 37 automobiles.

As of September 30, 1999, the propane segment owned approximately 252 bulk storage tanks with typical capacities of 12,000 to 30,000 gallons; 224,000 stationary customer storage tanks with typical capacities of 24 to 1,000 gallons; and 33,000 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 8 satellites, 9 of which are owned and 23 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.

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, 1999.

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 become eligible to receive distributions in February 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 for the periods indicated.

	SGU - Common Unit Price Range				Distributions	
	High		Low		Declared Per Unit	
Three Months Ending	1998	1999	1998	1999	1998	1999
December 31,	$23.38	$21.813	$20.50	$13.875	$0.55	$0.550
March 31,	$24.75	$20.250	$21.38	$13.750	$0.55	$0.550
June 30,	$23.00	$17.500	$20.50	$14.000	$0.55	$0.575
September 30,	$22.38	$18.000	$20.13	$14.875	$0.55	$0.575

	SGH - Senior Subordinated Unit Price Range				Distributions	
	High		Low		Declared Per Unit	
Three Months Ending	1998	1999	1998	1999	1998	1999
December 31,		-		-		-
March 31,		$8.125		$7.000		-
June 30,		$8.875		$6.125		-
September 30,		$9.625		$8.500		-

As of September 30, 1999, there were approximately 486 holders of record of the Partnership's common units, and approximately 101 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:	1995	1996(a)	1997	1998/(e)/	1999/(f)/
Sales	$104,550	$119,634	$135,159	$111,685	$ 224,020
Costs and expenses:					
Cost of sales	49,660	58,557	72,211	49,498	131,649
Delivery and branch expenses	35,222	34,750	36,427	37,216	86,489
General and administrative expenses	6,127	6,457	6,818	6,065	11,634
Net (loss) on sales of assets	(913)	(260)	(295)	(271)	(83)
Depreciation and amortization	10,054	9,680	10,242	11,462	22,713
Operating income (loss)	2,574	9,930	9,166	7,173	(28,548)
Interest expense, net	8,549	7,124	6,966	7,927	15,435
Amortization of debt issuance costs	19	128	163	176	347
Income (loss) before income taxes	(5,994)	2,678	2,037	(930)	(44,330)
Income tax expense (benefit)	175	85	25	25	(14,780)
Net income (loss)	$ (6,169)	$ 2,593	$ 2,012	$ (955)	$ (29,550)
General Partner's interest in net income (loss)			40	(19)	(587)
Limited Partner's interest in net income (loss)			$ 1,972	$ (936)	$ (28,963)
Net income (loss) per unit/(b)/		$ 0.11/(d)/	$ 0.37	$ (0.16)	$ (2.53)
Cash distribution declared per unit		$ 1.17/(d)/	$ 2.20	$ 2.20	$ 2.25
Weighted average number of limited partner units		5,271	5,271	6,035	11,447
Balance Sheet Data (end of period):					
Current assets	$ 14,266	$ 17,842	$ 14,165	$ 17,947	$ 86,868
Total assets	155,393	156,913	147,469	179,607	539,344
Long-term debt	1,389	85,000	85,000	104,308	276,638
Due to Petro	86,002	--	--	--	--
Predecessor's equity/Partners' Capital	44,305	61,398	51,578	57,347	150,176
Summary Cash Flow Data:					
Net Cash provided by operating activities	417	9,982	18,964	9,264	10,795
Net Cash provided by (used in) investing activities	1,412	(6,954)	(4,905)	(13,276)	(2,977)
Net Cash provided by (used in) financing activities	(2,927)	(2,649)	(14,276)	4,238	(4,441)
Other Data:					
Earnings before interest, taxes, depreciation and amortization and less net gain (loss) on sales of equipment (EBITDA)/(c)/	$ 13,541	$ 19,870	$ 19,703	$ 18,906	$ (5,752)
Retail propane gallons sold	89,133	96,294	94,893	98,870	99,457
Heating oil gallons sold	--	--	--	--	74,039

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 plus depreciation and amortization, 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) During fiscal 1998, temperatures were 14.0% warmer than normal and 11.8% warmer than fiscal 1997 in the Partnership's marketing areas.

(f) 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 and 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 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 results of operations for fiscal 1999 include the Petro acquisition 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 primary use of heating oil and propane 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 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, 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 $5.2 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 $30.3 million seasonally related net loss from the heating oil segment, partially offset by $0.7 million of 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, 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 $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 $24.3 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 decreased by $0.3 million as the volume growth provided by acquisitions and internal growth did not 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.

FISCAL YEAR ENDED SEPTEMBER 30, 1998
COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 1997

Volume

For the year ended September 30, 1998, retail propane volume increased 4.2% or 4.0 million gallons to 98.9 million gallons, as compared to 94.9 million gallons for fiscal 1997. This increase was due to the October 1997 acquisition of Pearl Gas Co., and to a lesser extent, six acquisitions completed subsequent to the end of the heating season which provided 12.1 million gallons of additional volume. The positive impact of the fiscal 1998 acquisitions was partially offset by temperatures which were 11.8% warmer than fiscal 1997 and 14.0% warmer than normal in the Partnership's marketing areas. For fiscal 1998, wholesale volume declined by 12.4 million gallons or 32.3% to 26.0 million gallons, as compared to 38.4 million gallons for fiscal 1997. This decline was attributable to the abnormally warm winter weather and a reduction in spot sales to certain customers.

Sales

Sales decreased 17.4%, or $23.5 million, to $111.7 million for fiscal 1998, as compared to $135.2 million for fiscal 1997. This decline was primarily due to lower retail and wholesale selling prices in response to lower propane supply costs and weather-related reductions in volume, partially offset by the additional sales provided by acquisitions.

Cost of Sales

Cost of sales declined 31.5%, or $22.7 million, to $49.5 million for fiscal 1998, as compared to $72.2 million for fiscal 1997. This decline was attributable to lower wholesale propane supply costs and the weather-related decrease in both retail and wholesale volumes. The decline in sales exceeded the decline in cost of sales by $0.7 million due to lower wholesale volume and a decline in wholesale margins.

Delivery and Branch Expenses

Delivery and branch expenses increased 2.2%, or $0.8 million, to $37.2 million for fiscal 1998, as compared to $36.4 million for fiscal 1997. This increase of 2.2% was less than the 4.2% increase in retail propane volume. The Partnership was able to partially offset $3.1 million of additional operating costs associated with operating an approximately 12% larger business, by reducing personnel costs, insurance expense and certain other discretionary costs by $2.3 million, reflecting management's response to the warm winter weather and continuing efforts to reduce operating expenses.

Depreciation and Amortization

Depreciation and amortization expense increased $1.3 million to $11.5 million for fiscal 1998, as compared to $10.2 million for fiscal 1997. This increase was due to the additional depreciation and amortization expenses associated with the fiscal 1998 acquisitions and capital expenditures made during fiscal 1998 and 1997.

General and Administrative Expenses

General and administrative expenses decreased by $0.7 million to $6.1 million for fiscal 1998, as compared to $6.8 million for fiscal 1997. This decline was primarily due to the recognition of $0.9 million of expenses in fiscal 1997 relating to the strategic initiative, which was concluded in March 1997.

Interest Expense, net

Interest expense, net of interest income, increased 13.8%, or $0.9 million to $7.9 million for fiscal 1998, as compared to $7.0 million for fiscal 1997. This increase was primarily due to an increase in long-term debt associated with the Pearl Gas and other acquisitions.

Net Income (loss)

Net income (loss) declined $3.0 million to a loss of $1.0 million for fiscal 1998, as compared to net income of $2.0 million for fiscal 1997. This change in net income was due to lower wholesale gross margin and to the increase in depreciation, amortization and interest expenses associated with Pearl Gas and six additional acquisitions.

Earnings before interest, taxes, depreciation and amortization and 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) declined $0.8 million or 4.0% to $18.9 million for fiscal 1998, as compared to $19.7 million for fiscal 1997. This small decline occurred in a period in which temperatures were 11.8% warmer than fiscal 1997 and 14.0% warmer than normal. The Partnership was able to mitigate the effects of the abnormally warm winter weather by the additional EBITDA provided from acquisitions, an increase in retail margins and a reduction in delivery, branch and administrative expenses. 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 fiscal 1999, the Partnership sold 9.0 million common units (including 0.2 million overallotment common units exercised in April 1999) to partially fund the acquisition of Petro. The net proceeds from the offering, net of underwriter's discounts, commissions and offering expenses was $118.8 million. These funds, along with the net proceeds from Petro's $87.6 million concurrent private debt placement, totaled $206.4 million. To effect the Star Gas / Petro Transaction, these funds were used to repay $193.9 million of Petro's debt, to redeem $11.7 million of Petro's preferred stock, and to pay $0.6 million in transactional fees.

In August 1999, the Partnership issued 1.1 million common units (including 0.1 million overallotment common units exercised in September 1999). The net proceeds from the offering net of underwriter's discounts, commissions and offering expenses was $17.2 million. These funds were used to repay amounts outstanding under the propane segment's revolving acquisition line of credit, fund propane acquisitions, fund propane growth capital expenditures and for general partnership purposes.

For fiscal 1999, net cash provided by operating activities was $10.8 million. This amount combined with $19.2 million of cash acquired in the Petro acquisition, $17.2 million from the August 1999 offering, $5.4 million from net credit facility borrowings, and $0.2 million of proceeds from the sale of fixed assets totaled $52.8 million. Such funds were utilized for growth and maintenance capital expenditures of $7.4 million, acquisitions of $15.0 million, net acquisition facility repayments of $2.7 million, other financing expenses of $0.5 million, non-Star Gas / Petro Transaction related debt repayments of $4.2 million, and Partnership distributions of $19.6 million. As a result of the above activity, the Partnership's cash increased by $3.4 million.

For fiscal 2000, the Partnership anticipates paying interest of $25.1 million and anticipates growth and maintenance capital additions of approximately $7.2 million. The Partnership has no material commitments for capital expenditures. In addition, the Partnership plans to pay distributions on its units in accordance with the partnership agreement. The Partnership also plans to continue with the acquisition approach of its business strategy by pursuing strategic acquisitions, and to prudently fund such acquisitions through a combination of internally generated cash, 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 2000.

Accounting Principles Not Yet Adopted

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133 - "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, FASB amended the effective date for SFAS No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. The Partnership is assessing the impact and disclosure requirements of SFAS No. 133.

Year 2000

The Year 2000 ("Y2K") 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 creation of a Y2K task force, whose objective is to review and evaluate the Partnership's information technology (IT) such as hardware and software utilized in the operation of the Partnership's business, in addition to assessing the non-IT environment that could affect operations.

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

Since the Partnership does not internally develop software for its own use, software developed externally was evaluated for Year 2000 compliance. Software that was determined to not be compliant was either upgraded or replaced. As part of this program, the Partnership's systems were evaluated for meeting current and future business needs and the Partnership leveraged this process as an opportunity to upgrade and enhance its information systems. As of September 30, 1999 the Partnership believes it has completed the substantial portion of all upgrades and replacements that were deemed necessary to be year 2000 compliant, and has been successfully operating with such systems. Most of these costs have been capitalized, as they were principally related to the addition of new hardware and software applications and functionality. Based on the series of analyses and successful tests performed by the Y2K task force, the Partnership's state of readiness to make each identified area Year 2000 compliant is approaching completion.

The Partnership has assessed a total cost of approximately $885,000 to make its computer systems Year 2000 compliant and to upgrade its internal messaging system. Through September 30, 1999 the Partnership has incurred approximately $805,000 in Year 2000 compliance related expenses for applications and hardware, and it expects to incur the remaining $80,000 from now until the early part of the year 2000 for additional applications and hardware.

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 has developed 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 has contacted all key suppliers to evaluate their Year 2000 readiness and has obtained adequate assurances that the Partnership's concerns and interests are being properly addressed.

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, 1999, the Partnership had outstanding borrowings of approximately $16.5 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 decrease of $0.2 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 price of home heating oil for its heating oil segment. 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 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 at September 30, 1999, the potential unrealized gain on the Partnership's hedging activity would be increased by $5.0 million to an unrealized gain of $14.6 million; and conversely a hypothetical ten percent decrease in the cost of home heating oil would decrease the unrealized gain by $5.0 million to an unrealized gain of $4.6 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

Upon the completion of the Star Gas / Petro Transaction, Star Gas LLC became the general partner of the Partnership. The membership interests in Star Gas LLC are owned by Audrey L. Sevin, Irik P. Sevin, Hanseatic Corp., and Hanseatic Americas LDC. 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)/................	52	Chairman of the Board and Chief Executive Officer

William G. Powers, Jr.............	46	Executive Vice President - Heating Oil and Member of the Office of President
Joseph P. Cavanaugh................	62	Executive Vice President - Propane and Member of the Office of President
George Leibowitz...................	62	Chief Financial Officer
Richard F. Ambury..................	42	Vice President and Treasurer
James Bottiglieri..................	43	Vice President
Audrey L. Sevin....................	73	Secretary
Paul Biddelman/(a)//(b)/...........	53	Director
Thomas J. Edelman..................	48	Director
I. Joseph Massoud/(c)/............	31	Director
William P. Nicoletti/(c)/..........	54	Director
Stephen Russell(a).................	57	Director

____
(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. and Premier Parks, 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 1999, the Board of Directors met six times. All Directors attended each meeting. 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.

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 1999, the audit committee met two 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 1999, the Compensation Committee met once.

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 1999, 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, 1999, 1998 and 1997.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation
Irik P. Sevin, Chairman of the Board and Chief Executive Officer	1999	$ 325,000/(1)/	$225,000	$ 2,900/(7)/
	1998	$ 150,000	-	-
William G. Powers, Jr., Executive Vice President/(2)/	1999	$ 125,000/(3)/	$ 75,000	$ 3,900/(7)/
	1998	$ 37,500	-	-
Joseph P. Cavanaugh, Executive Vice President/(4)/	1999	$ 225,000	$ 50,000	$18,768/(6)/
	1998	$ 181,262	-	$14,076/(6)/
George Leibowitz, Chief Financial Officer	1999	$ 202,500/(5)/	$100,000	$ 2,150/(7)/
Richard F. Ambury, Vice President and Treasurer	1999	$ 160,000	$ 70,000	$26,032/(6)/
	1998	$ 150,000	$ 37,500	$26,032/(6)/
	1997	$ 143,000	$ 35,750	$20,408/(6)/

(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). This amount does not include $264,000 of compensation paid by Petro prior to its acquisition by the Partnership.
(6) These amount represent funds paid in lieu of contributions to the Partnership's retirement plans.
(7) These amounts represent contributions under Petro's defined contribution retirement plan since March 26, 1999.

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

Name	Number of Unexercised Options at September 30, 1999 Exercisable(E)/Unexercisable(U)	Value of In the Money Options at September 30, 1999
None	N/A	N/A

Options Granted in Last Fiscal Year

None.

Employment Contracts

Agreement with George Leibowitz

Petro has entered into an employment agreement with Mr. Leibowitz, effective April 1, 1997, which provides (i) for an indefinite period for 60% employment at an annual salary of $180,000 terminable on 90 days notice by either party and (ii) payment of $18,750 per month for a period of 36 months.

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. Under this plan, Petro contributes on a calendar year basis, the greater of 6% of covered compensation or $10,000.

ITEM 12.
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the beneficial ownership as of November 1, 1999 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.

Name	Common Units		Senior Subordinated Units		Junior Subordinated Units		General Partner Units	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Star Gas LLC	-	-%	-	-%	-	-%	325,729	100%
Irik P. Sevin	-	-	-	-	53,426	15.5	325,729(b)	100
Audrey L. Sevin	-	-	-	-	153,131	44.3	325,729(b)	100
Paul Biddelman	500,000(a)	3.5	280	*	138,807(a)	40.2	325,729(b)	100
Thomas Edelman	-	-	77,480(c)	3.1	-	-	-	-
I. Joseph Massoud	-	-	2,200	*	-	-	-	-
Richard F. Ambury	2,125	*	39	*	-	-	-	-
George Leibowitz	-	-	-	-	-	-	-	-
James Bottiglieri	1,500	*	-	-	-	-	-	-
Joseph P. Cavanaugh	1,000	*	58	*	-	-	-	-
William G. Powers, Jr.	1,000	*	-	-	-	-	-	-
All officers and directors and Star Gas LLC as a group (11 persons)	505,625(a)	3.5	80,057	3.2%	345,364(a)	100.0%	325,729	100%

(a) Includes 500,000 common units and 119,359 junior subordinated units held by Hanseatic Americas Inc., a wholly-owned subsidiary of Hanseatic Americas LDC, a Bahamian limited duration company and 19,448 junior subordinated units held by Hanseatic Corporation. The sole managing member of Hanseatic Americas LDC is Hansabel Partners LLC, a Delaware limited liability company. The sole managing member of Hansabel Partners LLC is Hanseatic Corporation, a New York corporation. Mr. Biddelman is an executive officer of Hanseatic Corporation.
(b) Assumes each of Star Gas LLC owners and Mr. Biddelman through his position with the Hanseatic companies may be deemed to beneficially own all of Star Gas LLC's general partner units, however, they disclaim beneficial ownership of these units.
(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 1999 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.

For fiscal 1999, the Partnership reimbursed Star Gas Corporation, the predecessor General Partner $10.2 million representing salary, payroll tax and other compensation paid to the employees of the General Partner. In addition, the Partnership has reimbursed Petro for $0.4 million relating to the Partnership's share of the costs incurred by Petro in conducting the operations of a certain shared branch location which includes managerial services.

In 1997, the Partnership paid Mr. Nicoletti $20,000 for serving on the Board of Directors Special Committee which explored the possible sale or merger of the Partnership. In 1998, the Partnership paid Mr. Nicoletti $40,000 for serving on the Board of Directors Special Committee which explored the business combination with Petro.

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, 1999.

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)
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.

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	Chairman of the Board, Chief Executive	December 2, 1999
Irik P. Sevin	Officer and Director Star Gas LLC	
/s/ George Leibowitz	Chief Financial Officer	December 2, 1999
George Leibowitz	Star Gas LLC (Principal Financial and Accounting Officer)	
/s/ Audrey L. Sevin	Director	December 2, 1999
Audrey L. Sevin	Star Gas LLC	
/s/ Paul Biddelman	Director	December 2, 1999
Paul Biddelman	Star Gas LLC	
/s/ Thomas J. Edelman	Director	December 2, 1999

Thomas J. Edelman	Star Gas LLC	
/s/ I. Joseph Massoud	Director	December 2, 1999
I. Joseph Massoud	Star Gas LLC	
/s/ William P. Nicoletti	Director	December 2, 1999
William P. Nicoletti	Star Gas LLC	
/s/ Stephen Russell	Director	December 2, 1999
Stephen Russell	Star Gas LLC	

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

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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. 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, 1998 and 1999 and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1999, in conformity with generally accepted accounting principles. 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
November 30, 1999

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 1998	September 30, 1999
Assets		
Current assets:		
Cash and cash equivalents	$ 1,115	$ 4,492
Receivables, net of allowance of $252 and $948, respectively	5,279	42,295
Inventories	10,608	26,317
Prepaid expenses and other current assets	945	13,764
Total current assets	17,947	86,868
Property and equipment, net	110,262	154,967
Long-term portion of accounts receivable	-	5,590
Intangibles and other assets, net	51,398	291,919
Total assets	$179,607	$539,344
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	$ 3,097	$ 12,939
Bank credit facility borrowings	4,770	3,150
Current maturities of long-term debt	692	1,391
Accrued expenses	3,315	43,044
Unearned service contract revenue	-	14,007
Customer credit balances	6,038	31,094
Total current liabilities	17,912	105,625
Long-term debt	104,308	276,638
Other long-term liabilities	40	6,905
Partners' Capital:		
Common unitholders	58,686	145,906
Subordinated unitholders	(1,446)	5,878
General partner	107	(1,608)
Total Partners' Capital	57,347	150,176
Total Liabilities and Partners' Capital	$179,607	$539,344

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, 1997	1998	1999
Sales:			
Product	$127,116	$103,114	$177,936
Installation, service and appliances	8,043	8,571	46,084
Total sales	135,159	111,685	224,020
Costs and expenses:			
Cost of product	70,020	46,909	80,786
Cost of installation, service and appliances	2,191	2,589	50,863
Delivery and branch	36,427	37,216	86,489
Depreciation and amortization	10,242	11,462	22,713
General and administrative	6,818	6,065	11,634
Net loss on sales of assets	(295)	(271)	(83)
Operating income (loss)	9,166	7,173	(28,548)
Interest expense, net	6,966	7,927	15,435
Amortization of debt issuance costs	163	176	347
Income (loss) before income taxes	2,037	(930)	(44,330)
Income tax expense (benefit)	25	25	(14,780)
Net income (loss)	$ 2,012	$ (955)	$(29,550)
General Partner's interest in net income (loss)	$ 40	$ (19)	$ (587)
Limited Partners' interest in net income (loss)	$ 1,972	$ (936)	$(28,963)
Basic and diluted net income (loss) per Limited Partner unit	$ 0.37	$ (0.16)	$ (2.53)
Basic and diluted weighted average number of Limited Partner units outstanding	5,271	6,035	11,447

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
Years Ended September 30, 1997, 1998, and 1999

(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, 1996	2,875	2,396	-	-	-	$ 52,821	$ 8,410	-	-	$ 167	$ 61,398
Net income						1,077	895			40	2,012
Distributions ($2.20 per unit)						(6,325)	(5,271)			(236)	(11,832)
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

See accompanying notes to consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year Ended September 30,		
	1997	1998	1999
Cash flows from operating activities:			
Net income (loss)	$ 2,012	$ (955)	$ (29,550)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	10,242	11,462	22,713
Amortization of debt issuance cost	163	176	347
Provision for losses on accounts receivable	312	239	371
Loss on sales of assets	295	271	83
Deferred tax benefit	-	-	(14,946)
Changes in operating assets and liabilities, net of amounts acquired:			
Decrease in receivables	1,193	342	27,954
Decrease (increase) in inventories	1,897	(3,705)	(1,962)
Decrease (increase) in other assets	124	198	(8,460)
Increase (decrease) in accounts payable	2,900	81	(1,922)
Increase (decrease) in other current and long-term liabilities	(174)	1,155	16,167
Net cash provided by operating activities	18,964	9,264	10,795
Cash flows from investing activities:			
Capital expenditures	(5,279)	(5,015)	(7,383)
Proceeds from sales of fixed assets	374	315	207
Cash acquired in acquisition	-	1,825	19,151
Acquisitions	-	(10,401)	(14,952)
Net cash used in investing activities	(4,905)	(13,276)	(2,977)
Cash flows from financing activities:			
Credit facility borrowings	5,000	20,300	20,350
Credit facility repayments	(7,350)	(15,530)	(21,970)
Acquisition facility borrowings	3,350	30,000	21,000
Acquisition facility repayments	(3,350)	(21,000)	(16,700)
Distributions	(11,832)	(13,444)	(19,624)
Increase in deferred charges	-	-	(944)
Proceeds from issuance of Common Units, net	-	16,089	136,065
Repayment of debt, net	-	(23,000)	(198,062)
Redemption of preferred stock	-	-	(11,746)
Proceeds from issuance of debt	-	11,000	87,552
Other	(94)	(177)	(362)
Net cash provided by (used in) financing activities	(14,276)	4,238	(4,441)
Net increase (decrease) in cash	(217)	226	3,377
Cash at beginning of period	1,106	889	1,115
Cash at end of period	$ 889	$ 1,115	$ 4,492

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 leading distributor of propane and home heating oil in the United States. Star Gas Propane, L.P., ("Star Gas Propane" or the "Propane Segment") a wholly owned subsidiary of the Partnership, markets and distributes propane gas and related products to approximately 186,000 retail and wholesale customers in the Midwest and Northeast. Petro Holdings, Inc. ("Petro," "Heating Oil Segment," or the former Petroleum Heat and Power Co., Inc.), an indirect wholly owned subsidiary of Star Gas Propane, is the nation's largest distributor of home heating oil and serves approximately 335,000 customers in the Northeast and Mid-Atlantic region of the United States. Petro was acquired by the Partnership as described in footnote 2. Prior to March 26, 1999, Petro had a 40.5% equity interest in the Partnership and a subsidiary of Petro was its general partner.

2) Acquisition of Petro

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 (a legal entity created as a result of the Star Gas / Petro Transaction to be the parent company of all the former Petro entities) 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 4).

3) 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., Star Gas Propane and its corporate subsidiaries. Beginning March 26, 1999, the Consolidated Financial Statements also include the accounts and results of operations of Petro and its subsidiaries. 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 and equipment are recognized at the time of delivery of the product to the customer or at the time of sale, service, 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 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. Both the propane and heating oil segments amortize 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. For both the propane and heating oil segments, covenants not to compete are amortized over the respective lives of the covenants, which are generally five years.

Customer lists are the names and delivery addresses of the acquired company's patrons. Based on the historical retention experience of these lists, the propane segment amortizes customer lists on a straight-line method over fifteen years, and the heating oil segment amortizes customer lists on a straight-line method over ten years.

Deferred charges represent the costs associated with the issuance of debt instruments. Both the propane and heating oil segments amortize deferred charges using the straight-line method over the lives of the related debt instrument.

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 propane / heating oil charges 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 heating oil and propane gallons it sells to guaranteed maximum price customers. 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 useful lives of the related instruments.

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 Partner'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 limited partners. Net earnings for financial statement purposes will differ significantly from taxable income reportable to unitholders 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.

The Partnership's corporate subsidiaries file a consolidated 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 Standards ("SFAS") No. 133 - "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. In June 1999, FASB amended the effective date for SFAS No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. The Partnership is assessing the impact and disclosure requirements of SFAS No. 133.

4) 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 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 unit, or $2.30 per 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.

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, 2002. However, if the general partner is removed under some circumstances, the subordination period will end. When the subordination period ends, all senior subordinated units and junior subordinated units will convert into Class B common units on a one-for-one basis, and each common unit will be redesignated as a Class A common unit. The main difference between the Class A common units and Class B common units is that the Class B common units will continue to have the right to receive incentive distributions and additional units.

In accordance with the merger agreement, distributions will not be made on the senior subordinated units, junior subordinated units, or general partner units until February 2000 at the earliest.

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

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

(2) the Adjusted Operating Surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units, senior subordinated units, junior subordinated units and general partner units during those periods on a fully diluted basis for employee options or other employee incentive compensation. This includes all outstanding units and all common units issuable upon exercise of employee options that have, as of the date

of determination, already vested or are scheduled to vest before the end of the quarter immediately following the quarter for which the determination is made. It also includes all units that have as of the date of determination been earned by but not yet issued to our management for incentive compensation; and

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

5) Segment Reporting

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Partnership, as a result of the Star Gas / Petro Transaction (see footnote 2), has two reportable segments, propane and heating oil. Management has chosen to organize the enterprise under these two segments in order to leverage the expertise it has in each industry, allow each segment to continue to strengthen its core competencies, and facilitate a clear means for evaluation.

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 have a significant impact on the demand for propane.

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 also have a significant impact on the demand for home heating oil.

The following are the statements of operations and balance sheets for each segment as of the periods indicated. The heating oil segment was consolidated with the propane segment beginning March 26, 1999. There were no inter-segment sales between the propane segment and the heating oil segment

5) Segment Reporting - (continued)

(in thousands)

	Year Ended September 30,								
	1997			1998			1999		
Statement of Operations	Heating Oil	Propane	Consol.	Heating Oil	Propane	Consol.	Heating Oil	Propane	Consol.
Sales:									
Product	$ -	$127,116	$127,116	$ -	$103,114	$103,114	$ 80,279	$ 97,657	$177,936
Installation, service, and appliance	-	8,043	8,043	-	8,571	8,571	36,120	9,964	46,084
Total sales	-	135,159	135,159	-	111,685	111,685	116,399	107,621	224,020
Costs and expenses:									
Cost of product	-	70,020	70,020	-	46,909	46,909	42,409	38,377	80,786
Cost of installation, service, and appliances	-	2,191	2,191	-	2,589	2,589	47,661	3,202	50,863
Delivery and branch	-	36,427	36,427	-	37,216	37,216	45,470	41,019	86,489
Depreciation and amortization	-	10,242	10,242	-	11,462	11,462	10,531	12,182	22,713
General and administrative	-	6,818	6,818	-	6,065	6,065	5,189	6,445	11,634
Net (loss) on sales of assets	-	(295)	(295)	-	(271)	(271)	7	(90)	(83)
Operating income (loss)	-	9,166	9,166	-	7,173	7,173	(34,854)	6,306	(28,548)
Interest expense, net	-	6,966	6,966	-	7,927	7,927	7,128	8,307	15,435
Amortization of debt issuance costs	-	163	163	-	176	176	167	180	347
Income (loss) before income taxes	-	2,037	2,037	-	(930)	(930)	(42,149)	(2,181)	(44,330)
Income tax expense (benefit)	-	25	25	-	25	25	(11,900)	(2,880)	(14,780)
Net income (loss)	$ -	$ 2,012	$ 2,012	$ -	$ (955)	$ (955)	$(30,249)	$ 699	$(29,550)
Capital expenditures	$ -	$ 5,279	$ 5,279	$ -	$ 5,015	$ 5,015	$ 2,323	$ 5,060	$ 7,383

(in thousands)		September 30, 1999		
	September 30, 1998	Heating		(1)
	Propane	Oil	Propane	Consolidated
Balance Sheet				
Assets				
Current assets:				
Cash and cash equivalents	$ 1,115	$ 4,270	$ 222	$ 4,492
Receivables	5,279	35,960	6,335	42,295
Inventories	10,608	16,498	9,819	26,317
Prepaid expenses and other current assets	945	13,678	1,156	13,764
Total current assets	17,947	70,406	17,532	86,868
Property and equipment, net	110,262	39,849	115,118	154,967
Long-term portion of accounts receivable	-	5,590	-	5,590
Investment in Petro Holdings	-	-	83,233	-
Intangibles and other assets, net	51,398	236,981	54,938	291,919
Total assets	$179,607	$352,826	$270,821	$539,344
Liabilities and Partners' Capital				
Current Liabilities:				
Accounts payable	$ 3,097	$ 7,366	$ 5,573	$ 12,939
Bank credit facility borrowings	4,770	-	3,150	3,150
Current maturities of long-term debt	692	1,391	-	1,391
Accrued expenses	3,315	39,012	4,231	43,044
Unearned service contract revenue	-	14,007	-	14,007
Customer credit balances	6,038	26,657	4,437	31,094
Total current liabilities	17,912	88,433	17,391	105,625
Long-term debt	104,308	174,338	102,300	276,638
Other long-term liabilities	40	6,822	92	6,905
Partners' Capital	57,347	83,233	151,038	150,176
Total Liabilities and Partners' Capital	$179,607	$352,826	$270,821	$539,344

(1) The consolidated amounts include the necessary entries to eliminate the Investment in Petro Holdings.

6) Inventories

The components of inventory were as follows:

(in thousands)	September 30, 1998	September 30, 1999
Propane gas	$ 8,807	$ 7,678
Propane appliances and equipment	1,801	2,141
Fuel oil	-	9,959
Fuel oil parts and equipment	-	6,539
	$10,608	$26,317

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 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 25% 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 and futures 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.

6) Inventories - (continued)

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. 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 heating oil gallons being sold to its guaranteed maximum price customers, the heating oil segment at September 30, 1999 had 12.7 million gallons of forward purchase contracts for heating oil with a notional value of $8.1 million and a fair market value of $7.8 million; 104.1 million gallons of futures contracts to buy heating oil with a notional value of $53.9 million and a fair market value of $64.7 million; 50.9 million gallons of futures contracts to sell heating oil with a notional value of $26.9 million and a fair market value of $31.5 million; 17.9 million gallons of option contracts to buy heating oil with a notional value of $8.1 million and a fair market value of $11.1 million; and 24.2 million gallons of option contracts to sell heating oil with a notional value of $12.0 million and a fair market value of $15.1 million. The contracts expire at various times with no contract expiring later than July 2000.

At September 30, 1999 the propane segment had options to buy 5.0 million gallons of propane with a notional value of $1.6 million and a fair market value totaling $2.2 million. The option contract expires in March 2000.

At September 30, 1999 the unrealized gains on the heating oil segment's and propane segment's hedging activity was approximately $9.0 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 25% 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.

The carrying amount of all hedging financial instruments at September 30, 1999 was $1.1 million and was 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.

7) Property, Plant and Equipment

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

(in thousands)	September 30, 1998	September 30, 1999	Estimated Useful Lives
Land	$ 4,635	$ 8,669	
Buildings and leasehold improvements	10,313	21,370	4 - 30 years
Fleet and other equipment	16,918	34,470	3 - 30 years
Tanks and equipment	102,493	113,774	8 - 30 years
Furniture and fixtures	2,833	14,396	5 - 12 years
Total	137,192	192,679	
Less accumulated depreciation	26,930	37,712	
Total	$110,262	$154,967	

8) Intangibles and Other Assets

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

(in thousands)	September 30, 1998	September 30, 1999			Useful Lives
	(Propane)	(Propane)	(Heating Oil)	Total	
Goodwill	$25,690	$28,858	$146,764	$175,622	25 years
Covenants not to compete	2,341	2,361	-	2,361	5 years
Customer lists	34,028	38,004	94,842	132,846	7 - 15 years
Deferred charges	2,907	3,102	2,760	5,862	6 - 14 years
Total intangibles	64,966	72,325	244,366	316,691	
Less accumulated amortization	13,568	17,604	7,839	25,443	
Net intangibles	51,398	54,721	236,527	291,248	
Other assets	-	217	454	671	
Intangibles and other assets	$51,398	$54,938	$236,981	$291,919	

The table below summarizes the current allocation by the Partnership of the excess of purchase price over book value related to the 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 were discounted back at an equity risk adjusted cost of capital to the net present value. Any excess was attributable to goodwill.

9) Long-Term Debt and Bank Facility Borrowings

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

(in thousands)	September 30, 1998	September 30, 1999
Propane Segment:		
8.04% First Mortgage Notes (a)	$ 85,000	$ 85,000
7.17% First Mortgage Notes (a)	11,000	11,000
Acquisition Facility Borrowings (b)	9,000	6,300
Working Capital Facility Borrowings (b)	4,770	3,150
Heating Oil Segment:		
7.92% Senior Notes (c)	-	90,000
9.0% Senior Notes (d)	-	62,697
10.25% Senior and Subordinated Notes (e)	-	4,246
Acquisition Facility Borrowings (f)	-	7,000
Acquisition Notes Payable (g)	-	8,764
Subordinated Debentures (h)	-	3,022
	109,770	281,179
Less current maturities	(692)	(1,391)
Less bank credit facility borrowings	(4,770)	(3,150)
Total	$104,308	$276,638

(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%. Star Gas Propane's obligations under the First Mortgage Note Agreements are secured, on an equal basis with Star Gas Propane's obligations under the 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 mature September 15, 2010, and will require semiannual prepayments, without premium on the principal thereof, beginning on March 15, 2001. Interest on the Notes is payable semiannually on March 15 and September 15. The First Mortgage Note Agreements contain various restrictive and affirmative covenants applicable to Star Gas Propane; the most restrictive of these covenants relates to the incurrence of additional indebtedness and restrictions on certain investments, guarantees, loans, sales of assets and other transactions.

(b) The Star Gas Propane Bank Credit Facilities consist of a $25.0 million Acquisition Facility and a $12.0 million Working Capital Facility. At September 30, 1999 $6.3 million and $3.2 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 $0.2 million for fiscal 1997, $0.1 million for fiscal 1998 and $0.1 million for fiscal 1999. For fiscal 1998 and 1999, the weighted average interest rate on borrowings under these facilities was 7.46% and 7.13% respectively. At September 30, 1999 the interest rate was 8.25%.

The Working Capital Facility will expire June 30, 2001, but may be extended annually thereafter with the consent of the banks. Borrowings under the Acquisition Facility will revolve until September 30, 2000, after which time any outstanding loans thereunder, will amortize in quarterly principal payments with a final payment due on September 30, 2003. 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 the Star Gas / Petro Transaction. 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 or an event of default would exist.

(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%.

(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 $0.1 million and to make a final maturity payment of $4.1 million on January 15, 2001. No premium is payable in connection with these required payments. The holders of these notes have the right to extend each maturity of the note for a one year period at an annual rate of 14.1%. This election was exercised in November 1999, extending $2.1 million with original maturities of January 15, 2000 to January 15, 2001.

(f) The Petro Bank Facilities consist of four separate facilities; a $40 million working capital facility, a $10 million insurance letter of credit facility, a $50 million acquisition facility and a $15 million temporary working capital facility (a facility in place from December 15, 1999 to April 15, 2000). At September 30, 1999 no amount was outstanding under the working capital facility; $9.5 million of the insurance letter of credit was used; $7.0 million was outstanding under the acquisition facility, along with an additional $8.3 million outstanding from the acquisition facility in the form of letter of credits (see footnote g below) and no amount was outstanding under the temporary working capital facility. The working capital facility and letter of credit facility will expire on June 30, 2001. The acquisition facility will convert to a term loan on June 30, 2001 which will be payable in eight equal quarterly principal payments. Amounts borrowed under the working capital facility are subject to a requirement to maintain a zero balance for 90 consecutive days during the period from April 1 to September 30 of each year. In addition, each facility will bear an interest rate that is based on either the London Interbank Offer Rate or another base rate plus a set percentage. The bank facilities agreement contains covenants and default provisions generally similar to those contained in the note agreement for the senior secured notes. The Partnership is required to pay a commitment fee which amounted to $0.3 million for fiscal 1999.

(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 $8.3 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.

As of September 30, 1999, the Partnership was in compliance with all debt covenants. As of September 30, 1999, the maturities during fiscal years ending September 30 are set forth in the following table:

	(in thousands)
2000	$ 4,541
2001	31,563
2002	32,392
2003	56,969
2004	18,686
Thereafter	137,028
	$281,179

10) Acquisitions

During fiscal 1999, the Partnership acquired three unaffiliated retail propane dealers with an aggregate cost of $16.2 million, and Petro in a four part transaction as described in footnote 2. Since the Star Gas / Petro Transaction, the Partnership has also acquired three unaffiliated heating oil dealers with an aggregate cost of $1.7 million.

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 1998 and 1999 acquisitions other than for Petro (see Intangibles and Other Assets footnote):

(in thousands)	1998	1999	Useful Lives
Land	$ 492	$ 288	-
Buildings	1,381	400	30 years

Furniture and equipment	153	35	10 years
Fleet	1,613	1,082	5 - 30 years
Tanks and equipment	14,829	6,738	5 - 30 years
Customer lists	5,231	4,817	15 years
Restrictive covenants	300	21	5 years
Goodwill	11,503	3,886	25 years
Deferred charges	56	-	6 years
Working capital	-	630	-
Total	$35,558	$17,897	

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, including Petro and the related financing, as if the acquisitions had taken place on October 1, 1997.

(in thousands)	Years Ended September 30,	
	1998	1999
Sales	$576,467	$526,680
Net income (loss)	$ (2,712)	$ 1,438
General Partner's interest in net income (loss)	$ (50)	$ 26
Limited Partners' interest in net income (loss)	$ (2,662)	$ 1,412
Basic and Diluted net income (loss) per limited partner unit	$ (0.15)	$ 0.08

11) 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 1997, 1998 and 1999 were $0.4 million, $0.3 million and $0.3 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 fiscal 1999.

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 since its acquisition was $1.5 million.

As a result of the Star Gas / Petro Transaction, 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 since the heating oil segment's acquisition was $0.2 million.

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
Benefit obligations at beginning of year	$27,377
Service cost	-
Interest cost	1,300
Actuarial (gain) loss	(2,346)
Benefit payments	(1,112)
Settlements	(733)
Benefit obligation at end of year	$24,486
Reconciliation of Fair Value of Plan Assets	
Fair value of plan assets at beginning of year	$21,038
Actual return on plan assets	75
Employer contributions	1,801
Benefit payments	(1,112)
Settlements	(733)
Fair value of plan assets at end of year	$21,069

11) Employee Benefit Plans - (continued)

Funded Status	
Benefit obligation	$ 24,486
Fair value of plan assets	21,069
Unrecognized transition (asset) obligation	(30)
Unrecognized prior service cost	-
Unrecognized net actuarial (gain) loss	(1,445)
Prepaid (accrued) benefit cost	(4,892)

Weighted-Average Assumptions Used in the Measurement of the Company's Benefit Obligation as of the period indicated	
Discount rate	7.5%
Expected return on plan assets	8.5%
Rate of compensation increase	N/A

In addition, the heating oil segment made contributions to union-administered pension plans of $1.1 million since its acquisition by the partnership.

12) Income Taxes

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

(in thousands)	Years Ended September 30,		
	1997	1998	1999
Current:			
Federal	$ -	$ -	$ -
State	25	25	166
Deferred	-	-	(14,946)
	$ 25	$ 25	$(14,780)

The sources of the deferred income tax expense (benefit) and the tax effects of each for the year ended September 30, 1999 were as follows:

	(in thousands)
Excess of tax over book depreciation	$ 401
Excess of book over tax amortization expense	(1,324)
Excess of tax over book vacation expense	146
Excess of tax over book restructuring expense	88
Excess of tax over book bad debt expense	305
Excess of tax over book over tax supplemental benefit expense	49
Excess of tax over book pension contribution	342
Other, net	(12)
Recognition of tax benefit of net operating loss to the extent of current and previous recognized temporary differences	(14,941)
	$(14,946)

12) Income Taxes - (continued)

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

	(in thousands)
Deferred Tax Assets:	
Net operating loss carryforwards	$ 28,525
Excess of book over tax vacation expense	1,757
Excess of book over tax restructuring expense	534
Excess of book over tax bad debt expense	270
Excess of book over tax supplemental benefit expense	709
Other, net	321
Total deferred tax assets	32,116
Valuation allowance	(16,448)
Net deferred tax assets	$ 15,668
Deferred Tax Liabilities:	
Excess of tax over book depreciation	$ 7,596
Excess of tax over book amortization	7,014
Excess of tax over book pension contribution	1,058
Total deferred tax liabilities	$ 15,668

Net deferred taxes	$ -

In order to fully realize the net deferred tax assets the Company 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, 1999. 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, 1999, the Company had net income tax loss carryforwards for Federal income tax reporting purposes of approximately $71 million of which approximately $24.7 million are limited in accordance with Federal income tax law. The losses are available to offset future Federal taxable income through 2019.

13) 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, 1999 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	Total
2000	3,429	$1,174	$ 4,603
2001	2,844	1,120	3,964
2002	2,783	1,022	3,805
2003	3,103	719	3,822
2004	3,127	335	3,462
Thereafter	18,403	176	18,579
Total minimum lease payments	$33,689	$4,546	$38,235

The Partnership's rent expense was $1.3 million, $1.2 million and $4.4 million in 1997, 1998, and 1999, which includes the rent expense for the heating oil segment since its acquisition.

14) Supplemental Disclosure of Cash Flow Information

(in thousands)	Years Ended September 30,		
	1997	1998	1999
Cash paid during the period for:			
Income taxes	$ 7	$ 8	$ 106
Interest	$ 7,170	$ 7,915	$ 15,703
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, 1997, 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 $17.1 million, $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 $0.9 million, $0.8 million and $0.4 million for the fiscal years ended September 30, 1997, 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, 1999 the Partnership announced that it would pay a cash distribution of $0.575 per Common Unit for the three months ended September 30, 1999. The distribution was paid on November 15, 1999 to holders of record as of November 5, 1999.

18) Disclosures About the Fair Value of Financial Instruments

<u>Cash, Accounts Receivable, Notes Receivable and Other Current Assets, Bank Facility Borrowings, Accounts Payable and Accrued Expenses</u>

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

<u>Long-Term Debt</u>

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, 1998		At September 30, 1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	$ 105,000	$ 106,606	$ 278,029	$ 279,631

19) Earnings Per Limited Partner Units

(in thousands, except per unit data)	September 30, 1997	1998	1999
Basic Earnings Per Unit:			
Net income (loss)	$ 2,012	$ (955)	$(29,550)
Less: General Partner's interest in net income (loss)	40	(19)	(587)
Limited Partner's interest in net income (loss)	$ 1,972	$ (936)	$(28,963)
Common Units	2,875	3,639	8,830
Senior Subordinated Units	-	-	1,283
Junior Subordinated Units	-	-	179
Subordinated Units	2,396	2,396	1,155
Weighted average number of Limited Partner units outstanding	5,271	6,035	11,447
Basic earnings (losses) per unit	$ 0.37	$ (0.16)	$ (2.53)
Diluted Earnings Per Unit:			
Effect of dilutive securities	$ -	$ -	$ -
Limited Partner's interest in net income (loss)	$ 1,972	$ (936)	$(28,963)
Effect of dilutive securities	-	-	-
Weighted average number of Limited Partner units outstanding	5,271	6,035	11,447
Diluted earnings (losses) per unit	$ 0.37	$ (0.16)	$ (2.53)

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.

(in thousands)	Three Months Ended December 31, 1997	March 31, 1998	June 30, 1998	September 30, 1998	Total
Sales	$ 41,844	$ 37,884	$ 16,243	$ 15,714	$ 111,685
Operating income (loss)	5,843	8,289	(3,312)	(3,647)	7,173
Income (loss) before taxes	3,713	6,370	(5,229)	(5,784)	(930)
Net income (loss)	3,707	6,363	(5,235)	(5,790)	(955)
Limited Partner interest in net income (loss)	3,633	6,236	(5,130)	(5,675)	(936)
Net income (loss) per Limited Partner Unit/(a)/	$ 0.66	$ 1.00	$ (0.82)	$ (0.91)	$ (0.16)

	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, 1997, 1998 and 1999
(in thousands)

			Additions		
Year	Description	Balance at Beginning of Year	Charged to Costs & Expenses	Other Changes Add(Deduct)	Balance at End of Year
1997	Allowance for doubtful accounts	$ 291	312	(330)/(a)/	$ 273
1998	Allowance for doubtful accounts	$ 273	239	(260)/(a)/	$ 252
1999	Allowance for doubtful accounts	$ 252	371	1,437/(b)/	$ 948
				(1,112)/(a)/	

(a) Bad debts written off (net of recoveries).
(b) Amount acquired as part of the Petro 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 and 333-66005 on Form S-4 of Star Gas Partners, L.P. of our report dated November 30, 1999, relating to the consolidated balance sheets of Star Gas Partners, L.P. and Subsidiaries as of September 30, 1999 and 1998 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, 1999 and related schedule, which report appears in the September 30, 1999 annual report on Form 10-K of Star Gas Partners, L.P.

/s/ KPMG LLP
Stamford, Connecticut
November 30, 1999

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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, 1999 AND CONSOLIDATED ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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