

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

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)

(203) 328-7300

(Registrant's telephone number, including area code)

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

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

Indicate the number of shares outstanding of each issuer's classes of common
stock, as of May 3, 2001:

19,724,967	Common Units
2,696,946	Senior Subordinated Units
345,364	Junior Subordinated Units
325,729	General Partner Units

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	September 30, 2000	March 31, 2001 (unaudited)
	-----	-----
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,910	\$ 16,908
Receivables, net of allowance of \$1,956 and \$5,648 respectively	66,858	199,842
Inventories	34,407	26,001
Prepaid expenses and other current assets	14,815	18,337
	-----	-----
Total current assets	126,990	261,088
	-----	-----
Property and equipment, net	171,300	202,162
Long-term portion of accounts receivable	7,282	7,266
Intangibles and other assets, net	313,404	333,923
	-----	-----
Total assets	\$618,976	\$804,439
	=====	=====
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	\$ 27,874	\$ 37,070
Working capital facility borrowings	24,400	58,953
Current maturities of long-term debt	16,515	34,644
Accrued expenses	42,410	50,920
Unearned service contract revenue	15,654	16,254
Customer credit balances	37,943	9,189
	-----	-----
Total current liabilities	164,796	207,030

Long-term debt	310,414	335,198
Other long-term liabilities	4,588	4,416
Partners' Capital:		
Common unitholders	134,672	241,606
Subordinated unitholders	6,090	16,554
General partner	(1,584)	(524)
Accumulated other comprehensive income	-	159
Total Partners' Capital	139,178	257,795
Total Liabilities and Partners' Capital	\$618,976	\$804,439

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(in thousands, except per unit data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2000	2001	2000	2001
Sales:				
Product	\$298,012	\$439,723	\$458,552	\$730,314
Installation, service and appliances	23,683	30,724	50,029	63,637
Total sales	321,695	470,447	508,581	793,951
Costs and expenses:				
Cost of product	175,288	281,529	261,834	475,915
Cost of installation, service and appliances	29,449	36,441	60,334	73,357
Delivery and branch	45,275	57,839	85,577	107,173
Depreciation and amortization	8,196	10,372	16,600	20,019
General and administrative	4,595	8,669	9,276	15,562
TG&E customer acquisition expense	-	718	-	1,371
Unit compensation expense	-	719	-	1,219
Net gain on sales of assets	38	31	50	42
Operating income	58,930	74,191	75,010	99,377
Interest expense, net	6,900	9,003	13,373	17,120
Amortization of debt issuance costs	128	151	257	296
Income before income taxes and cumulative effect of change in accounting principle	51,902	65,037	61,380	81,961
Income tax expense	215	923	328	1,639
Income before cumulative change in accounting principle	51,687	64,114	61,052	80,322
Cumulative effect of change in accounting principle for adoption of SFAS No. 133, net of income taxes	-	-	-	1,466
Net income	\$ 51,687	\$ 64,114	\$ 61,052	\$ 81,788
General Partner's interest in net income	\$ 915	\$ 964	\$ 1,105	\$ 1,247
Limited Partners' interest in net income	\$ 50,772	\$ 63,150	\$ 59,947	\$ 80,541
Net income per Limited Partner unit:				
Basic	\$2.80	\$2.86	\$3.40	\$3.83
Diluted	\$2.80	\$2.85	\$3.40	\$3.81
Weighted average number of Limited Partner units outstanding:				
Basic	18,107	22,063	17,651	21,022
Diluted	18,107	22,176	17,651	21,135

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2000	2001	2000	2001
Net income	\$51,687	\$64,114	\$61,052	\$81,788
Other comprehensive income (loss)				
Unrealized gain (loss) on derivative instruments	-	(1,803)	-	(8,108)
Comprehensive income	\$51,687	\$62,311	\$61,052	\$73,680
Reconciliation of Accumulated Other Comprehensive Income				
Balance, beginning of period	\$ -	\$ 3,889	\$ -	\$ -
Cumulative effect of the adoption of SFAS No. 133	-	-	-	10,544
Current period reclassification to earnings	-	(1,927)	-	(2,277)
Current period other comprehensive gain (loss)	-	(1,803)	-	(8,108)
Balance, end of period	\$ -	\$ 159	\$ -	\$ 159

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
(unaudited)

(in thousands, except per unit amounts)

	Number of Units				Common	Senior Sub.	Junior Sub.	General Partner	Other Comprehensive Income	Total Partners' Capital
	Common	Senior Sub.	Junior Sub.	General Partner						
Balance as of										
September 30, 2000	16,045	2,587	345	326	\$134,672	\$ 6,125	\$ (35)	\$ (1,584)	\$ -	\$139,178
Issuance of Common Units	3,680				59,314					59,314
Issuance of Senior Subordinated Units		110				1,388				1,388
Net income					69,038	10,179	1,324	1,247		81,788
Other comprehensive income										
Net change									159	159
Distributions:										
(\$1.150 per common unit)					(21,418)					(21,418)
(\$0.825 per senior subordinated unit)						(2,228)				(2,228)
(\$0.575 per junior subordinated unit)							(199)			(199)
(\$0.575 per general partner unit)								(187)		(187)
Balance as of										
March 31, 2001	19,725	2,697	345	326	\$241,606	\$15,464	\$1,090	\$ (524)	\$ 159	\$257,795

See accompanying notes to condensed consolidated financial statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands) -----	Six Months Ended March 31,	
	2000	2001
Cash flows used in operating activities:		
Net income	\$ 61,052	\$ 81,788
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	16,600	20,019
Amortization of debt issuance cost	257	296
Unit compensation expense	-	1,219
Provision for losses on accounts receivable	869	3,747
Gain on sales of assets	(50)	(42)
Cumulative effect of change in accounting principle for the adoption of SFAS No. 133	-	(1,466)
Changes in operating assets and liabilities:		
Increase in receivables	(77,443)	(132,641)
Decrease in inventories	6,744	12,594
Decrease in other assets	307	727
Increase in accounts payable	976	9,137
Decrease in other current and long-term liabilities	(28,102)	(23,656)
Net cash used in operating activities	(18,790)	(28,278)
Cash flows used in investing activities:		
Capital expenditures	(3,294)	(7,065)
Proceeds from sales of fixed assets	283	207
Acquisitions	(29,577)	(70,210)
Net cash used in investing activities	(32,588)	(77,068)
Cash flows provided by financing activities:		
Working capital facility borrowings	70,600	120,850
Working capital facility repayments	(30,750)	(86,297)
Acquisition facility borrowings	29,700	31,700
Acquisition facility repayments	(36,000)	(51,600)
Proceeds from issuance of debt	27,500	69,647
Repayment of debt	(3,222)	(6,834)
Increase in deferred charges	-	(415)
Proceeds from issuance of Common Units, net	22,611	59,314
Distributions	(16,527)	(24,032)
Other	(797)	(989)
Net cash provided by financing activities	63,115	111,344
Net increase in cash	11,737	5,998
Cash at beginning of period	4,492	10,910
Cash at end of period	\$ 16,229	\$ 16,908

See accompanying notes to condensed consolidated statements.

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1) Partnership Organization

Star Gas Partners, L.P. ("Star Gas Partners" or the "Partnership") is a diversified home energy distributor and services provider, specializing in heating oil, propane, natural gas and electricity. Star Gas Partners is a Master Limited Partnership that at March 31, 2001 had 19.7 million common limited partner units (trading symbol "SGU" representing a 85.4% limited partner interest in Star Gas Partners) and 2.7 million senior subordinated units (trading symbol "SGH" representing an 11.7% limited partnership interest in Star Gas Partners) which are traded on the New York Stock Exchange. Additional interest in Star Gas Partners are represented by 0.3 million junior subordinated units (representing a 1.5% limited partner interest in Star Gas Partners) and 0.3 million general partner units (representing a 1.4% general partner interest in Star Gas Partners).

Operationally the Partnership is organized as follows:

- . Petro Holdings, Inc. ("Petro" or the "heating oil segment"), is the nation's largest retail distributor of home heating oil and serves approximately 385,000 customers in the Northeast and Mid-Atlantic. Petro is an indirect wholly owned subsidiary of Star Gas Propane, L.P.
- . Star Gas Propane, L.P., ("Star Gas Propane" or the "propane segment") is a wholly owned subsidiary of Star Gas Partners. Star Gas Propane markets and distributes propane gas and related products to more than 260,000 customers in the Midwest, Northeast, Florida and Georgia.
- . Total Gas and Electric ("TG&E" or the "natural gas and electric reseller segment") is an energy reseller that markets natural gas and electricity to residential homeowners in deregulated energy markets in the Northeast and Mid- Atlantic states of New York, New Jersey, Pennsylvania, Maryland and Florida and serves approximately 100,000 residential customers. TG&E is a 72.7% owned subsidiary of Star Gas Partners.

2) Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements for the period October 1, 1999 through April 6, 2000 include the accounts of Star Gas Partners, L.P., and subsidiaries, principally Petro and Star Gas Propane. Beginning April 7, 2000, the Consolidated Financial Statements also include the accounts and results of operations of TG&E and reflect the amounts related to the 27.3% minority interest holder.

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting solely of normal recurring adjustments) which are, in the opinion of management, necessary for the fair statement of financial condition and results for the interim periods. The results of operations for the three and six month periods ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year.

Inventories

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

	September 30, 2000 -----	March 31, 2001 -----
(in thousands)		
Propane gas	\$ 6,323	\$ 4,092
Propane appliances and equipment	2,313	3,664
Fuel oil	14,263	7,552
Fuel oil parts and equipment	7,374	8,090
Natural gas	4,134	2,603
	-----	-----
	\$34,407	\$26,001
	=====	=====

2) Summary of Significant Accounting Policies - (continued)

Accounting Changes

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

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

The Partnership periodically hedges a portion of its oil, propane and natural gas purchases through the use of futures, options, collars and swap agreements. The purpose of the hedges is to provide a measure of price stability in the volatile market of oil, propane and natural gas and to manage its exposure to commodity price risk under certain existing sales commitments. The Partnership also has derivative agreements that management has decided not to treat as hedge transactions for accounting purposes and as such, mark-to-market adjustments are recognized currently in earnings.

The Partnership adopted SFAS No. 133 on October 1, 2000, and records its derivatives at fair market value. As a result of adopting the Standard, the Partnership recognized current assets of \$12.0 million, a \$1.5 million increase in net income and a \$10.5 million increase in additional other comprehensive income which were recorded as cumulative effect of a change in accounting principle.

For the three and six month period ended March 31, 2001, the Partnership recorded a net decrease to other comprehensive income of \$3.7 million and \$10.4 million respectively, representing in part cash flow hedges reclassified into earnings totaling \$1.9 million and \$2.3 million for the three and six month period ended March 31, 2001, respectively. The estimated net amount of existing unrealized gains currently within other comprehensive income are expected to be reclassified into earnings within the next twelve months.

3) Long-term Debt

On October 25, 2000, the heating oil division completed a refinancing of \$40 million of indebtedness incurred under its bank acquisition facility through the issuance of senior notes. The senior notes bear an average interest rate of 8.96% per year, have an average life of five and three-quarter years and are guaranteed by Star Gas Partners. The first maturity date of the senior notes is November 1, 2004 with a final maturity date of November 1, 2010.

On March 29, 2001, the propane division issued \$29.5 million of senior notes to refinance \$25.0 million of indebtedness incurred under its bank acquisition facility. The balance of the proceeds, \$4.5 million, will be used to fund future acquisition activity and to refinance maturities of senior notes. The senior notes bear an average interest rate of 7.89% per year and have an average life of nine years. The senior notes require two equal prepayments of \$2.5 million on April 1, 2006 and April 1, 2007. The first maturity date of these notes is April 1, 2008 with a final maturity

date of April 1, 2011.

In March 2001, the natural gas and electric reseller segment replaced its existing revolving credit facility with a new revolving credit facility comprised of a \$15.4 million working capital facility and a \$3.0 million acquisition facility.

4) Segment Reporting

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

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

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

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

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

The following are the statements of operations and balance sheets for each segment as of and for the periods indicated. The electric and natural gas reselling segment was added beginning April 7, 2000. There were no inter-segment sales.

4) Segment Reporting - (continued)

(in thousands)	Three Months Ended									
	March 31, 2000 (unaudited)				March 31, 2001 (unaudited)					
	Heating Oil	Propane	Partners	Consol.	Heating Oil	Propane	TG&E	Partners	Consol.	
Statements of Operations										
Sales:										
Product	\$240,857	\$57,155	\$ -	\$298,012	\$306,962	\$87,246	\$45,515	\$ -	\$439,723	
Installation, service, and appliance	20,778	2,905	-	23,683	25,650	5,074	-	-	30,724	

Total sales	261,635	60,060	-	321,695	332,612	92,320	45,515	-	470,447
Cost and expenses:									
Cost of product	144,993	30,295	-	175,288	191,506	49,602	40,421	-	281,529
Cost of installation, service, and appliances	28,561	888	-	29,449	34,740	1,701	-	-	36,441
Delivery and branch	33,219	12,056	-	45,275	42,056	15,783	-	-	57,839
Depreciation and amortization	5,359	2,837	-	8,196	6,838	3,294	238	2	10,372
General and administrative	2,417	1,554	624	4,595	2,888	1,615	2,610	1,556	8,669
TG&E customer acquisition expense	-	-	-	-	-	-	718	-	718
Unit compensation expense	-	-	-	-	-	-	-	719	719
Net gain on sales of assets	11	27	-	38	5	26	-	-	31
Operating income (loss)	47,097	12,457	(624)	58,930	54,589	20,351	1,528	(2,277)	74,191
Interest expense (income), net	4,634	2,274	(8)	6,900	5,747	2,967	805	(516)	9,003
Amortization of debt issuance costs	83	45	-	128	98	53	-	-	151
Income (loss) before income taxes	42,380	10,138	(616)	51,902	48,744	17,331	723	(1,761)	65,037
Income tax expense	200	15	-	215	850	72	1	-	923
Net income (loss)	\$ 42,180	\$10,123	\$ (616)	\$ 51,687	\$ 47,894	\$17,259	\$ 722	\$ (1,761)	\$ 64,114
Capital expenditures	\$ 559	\$ 1,166	\$ -	\$ 1,725	\$ 2,021	\$ 914	\$ 12	\$ -	\$ 2,947

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4) Segment Reporting - (continued)

(in thousands)	Six Months Ended									
	March 31, 2000 (unaudited)				March 31, 2001 (unaudited)					
	Heating Oil	Propane	Partners	Consol.	Heating Oil	Propane	TG&E	Partners	Consol.	
Statements of Operations	-----									
Sales:	-----									
Product	\$364,742	\$ 93,810	\$ -	\$458,552	\$511,906	\$152,895	\$65,513	\$ -	\$730,314	
Installation, service, and Appliance	43,226	6,803	-	50,029	52,769	10,868	-	-	63,637	
Total sales	407,968	100,613	-	508,581	564,675	163,763	65,513	-	793,951	
Costs and expenses:	-----									
Cost of product	213,880	47,954	-	261,834	328,600	89,019	58,296	-	475,915	
Cost of installation, service, and appliances	58,073	2,261	-	60,334	69,682	3,675	-	-	73,357	
Delivery and branch	62,395	23,182	-	85,577	77,733	29,440	-	-	107,173	
Depreciation and amortization	10,665	5,935	-	16,600	13,111	6,427	477	4	20,019	
General and administrative	5,003	3,025	1,248	9,276	5,278	3,285	4,302	2,697	15,562	
TG&E customer acquisition expense	-	-	-	-	-	-	1,371	-	1,371	
Unit compensation expense	-	-	-	-	-	-	-	1,219	1,219	
Net gain (loss) on sales of assets	14	36	-	50	(8)	50	-	-	42	
Operating income (loss)	57,966	18,292	(1,248)	75,010	70,263	31,967	1,067	(3,920)	99,377	
Interest expense (income), net	8,910	4,473	(10)	13,373	10,911	5,693	1,331	(815)	17,120	
Amortization of debt issuance costs	167	90	-	257	192	104	-	-	296	
Income (loss) before income taxes	48,889	13,729	(1,238)	61,380	59,160	26,170	(264)	(3,105)	81,961	
Income tax expense	275	53	-	328	1,525	113	1	-	1,639	
Income (loss) before cumulative effect of adoption of accounting principle	48,614	13,676	(1,238)	61,052	57,635	26,057	(265)	(3,105)	80,322	
Cumulative effect of adoption of accounting principle	-	-	-	-	2,093	(229)	(398)	-	1,466	
Net income (loss)	\$ 48,614	\$ 13,676	\$ (1,238)	\$ 61,052	\$ 59,728	\$ 25,828	\$ (663)	\$ (3,105)	\$ 81,788	
Capital expenditures	\$ 1,012	\$ 2,282	\$ -	\$ 3,294	\$ 4,461	\$ 2,535	\$ 69	\$ -	\$ 7,065	

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4) Segment Reporting - (continued)

September 30, 2000

(in thousands)	Heating Oil	Propane	TG&E	Partners	(1) Consol.
Balance Sheets					
Assets					
Current assets:					
Cash and cash equivalents	\$ 6,288	\$ 2,765	\$ 222	\$ 1,635	\$ 10,910
Receivables, net	51,475	9,976	5,407	-	66,858
Inventories	21,637	8,636	4,134	-	34,407
Prepaid expenses and other current assets	12,502	1,017	2,157	-	14,815
Total current assets	91,902	22,394	11,920	1,635	126,990
Property and equipment, net	39,026	132,008	266	-	171,300
Long-term portion of accounts receivable	7,282	-	-	-	7,282
Investment in subsidiaries	-	69,309	-	143,036	-
Intangibles and other assets, net	236,069	63,003	14,174	158	313,404
Total assets	\$374,279	\$286,714	\$26,360	\$144,829	\$618,976

Liabilities and Partners' Capital	Heating Oil	Propane	TG&E	Partners	(1) Consol.
Current Liabilities:					
Accounts payable	\$ 11,887	\$ 7,436	\$ 8,551	\$ -	\$ 27,874
Working capital facility borrowings	17,000	800	6,600	-	24,400
Current maturities of long-term debt	7,669	8,846	-	-	16,515
Accrued expenses and other current liabilities	36,882	4,006	1,521	-	42,410
Due to affiliate	(1,115)	(3,674)	-	4,789	-
Unearned service contract revenue	15,654	-	-	-	15,654
Customer credit balances	26,101	9,805	2,037	-	37,943
Total current liabilities	114,078	27,219	18,709	4,789	164,796
Long-term debt	186,397	122,154	1,863	-	310,414
Other long-term liabilities	4,495	93	-	-	4,588
Partners' Capital:					
Equity Capital	69,309	137,248	5,788	140,040	139,178
Total liabilities and Partners' Capital	\$374,279	\$286,714	\$26,360	\$144,829	\$618,976

March 31, 2001
(unaudited)

(in thousands)	Heating Oil	Propane	TG&E	Partners	(1) Consol.
Balance Sheets					

Assets

Current assets:

Cash and cash equivalents	\$ 1,951	\$ 10,591	\$ 1,554	\$ 2,812	\$ 16,908
Receivables, net	146,865	26,739	26,238	-	199,842
Inventories	15,642	7,756	2,603	-	26,001
Prepaid expenses and other current assets	14,750	1,433	2,952	64	18,337

Total current assets 179,208 46,519 33,347 2,876 261,088

Property and equipment, net 43,127 158,741 294 - 202,162

Long-term portion of accounts receivable 7,266 - - - 7,266

Investment in subsidiaries - 133,896 - 257,725 -

Intangibles and other assets, net 248,562 71,400 13,737 224 333,923

Total assets \$478,163 \$410,556 \$47,378 \$260,825 \$804,439

Liabilities and

	Heating Oil	Propane	TG&E	Partners	(1) Consol.
Partners' Capital	-----	-----	-----	-----	-----

Current Liabilities:

Accounts payable \$ 17,581 \$ 5,055 \$14,434 \$ - \$ 37,070

Working capital facility borrowings 46,000 - 12,953 - 58,953

Current maturities of long-term debt 33,178 1,466 - - 34,644

Accrued expenses and other current liabilities 41,277 5,961 2,609 1,073 50,920

Due to affiliate (1,823) (222) 950 1,095 -

Unearned service contract revenue 16,254 - - - 16,254

Customer credit balances 5,964 2,170 1,055 - 9,189

Total current liabilities 158,431 14,430 32,001 2,168 207,030

Long-term debt 181,558 151,077 2,563 - 335,198

Other long-term liabilities 4,278 98 40 - 4,416

Partners' Capital:

Equity Capital 133,896 244,951 12,774 258,657 257,795

Total liabilities and

Partners' Capital \$478,163 \$410,556 \$47,378 \$260,825 \$804,439

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

5) Acquisitions

During the six-month period ending March 31, 2001, the Partnership acquired six unaffiliated retail heating oil dealers and four unaffiliated retail propane dealers. The aggregate consideration for these acquisitions accounted for by the purchase method of accounting was approximately \$70.2 million. 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 Condensed Consolidated Balance Sheets.

The following table indicates the allocation of the aggregate purchase price paid for these acquisitions and the respective periods of amortization assigned:

(in thousands)		Useful Lives -----
Land	\$ 2,032	-
Buildings	1,523	30 years
Furniture & fixtures	532	10 years
Fleet	5,900	5 - 30 years
Tanks and equipment	21,579	5 - 30 years
Customer lists	20,935	7 - 15 years
Restrictive covenants	2,860	5 years
Goodwill	8,224	25 years
Working capital	6,625	-

Total	\$70,210	
	=====	

Sales and net income have been included in the Condensed Consolidated Statements of Operations from the respective dates of acquisition. The following pro forma information presents the results of operations for the six months ending March 31, 2001 of the Partnership and the acquisitions previously described, as if the acquisitions had taken place on October 1, 2000.

(in thousands, except per share data)	
Sales	\$840,190
Net income	\$ 86,269
General Partner's interest in net income	\$ 1,315
Limited Partners' interest in net income	\$ 84,954
Basic net income per limited partner unit	\$ 4.04
Diluted net income per limited partner unit	\$ 4.02

6) Supplemental Disclosure of Cash Flow Information

(in thousands)	Six Months Ended March 31, -----	
	2000	2001
	----	----
Cash paid during the period for:		
Income taxes	\$ 3,544	\$ 577
Interest	\$17,217	\$15,460

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7) Earnings Per Limited Partner Units

(in thousands, except per unit data)	Three Months Ended March 31, -----		Six Months Ended March 31, -----	
	2000	2001	2000	2001
	-----	-----	-----	-----
Income before cumulative effect of change in accounting principle per Limited Partner unit				
Basic	\$ 2.80	\$ 2.86	\$ 3.40	\$ 3.76
Diluted	\$ 2.80	\$ 2.85	\$ 3.40	\$ 3.74
Cumulative effect of change in accounting principle per Limited Partner unit				
Basic	\$ -	\$ -	\$ -	\$ 0.07
Diluted	\$ -	\$ -	\$ -	\$ 0.07
Net income per Limited Partner unit				
Basic	\$ 2.80	\$ 2.86	\$ 3.40	\$ 3.83
Diluted	\$ 2.80	\$ 2.85	\$ 3.40	\$ 3.81
Basic Earnings Per Unit: -----				

Net income	\$51,687	\$64,114	\$61,052	\$81,788
Less: General Partner's interest in net income	915	964	1,105	1,247
	-----	-----	-----	-----
Limited Partners' interest in net income	\$50,772	\$63,150	\$59,947	\$80,541
	=====	=====	=====	=====
Common Units	15,285	19,021	14,829	18,020
Senior Subordinated Units	2,477	2,697	2,477	2,657
Junior Subordinated Units	345	345	345	345
	-----	-----	-----	-----
Weighted average number of Limited Partner units outstanding	18,107	22,063	17,651	21,022
	=====	=====	=====	=====
Basic earnings per unit	\$ 2.80	\$ 2.86	\$ 3.40	\$ 3.83
	=====	=====	=====	=====
Diluted Earnings Per Unit:				

Limited Partners' interest in net income	\$50,772	\$63,150	\$59,947	\$80,541
Weighted average number of Limited Partner units outstanding	18,107	22,063	17,651	21,022
Senior subordinated units anticipated to be issued under employee incentive plan	-	113	-	113
	-----	-----	-----	-----
Diluted number of Limited Partner units	18,107	22,176	17,651	21,135
	=====	=====	=====	=====
Diluted earnings per unit	\$ 2.80	\$ 2.85	\$ 3.40	\$ 3.81
	=====	=====	=====	=====

8) Subsequent Events

Cash Distributions - On April 20, 2001, the Partnership announced that it would pay a cash distribution of \$0.575 per unit on all units for the three months ended March 31, 2001. The distribution will be paid on May 15, 2001, to unitholders of record on May 4, 2001.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES

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

Statement Regarding Forward-Looking Disclosure

This Report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act which represent the Partnership's expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect of weather conditions on the Partnership's financial performance, the price and supply of home heating oil, propane, electricity and natural gas 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 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 Total Gas and Electric (TG&E) acquisition was made on April 7, 2000. Accordingly, the results of operations for the three and six month periods ended March 31, 2001 include TG&E's results whereas the results for the previous corresponding quarter and six month period do not include TG&E's results.

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

Also, the heating oil, propane and natural gas industries are seasonal in nature with peak activity occurring during the winter months. Accordingly, results of operations for the periods presented are not indicative of the results to be expected for a full year.

The Partnership adopted SFAS No. 133 on October 1, 2000 and records its derivatives at fair market value. As a result of adopting the Standard, the Partnership's net income for the three and six month periods ended March 31, 2001 was \$0.7 million more and \$0.4 million less respectively, than what they would have been had the Standard not been adopted. The effect of the Standard will have no impact in how the Partnership will evaluate its ability to make the minimum quarterly distribution.

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THREE MONTHS ENDED MARCH 31, 2001
COMPARED TO THREE MONTHS ENDED MARCH 31, 2000

Volume

For the three months ended March 31, 2001, retail volume of home heating oil and propane increased 50.6 million gallons, or 24.2%, to 259.4 million gallons, as compared to 208.8 million gallons for the three months ended March 31, 2000. This increase was due to an additional 39.8 million gallons provided by the heating oil segment and a 10.8 million gallon increase in the propane segment. Volume increased in the heating oil and propane segments largely due to the impact of colder temperatures and additional volume provided by acquisitions. Temperatures in the Partnership's areas of operations were an average of 9.9% colder than in the prior year's comparable quarter and approximately 3% warmer than normal.

Sales

For the three months ended March 31, 2001, sales increased \$148.8 million, or 46.2%, to \$470.4 million, as compared to \$321.7 million for the three months ended March 31, 2000. This increase was due to an additional \$71.0 million provided by the home heating oil segment, \$45.5 million of TG&E sales and a \$32.3 million increase in the propane segment. Sales rose in both the heating oil and propane segments largely due to increased retail volume and to a lesser extent from increased selling prices. Selling prices increased versus the prior year's comparable period in response to higher supply costs. Sales also increased in the heating oil division by \$4.9 million and by \$2.2 million in the propane division due to an increased focus on the sales of rationally related products including heating equipment installation and service and water softeners.

Cost of Product

For the three months ended March 31, 2001, cost of product increased \$106.2 million, or 60.6%, to \$281.5 million, as compared to \$175.3 million for the three months ended March 31, 2000. This increase was due to an additional \$46.5 million of cost of product at the home heating segment, \$40.4 million of TG&E cost of product and a \$19.3 million increase in the propane segment. The cost

of product for both the heating oil and propane segments increased due to the impact of higher retail volume sales and as a result of higher supply cost. While selling prices and supply cost increased on a per gallon basis the increase in selling prices was greater than the increase in supply costs, which resulted in an increase in per gallon margins.

Cost of Installation, Service and Appliances

For the three months ended March 31, 2001, cost of installation, service and appliances increased \$7.0 million, or 23.7%, to \$36.4 million, as compared to \$29.4 million for the three months ended March 31, 2000. This increase was due to an additional \$6.2 million of expenses for the heating oil segment and a \$0.8 million increase in cost for the propane segment. The cost of installation, service and appliances for both the heating oil and propane segments increased due to the additional sales of rationally related products and as a result of additional service cost due to the colder temperatures.

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Delivery and Branch Expenses

For the three months ended March 31, 2001, delivery and branch expenses increased \$12.6 million, or 27.8%, to \$57.8 million, as compared to \$45.3 million for the three months ended March 31, 2000. This increase was due to an additional \$8.8 million of delivery and branch expenses at the heating oil segment and a \$3.7 million increase in delivery and branch expenses for the propane segment. Delivery and branch expenses increased both at the heating oil and propane segments due to additional operating cost associated with higher retail volume sales, inflation and for additional operating cost of acquired companies.

Depreciation and Amortization Expenses

For the three months ended March 31, 2001, depreciation and amortization expenses increased \$2.2 million, or 26.5%, to \$10.4 million, as compared to \$8.2 million for the three months ended March 31, 2000. This increase was primarily due to \$0.2 million of depreciation and amortization expense for TG&E and additional depreciation and amortization for heating oil and propane acquisitions.

General and Administrative Expenses

For the three months ended March 31, 2001, general and administrative expenses increased \$4.1 million, or 88.7%, to \$8.7 million, as compared to \$4.6 million for the three months ended March 31, 2000. The increase was due to \$2.6 million of TG&E general and administrative expenses, a \$0.5 million increase in the heating oil segment largely due to increased incentive compensation and wage inflation and a \$0.9 million increase in general and administrative expenses at the Partnership level. The Partnership level increase was primarily due to an accrual for compensation earned for unit appreciation rights previously granted.

TG&E Customer Acquisition Expense

For the three months ended March 31, 2001, TG&E customer acquisition expense was \$0.7 million. This TG&E segment expense is for the cost of acquiring new accounts through the services of a third party direct marketing company.

Unit Compensation Expense

For the three months ended March 31, 2001, unit compensation expense was \$0.7 million. This expense was incurred under the Partnership's Unit Incentive Plan whereby certain employees were granted senior subordinated units as an incentive for increased efforts during employment and as an inducement to remain in the service of the Partnership.

Interest Expense, net

For the three months ended March 31, 2001, net interest expense increased \$2.1

million, or 30.5%, to \$9.0 million, as compared to \$6.9 million for the three months ended March 31, 2000. This increase was due to additional interest expense for higher working capital borrowings necessitated by the higher cost of product as well as for additional interest expense for the financing of propane and heating oil acquisitions.

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Income Tax Expense (Benefit)

For the three months ended March 31, 2001, income tax expense increased \$0.7 million to \$0.9 million, as compared to \$0.2 million for the three months ended March 31, 2000. This increase was due to additional state income taxes for higher pretax earnings achieved for the three months ended March 31, 2001.

Net Income

For the three months ended March 31, 2001, net income increased \$12.4 million, or 24.0%, to \$64.1 million, as compared to \$51.7 million for the three months ended March 31, 2000. The increase was due to an additional \$5.7 million of net income at the heating oil segment, \$0.7 million of TG&E net income and a \$7.1 million increase in net income at the propane segment. The improvement in the net income for these segments was largely due to colder weather, acquisitions and a per gallon improvement in gross profit margins. Partially offsetting these increases in net income were \$1.1 million more of net loss at the Partnership level, largely the result of the increase in unit compensation expense recorded at the Partnership level.

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

For the three months ended March 31, 2001, earnings before interest, taxes, depreciation and amortization, TG&E customer acquisition expense and unit compensation expense, less net gain (loss) on sales of assets (EBITDA) increased \$18.9 million, or 28.1% to \$86.0 million as compared to \$67.1 million, for the three months ended March 31, 2000. This increase was due to \$9.0 million of additional EBITDA generated by the heating oil segment, \$2.5 million of TG&E EBITDA, a \$8.4 million increase in the propane segment EBITDA partially offset by \$0.9 million of additional expenses at the Partnership level. The increase in the heating oil and propane segments was due to additional EBITDA provided by the impact of colder temperatures, acquisitions and by higher per gallon gross profit margins. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. The definition of "EBITDA" set forth above may be different from that used by other companies. The extent to which TG&E customer acquisition expense is not deducted in arriving at "EBITDA" is currently being reviewed by the Partnership.

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SIX MONTHS ENDED MARCH 31, 2001
COMPARED TO SIX MONTHS ENDED MARCH 31, 2000

Volume

For the six months ended March 31, 2001, retail volume of home heating oil and propane increased 89.4 million gallons, or 25.9%, to 434.3 million gallons, as compared to 344.9 million gallons for the six months ended March 31, 2000. This increase was due to an additional 66.6 million gallons provided by the heating oil segment and a 22.8 million gallon increase in the propane segment. Volume increased in the heating oil and propane segments largely due to the impact of colder temperatures and as a result of additional volume provided by acquisitions. Temperatures in the Partnership's areas of operations were an average of 16.1% colder than in the prior year's comparable period and approximately 3% colder than normal.

Sales

For the six months ended March 31, 2001, sales increased \$285.4 million, or 56.1%, to \$794.0 million, as compared to \$508.6 million for the six months ended March 31, 2000. This increase was attributable to \$156.7 million provided by the home heating oil segment, \$65.5 million of TG&E sales and a \$63.2 million increase in the propane segment. Sales rose in both the heating oil and propane segments due to increased retail volume and to a lesser extent from increased selling prices. Selling prices increased versus the prior year's comparable period in response to higher supply costs. Sales also increased in the heating oil division by \$9.5 million and by \$4.1 million in the propane division due to increases in the sales of rationally related products including heating equipment installation and service and water softeners.

Cost of Product

For the six months ended March 31, 2001, cost of product increased \$214.1 million, or 81.8%, to \$475.9 million, as compared to \$261.8 million for the six months ended March 31, 2000. This increase was due to \$114.7 million of additional cost of product at the home heating segment, \$58.3 million of TG&E cost of product and a \$41.1 million increase in the propane segment. The cost of product for both the heating oil and propane segments increased due to the impact of higher retail volumes sales and as a result of higher supply cost. While both selling prices and supply cost increased on a per gallon basis, the increase in selling prices was equal to the increase in supply costs, which resulted in six months ended March 31, 2001 having approximately the same per gallon margins as were achieved in six months ended March 31, 2000.

Cost of Installation, Service and Appliances

For the six months ended March 31, 2001, cost of installation, service and appliances increased \$13.0 million, or 21.6%, to \$73.4 million, as compared to \$60.3 million for the six months ended March 31, 2000. This increase was primarily due to \$11.6 million of expenses for the heating oil segment and a \$1.4 million increase in cost for the propane segment. The cost of installation, service and appliances for both the heating oil and propane segments increased due to the additional sales of rationally related products and as a result of additional service cost due to the colder temperatures.

Delivery and Branch Expenses

For the six months ended March 31, 2001, delivery and branch expenses increased \$21.6 million, or 25.2%, to \$107.2 million, as compared to \$85.6 million for the six months ended March 31, 2000. This increase was due to an additional \$15.3 million of delivery and branch expenses at the heating oil segment and a \$6.3 million increase in delivery and branch expenses for the propane segment. Delivery and branch expenses increased both at the heating oil and propane segments due to additional operating cost associated with higher retail volume sales, inflation and for additional operating cost of acquired companies.

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Depreciation and Amortization

For the six months ended March 31, 2001, depreciation and amortization expenses increased \$3.4 million, or 20.6%, to \$20.0 million, as compared to \$16.6 million for the six months ended March 31, 2000. This increase was primarily due to \$0.5 million of depreciation and amortization expenses for TG&E and additional depreciation and amortization for heating oil and propane acquisitions.

General and Administrative Expenses

For the six months ended March 31, 2001, general and administrative expenses increased \$6.3 million, or 67.8%, to \$15.6 million, as compared to \$9.3 million for the six months ended March 31, 2000. This increase was primarily due to \$4.3 million of TG&E general and administrative expenses and a \$1.5 million increase in general and administrative expenses at the Partnership level. The Partnership level increase was primarily due to an accrual for compensation earned for unit appreciation rights previously granted and for professional fees

incurred for the recruitment of certain executive positions.

TG&E Customer Acquisition Expense

For the six months ended March 31, 2001, TG&E customer acquisition expense was \$1.4 million. This TG&E segment expense is for the cost of acquiring new accounts through the services of a third party direct marketing company.

Unit Compensation Expense

For the six months ended March 31, 2001, unit compensation expense was \$1.2 million. This expense was incurred under the Partnership's Unit Incentive Plan whereby certain employees and outside directors were granted senior subordinated units as an incentive for increased efforts during employment and as an inducement to remain in the service of the Partnership.

Interest Expense, net

For the six months ended March 31, 2001, net interest expense increased \$3.7 million, or 28.0%, to \$17.1 million, as compared to \$13.4 million for the six months ended March 31, 2000. This increase was due to additional interest expense for higher working capital borrowings necessitated by the higher cost of product as well as for additional interest expense for the financing of propane and heating oil acquisitions.

Income Tax Expense

For the six months ended March 31, 2001, income tax expense increased \$1.3 million to \$1.6 million, as compared to \$0.3 million for the six months ended March 31, 2000. This increase was due to additional state income taxes for higher pretax earnings achieved for the six months ended March 31, 2001.

Cumulative Effect of Adoption of Accounting Principle

For the six months ended March 31, 2001, the Partnership recorded a \$1.5 million increase in net income arising from the adoption of SFAS No. 133.

Net Income

For the six months ended March 31, 2001, net income increased \$20.7 million, or 34.0%, to \$81.8 million, as compared to \$61.1 million for the six months ended March 31, 2000. The increase was due to an additional \$11.1 million of net income at the heating oil segment and a \$12.2 million increase in net income at the propane segment. The improvement in the net income for these segments was largely due to colder weather and as a result of acquisitions. Partially offsetting these increases in net income were \$0.7 million of net loss for TG&E and \$1.9 million of additional net loss at the Partnership level, largely the result of the increase in unit compensation expense recorded at the Partnership level.

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

For the six months ended March 31, 2001, earnings before interest, taxes, depreciation and amortization, TG&E customer acquisition expense and unit compensation expense, less net gain (loss) on sales of assets (EBITDA) increased \$30.4 million, or 33.2%, to \$121.9 million as compared to \$91.6 million, for the six months ended March 31, 2000. This increase was due to \$14.8 million of additional EBITDA generated by the heating oil segment, \$2.9 million of TG&E EBITDA, a \$14.2 million increase in the propane segment EBITDA partially offset by \$1.5 million of additional expenses at the Partnership level. The increase in the heating oil and propane segments was largely due to additional EBITDA provided by the impact of colder temperatures and acquisitions. EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or

ability to service debt obligations), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distribution. The definition of "EBITDA" set forth above may be different from that used by other companies. The extent to which TG&E customer acquisition expense is not deducted in arriving at "EBITDA" is currently being reviewed by the Partnership.

Liquidity and Capital Resources

During the six months ended March 31, 2001, the Partnership sold 3.7 million common units (including 0.5 million of over-allotment units exercised), the net proceeds of which, net of underwriter's discount, commission, and offering expenses was \$59.3 million. These funds combined with net cash provided by \$66.3 million in net working capital and acquisition facility borrowings, \$69.6 million of long-term debt borrowings (\$40.0 million of senior secured notes issued by the heating oil segment, \$29.5 million of senior notes issued by the propane segment and \$0.1 million of acquisition related notes) and \$0.2 million in proceeds from the sale of fixed assets amounted to \$195.4 million. Such funds were used for operating activities of \$28.3 million, acquisitions of \$70.2 million, distributions of \$24.0 million, debt and acquisition facility repayment of \$58.4 million, capital expenditures of \$7.1 million and other financing activities of \$1.4 million. As a result of the above activity, cash increased by \$6.0 million to \$16.9 million.

The \$40.0 million of senior secured notes mentioned above were issued to three institutional lenders by the heating oil segment to complete a refinancing of \$40.0 million of indebtedness incurred under its bank acquisition facility. The senior notes bear interest at the rate of 8.96% per year and have an average life of five and three-quarter years with a final maturity date of November 1, 2010.

The \$29.5 million of senior notes mentioned above were issued to several institutional lenders by the propane segment to complete a refinancing of \$25.0 million of indebtedness incurred under its bank acquisition facility. The balance of the proceeds, \$4.5 million, will be used to fund future acquisition activity and to refinance maturities of senior notes. The senior notes bear interest at the rate of 7.89% per year and have an average life of nine years with a final maturity date of April 1, 2011.

For the remainder of fiscal 2001, the Partnership anticipates paying interest of approximately \$15 million and anticipates growth and maintenance capital additions of approximately \$7 million. In addition, the Partnership plans to pay distributions on its units in accordance with the partnership agreement. The Partnership also plans to pursue strategic acquisitions as part of its business strategy and to prudently fund such acquisitions through a combination of debt and equity. Based on its current cash position, bank credit availability and net cash from operating activities, the Partnership expects to be able to meet all of its obligations for fiscal 2001.

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Item. 3. 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 March 31, 2001, the Partnership had outstanding borrowings of approximately \$80.0 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 approximately \$0.8 million annually.

The Partnership also selectively uses derivative financial instruments to manage its exposure to market risk related to changes in the current and future market price of home heating oil, propane and natural gas. The Partnership does not hold derivatives for trading purposes. The value of market sensitive derivative instruments is subject to change as a result of movements in market prices. Consistent with the nature of hedging activity, associated unrealized gains and

losses would be offset by corresponding decreases or increases in the purchase price the Partnership would pay for the product 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 product at March 31, 2001, the potential gain on the Partnership's hedging activity would be to increase the fair market value of these outstanding derivatives by \$2.5 million to a fair market value \$4.8 million; and conversely a hypothetical ten percent decrease in the cost of product would decrease the fair market value of these outstanding derivatives by \$2.5 million to a fair market value of (\$0.2) million.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits Included Within:

10.23 Note Purchase Agreement for \$7,500,000 - 7.62% First Mortgage Notes, Series A, due April 1, 2008 and \$22,000,000 - 7.95% First Mortgage Notes, Series B, due April 1, 2011.

10.24 Credit Agreement, dated as of March 30, 2001, by Total Gas & Electric, Inc. and Chase Manhattan Bank, as agent.

27.0 Financial Data Schedule

(b) Reports on Form 8-K:

1/22/01 - This Form 8-K consists of the following two historical press releases; Star Gas Partners, L.P. Reports Fiscal 2000 Year-End and Fourth Quarter Results and Completion of Seven Acquisitions (Released December 14, 2000), Star Gas Partners, L.P. Reports Record Q1 FY '01 Earnings Announces Significant Increase in Senior Subordinated Unit Distribution and Declares Regular Common Unit Distribution (Released January 18, 2001).

1/26/01 - This Form 8-K consists of a copy of the underwriting agreement for a firm commitment public offering of up to 1,900,000 common units of the registrant that were previously registered pursuant to a shelf registration statement on Form S-3 (SEC File No. 333-94031).

SIGNATURE

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

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

Signature Title Date

/s/ George Leibowitz Chief Financial Officer May 10, 2001
George Leibowitz (Principal Financial Officer)

/s/ James J. Bottiglieri Vice President

James J. Bottiglieri Star Gas LLC

May 10, 2001

Star Gas Propane, L.P.

Star/Petro, Inc.

\$7,500,000 7.62% First Mortgage Notes, Series A,
Due April 1, 2008

and

\$22,000,000 7.95% First Mortgage Notes, Series B,
Due April 1, 2011

Note Agreement

Dated as of March 15, 2001

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Star Gas Propane, L.P.
 Star/Petro, Inc.
 2187 Atlantic Street
 Stamford, CT 06902

\$7,500,000 7.62% First Mortgage Notes, Series A, due April 1, 2008
 and
 \$22,000,000 7.95% First Mortgage Notes, Series B, due April 1, 2011

Dated as of March 15, 2001

To Each of the Purchasers Listed
 in the Attached Schedule A

Ladies and Gentlemen:

Star Gas Propane, L.P., a Delaware limited partnership ("Star Gas"), and Star/Petro, Inc., a Minnesota corporation ("Star/Petro"; Star Gas together with Star/Petro are each hereinafter referred to as an "Obligor" and collectively as the "Obligors"), hereby jointly and severally agree with the purchasers named on Schedule A to this Agreement (the "Purchasers") as follows:

Section 1. Authorization of Notes.

The Obligors will authorize the issue and sale of (a) \$7,500,000 aggregate principal amount of their 7.62% First Mortgage Notes, Series A, due April 1, 2008 (the "Series A Notes") and (b) \$22,000,000 aggregate principal amount of their 7.95% First Mortgage Notes, Series B, due April 1, 2011 (the "Series B Notes"; said Series B Notes together with the Series A Notes are hereinafter referred to collectively as the "Notes," such term to include any Notes issued in substitution therefor or replacement thereof pursuant to Section 14). The

Series A Notes and the Series B Notes shall be substantially in the forms of Exhibits A1 and A2, respectively, with such changes therefrom, if any, as may be approved by the Purchasers and the Obligors. Certain capitalized terms used in this Agreement are defined in Section 13; references to a "Section" or a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Section of this Agreement or to a Schedule or an Exhibit attached to this Agreement.

Section 2. Sale and Purchase of Notes.

Subject to the terms and conditions of this Agreement, the Obligors will issue and sell to the Purchasers and the Purchasers will purchase from the Obligors, at the Closing provided for in Section 3, Notes in the principal amount and of the series specified opposite such Purchaser's name for purchase by such Purchaser at the Closing in Schedule A, at the purchase price of 100% of the principal amount thereof.

Section 3. Closing.

The sale of the Notes to the Purchasers shall take place at the offices of Phillips Nizer Benjamin Krim & Ballon LLP, 666 Fifth Avenue, New York, New York 10103-0084, at 10:00 a.m., New York, New York time, at a closing (the "Closing") on March 29, 2001, or such later date as may be agreed upon by the Obligors and the Purchasers. At the Closing, the Obligors will deliver to each Purchaser Notes of the series to be purchased by such Purchaser in the principal amount to be purchased by such Purchaser, in the form of a single Note of such series (or such greater number of Notes of such series as such Purchaser may request), each dated the date of the Closing and registered in such Purchaser's name (or in the name of such Purchaser's nominee as indicated in Schedule A), against payment of the purchase price therefor by transfer of immediately available funds to the Obligors, or as otherwise directed by the Obligors in writing, on the date of the Closing. If at the Closing the Obligors shall fail to tender such Notes to any such Purchaser as provided above in this Section 3 or if any of the conditions specified in Section 4 shall not have been fulfilled to any such Purchaser's satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any other rights such Purchaser may have by reason of such failure or such nonfulfillment.

Section 4. Conditions to Closing.

Each Purchaser's obligation to purchase and pay for the Notes to be sold to it at the Closing is subject to the fulfillment to such Purchaser's satisfaction, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of each of the Obligors and its Affiliates contained in this Agreement, the other Operative Agreements, and those otherwise made in writing by or on behalf of either Obligor or any of its Affiliates in connection with the transactions contemplated by this Agreement, shall be true and correct when made and at the time of the Closing, except as affected by the consummation of such transactions.

Section 4.2. Performance; No Default. Each of the Obligors and its Affiliates shall have performed and complied with all agreements and conditions contained in this Agreement or any other Operative Agreement required to be performed or complied with by it prior to or at the Closing, and at the time of the Closing no Event of Default or Potential Event of Default under this Agreement or default by any party under any other Operative Agreement shall have occurred and be continuing.

Section 4.3. Compliance Certificates. Each of the Obligors shall have delivered to such Purchaser an Officers' Certificate, dated the date of the Closing and satisfactory in substance and form to such Purchaser, certifying that the conditions specified in Sections 4.1 and 4.2 have been fulfilled and certifying that no material adverse change has occurred in the financial condition of the Business subsequent to the date of the most recent audited financial statements delivered pursuant to Section 5.4(b).

Section 4.4. Opinions of Counsel. Such Purchaser shall have received favorable opinions from (a) Phillips Nizer Benjamin Krim & Ballon LLP, counsel for the Obligors and their Affiliates, substantially in the form of Exhibit B1, and (b) Chapman and Cutler, special counsel to the Purchasers in connection with

the transactions contemplated by this Agreement, substantially in the form of Exhibit B2, and in each case covering such other matters incident to such transactions as such Purchaser may reasonably request, each addressed to such Purchaser, dated the date of the Closing and otherwise reasonably satisfactory in substance and form to such Purchaser. The Obligors hereby direct their counsel referred to in clause (a) of this Section 4.4 to deliver to such Purchaser such opinions and letters to be delivered by it and authorizes such Purchaser to rely thereon.

Section 4.5. Legal Investment. On the date of the Closing, such Purchaser's purchase of Notes shall be permitted by the laws and regulations of each jurisdiction to which such Purchaser's investments are subject, but without recourse to provisions (such as section 1404(b) or 1405(a)(8) of the New York Insurance Law) permitting, limited investments by insurance companies in securities not otherwise legally eligible for investment. If requested by such Purchaser by prior written request to the Obligors, such Purchaser shall have received, at least five Business Days prior to the Closing, an Officers' Certificate of each Obligor certifying as to such matters of fact as such Purchaser may reasonably specify to enable it to determine whether such purchase is so permitted.

Section 4.6. Trust Agreement. Each of the Obligors, the General Partner and the Trustee shall have duly authorized, executed and delivered the Trust Agreement. The Trust Agreement shall be in full force and effect and shall constitute the valid and binding obligation of each of the Obligors, the General Partner and the Trustee and no default on the part of either of the Obligors or the General Partner shall exist thereunder.

Section 4.7. Security Documents. (a) The General Partner, Star Gas and the Restricted Subsidiaries shall have duly authorized, executed and delivered the Mortgages relating to the Mortgaged Property located in Connecticut, Florida, Georgia, Indiana, Kentucky, Maine, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, Pennsylvania, Rhode Island and Wisconsin. Each such Mortgage shall be in full force and effect and shall (i) constitute the valid and binding obligation of the General Partner, Star Gas and the Restricted Subsidiaries, (ii) constitute a valid first mortgage lien of record on the real property and all other interests described therein which may be subjected to a mortgage lien, subject only to Permitted Encumbrances, and (iii) constitute a valid assignment of, and create a valid, presently effective security interest of record in, equipment and all other interests (other than real property interests) described therein, subject to no prior security interest in any such property other than as specifically permitted therein, and no default on the part of the General Partner, Star Gas or any Restricted Subsidiary shall exist thereunder.

(b) Each of the Security Documents shall have been duly authorized, executed and delivered by each of the Obligors and/or their Affiliates party thereto, shall be in full force and effect and shall (i) constitute the valid and binding obligation of each such party and (ii) constitute a valid assignment of, and create a valid, presently effective security interest of

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record in, property covered by such Security Document and all other interests described therein, subject to no prior security interest in any such personal property other than as specifically permitted therein, and no default on the part of any such party shall exist thereunder.

Section 4.8. [Intentionally Omitted]

Section 4.9. Operative Agreements. Each of the Operative Agreements shall have been duly authorized, executed and delivered by the respective parties thereto, in form and substance satisfactory to such Purchaser, shall be in full force and effect, and shall constitute the legal, valid and binding obligations of the respective parties thereto, and all actions required to be performed or taken thereunder on or prior to the date of the Closing shall have been duly taken and no default or accrued right of termination on the part of any of the parties thereto shall exist thereunder as of the date of the Closing, and such Purchaser shall have received a fully executed original, or a true and correct copy, of each such document.

Section 4.10. Other Conditions Satisfied . The conditions specified in Section 10.2(i) of the 1995 Note Agreements, Section 10.2(i) of the 1998 Note Agreement, Section 10.2(i) of the 2000 Note Agreement and Section 6.02(h) of the

Bank Credit Facilities have been fulfilled and such Purchaser shall have received such evidence as it may reasonably request (including copies of the certificates and opinions required by such Sections) demonstrating fulfillment of such conditions.

Section 4.11. Proceeding and Documents. All proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Purchaser and such Purchaser's special counsel, and such Purchaser and such Purchaser's special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or its special counsel may reasonably request.

Section 4.12. Insurance Broker's Certificate. Insurance complying with the provisions of Section 15 of the Mortgages shall be in full force and effect and such Purchaser shall have received a certificate from Weeks & Calloway or such other independent insurance brokers or consultants as shall be reasonably satisfactory to such Purchaser, dated the date of the Closing.

Section 4.13. Payment of Closing Fees. The Obligors shall have paid the fees and disbursements required by Section 16 to be paid by the Obligors on the date of the Closing.

Section 4.14. Private Placement Numbers. The Obligors shall have obtained for each series of the Notes a Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners).

Section 5. Representations and Warranties, Etc. of the Obligors.

Each of the Obligors and the General Partner represents and warrants that:

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Section 5.1. Organization, Standing, Etc. Star Gas is a limited partnership duly organized, validly existing and in good standing under the Delaware Revised Uniform Limited Partnership Act and has all requisite partnership power and authority to own and operate its properties (including, without limitation, the Assets), to conduct the business it conducts and proposes to conduct, to enter into this Agreement and the other Operative Agreements to which it is a party, to issue and sell the Notes and to carry out the terms of this Agreement, such other Operative Agreements and the Notes. Star/Petro is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and has all requisite corporate power and authority to own and operate its properties, to conduct the business it conducts and proposes to conduct, to enter into this Agreement and the other Operative Agreements to which it is a party, to issue and sell the Notes and to carry out the terms of this Agreement, such other Operative Agreements and the Notes. The General Partner is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite limited liability company power and authority to own and operate its properties, to conduct the business it conducts and proposes to conduct, to enter into and carry out the terms of this Agreement and the other Operative Agreements to which it is a party, and to execute and deliver as the general partner of Star Gas this Agreement and the other Operative Agreements to which Star Gas is a party and the Notes.

Section 5.2. Partnership Interests. The only general partner of Star Gas is the General Partner, which owns a 0.8488% general partner interest in Star Gas. The only limited partner of Star Gas is the Public Partnership which owns a 99.1512% limited partner interest in Star Gas. Star Gas does not have any other partner. Except as disclosed in Schedule 5.2, Star Gas does not have any Subsidiaries or any Investments in any Person (other than Investments of the types described in Section 10.3(a)).

Section 5.3. Qualification. Star Gas is duly qualified or registered and is in good standing as a foreign limited partnership for the transaction of business, and the General Partner is duly qualified or registered and is in good standing as a foreign limited liability company for the transaction of business, in Connecticut, Florida, Georgia, Illinois, Indiana, Kentucky, Maine, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, West Virginia and Wisconsin which are the only jurisdictions in which the nature of their respective activities or the character of the properties they own, lease or use makes such qualification or

registration necessary and in which the failure so to qualify or to be so registered would have a Material Adverse Effect. Star/Petro is qualified or registered and in good standing as a foreign corporation for the transaction of business in New York, which is the only jurisdiction in which the nature of its activities or the character of the properties it owns, leases or uses makes such qualification or registration necessary and in which the failure to be so qualified or registered would have a Material Adverse Effect. Each of the Obligors and the General Partner has taken all necessary partnership corporate or limited liability company action to authorize the execution, delivery and performance by it of this Agreement, the Notes and each other Operative Agreement to which it is a party. Each of the Obligors and the General Partner has duly executed and delivered each of this Agreement, the Notes and the other Operative Agreements to which it is a party, and each of them constitutes its legal, valid and binding obligation enforceable in accordance with its terms.

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Section 5.4. Business; Financial Statements. (a) The Obligors have delivered to each Purchaser complete and correct copies of (i) a memorandum dated February 2001, prepared by Banc of America Securities LLC and A.G. Edwards & Sons, Inc. for use in connection with the Obligors' private placement of the Notes, (ii) the Public Partnership's SEC Form 10-K for the fiscal year ended September 30, 2000 and (iii) the Public Partnership's SEC Form 10-Q for the fiscal quarter ended December 31, 2000 (the "Offering Materials"). The financial statements and schedules included in the Offering Materials (other than with respect to pro forma matters) have been prepared in accordance with GAAP applied on a consistent basis throughout the periods specified and present fairly the financial position of the corporation or partnership to which they relate as of the respective dates specified and the results of their operations and cash flows for the respective periods specified.

(b) The Obligors have delivered to each Purchaser copies of the financial statements of each of the Obligors and its Subsidiaries listed on Schedule 5.4(b). All of said financial statements (including the related schedules and notes) fairly present in all material respects the financial position of the Obligor and its Subsidiaries to which they relate as of the respective dates specified in such Schedule and the results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved, except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments).

Section 5.5. Changes, Etc. Except as contemplated by this Agreement, the other Operative Agreements or the Offering Materials, subsequent to the date as of which information is given in the Offering Materials, (a) neither of the Obligors nor their Affiliates have incurred any material liabilities or obligations, direct or contingent, or entered into any material transaction not in the ordinary course of business except for material liabilities or obligations and material transactions permitted by the 2000 Note Agreement, the 1998 Note Agreement, the 1995 Note Agreements and the Bank Credit Facilities, (b) no events have occurred, which individually or in the aggregate, could have a Material Adverse Effect, and (c) there has not been (i) any Restricted Payment of any kind declared, paid or made by either of the Obligors, the General Partner or the Public Partnership other than Restricted Payments that were permitted under the 2000 Note Agreement, the 1998 Note Agreement, the 1995 Note Agreement and the Bank Credit Facilities or (ii) any Indebtedness incurred under the Bank Credit Facilities except for Indebtedness incurred under the Bank Credit Facilities that was and is permitted by the 2000 Note Agreement, the 1998 Note Agreement, the 1995 Note Agreements and the Bank Credit Facilities.

Section 5.6. Tax Returns and Payments. Each of the Obligors and its Affiliates has filed all tax returns required by law to be filed by it and has paid all taxes, assessments and other governmental charges levied upon it or any of its properties, assets, income or franchises which are due and payable, other than those which are not past due or are presently being contested in good faith by appropriate proceedings diligently conducted for which such reserves or other appropriate provisions, if any, as shall be required by GAAP have been made. Star Gas is a limited partnership not subject to taxation with respect to its income or gross receipts under applicable Federal laws.

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Section 5.7. Indebtedness. Other than the Indebtedness represented by the

Notes and the Indebtedness listed in Schedule 5.7, neither of the Obligors nor the General Partner has any secured or unsecured Indebtedness outstanding. No instrument or agreement to which either of the Obligors or, other than Section 6.6(g) of the MLP Agreement, the General Partner is a party or by which either of the Obligors or the General Partner is bound or which is applicable to either of the Obligors or the General Partner (other than this Agreement, the 1995 Note Agreements, the 1998 Note Agreement, the 2000 Note Agreement and the Bank Credit Facilities) contains any restrictions on the incurrence by either of the Obligors or the General Partner of additional Indebtedness.

Section 5.8. Transfer of Assets and Business. (a) Each of the Obligors is in possession of and operating in compliance in all respects with all franchises, grants, authorizations, approvals, licenses, permits, easements, rights-of-way, consents, certificates and orders required to own, lease or use its properties and to permit the conduct of the Business as now conducted and proposed to be conducted, except for those franchises, grants, authorizations, approvals, licenses, permits, easements, rights-of-way, consents, certificates and orders (collectively, "Permitted Exceptions") (i) which are not required at this time and are routine or administrative in nature and are expected in the reasonable judgment of Star/Petro or the General Partner, as the case may be, to be obtained or given in the ordinary course of business after the date of the Closing, or (ii) which, if not obtained or given, would not, individually or in the aggregate, have a Material Adverse Effect.

(b) Each of the Obligors has (i) good and marketable title to the portion of the Assets constituting real property owned in fee simple by such Obligor, (ii) good and valid leasehold interests in the portion of the Assets constituting real property and leased by such Obligor and (iii) good and sufficient title to the portion of the Assets constituting personal property for the use and operation of such personal property as it has been used in the past and as it is proposed to be used in the Business, in each case subject to no Liens except Permitted Encumbrances. The Assets are all of the assets and properties necessary to enable the Obligors to conduct the Business and include all options to purchase or rights of first refusal granted to or for the General Partner with respect to any of the Assets leased by the General Partner. Each of the Obligors enjoys peaceful and undisturbed possession under all leases necessary for the operation of its properties and assets, and all such leases are valid and subsisting and are in full force and effect. Except to perfect and to protect security interests of the character described by Section 10.2, (A) at the time of the Closing, no effective financing statement under the Uniform Commercial Code which names either of the Obligors or the General Partner (with respect to any of the Assets) as debtor, which individually or in the aggregate relates to any part of the Assets, will be on file in any jurisdiction and (B) at the time of the Closing, neither of the Obligors nor the General Partner (with respect to the Assets) will have signed any effective financing statement (other than financing statements in favor of the Trustee) or any effective security agreement, which relates to any part of the Assets, authorizing any secured party thereunder to file any such financing statement, except for financing statements to be executed and filed in connection with the Closing.

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Section 5.9. Litigation, Etc. There is no action, proceeding or investigation pending or, to the best knowledge of either of the Obligors or the General Partner upon reasonable inquiry, threatened (or any basis therefor known to either of the Obligors or the General Partner) which questions the validity of this Agreement, any other Operative Agreement or the Notes or any action taken or to be taken pursuant to this Agreement, any other Operative Agreement or the Notes, or which might have, either in any case or in the aggregate, a Material Adverse Effect.

Section 5.10. Compliance with Other Instruments, Etc. Neither of the Obligors nor the General Partner (a) is in violation of, in the case of Star Gas, any term of the Partnership Agreement or, in the case of Star/Petro, its certificate of incorporation or by-laws, or, in the case of the General Partner, its limited liability company agreement, or (b) is in violation of any term of any other agreement or instrument to which such Obligor or the General Partner is a party or by which any of them or any of their properties is bound or any term of any applicable law, ordinance, rule or regulation of any governmental authority or any term of any applicable order, judgment or decree of any court, arbitrator or governmental authority, the consequences of which, in the case of clause (b), would have a Material Adverse Effect; the execution, delivery and performance by each of the Obligors and the General Partner of this Agreement and the other Operative Agreements to which it is a party and the Notes will not

result in any violation of or be in conflict with or constitute a default under any such term or result in the creation of (or impose any obligation on either of the Obligors or the General Partner to create) any Lien upon any of the properties or assets of either of the Obligors or the General Partner prohibited by any such term; and there is no such term the compliance with which would have, or in the future may in the reasonable judgment of either of the Obligors or the General Partner be likely to have, a Material Adverse Effect.

Section 5.11. Governmental Consent. No consent, approval or authorization of, or declaration or filing with, any governmental authority is required for the valid execution, delivery and performance of this Agreement or the other Operative Agreements (other than Permitted Exceptions), and no such consent, approval, authorization, declaration or filing is required for the valid offer, issue, sale and delivery of the Notes pursuant to this Agreement.

Section 5.12. Offer of Notes. Neither of the Obligors nor any of their Affiliates nor anyone acting on any of their behalf has directly or indirectly offered the Notes or any part thereof or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, anyone other than the Purchasers and not more than 46 other institutional investors. Neither of the Obligors nor the General Partner nor anyone acting on any of their behalf has taken or will take any action which would subject the issuance and sale of the Notes to the registration and prospectus delivery provisions of the Securities Act of 1933, as amended, or to the registration or qualification provisions of any securities or Blue Sky law of any applicable jurisdiction or require registration of any Security Document under the Trust Indenture Act of 1939, as amended.

Section 5.13. Use of Proceeds. The proceeds of the sale of the Notes will be used to refinance Indebtedness incurred under the Initial Acquisition Facility and for the improvement or repair of the Assets.

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Section 5.14. Federal Reserve Regulations. Neither of the Obligors nor the General Partner will, directly or indirectly, use any of the proceeds of the sale of the Notes for the purpose, whether immediate, incidental or ultimate, of buying a "margin stock" or of maintaining, reducing or retiring any indebtedness originally incurred to purchase a stock that is currently a "margin stock," or for any other purpose which might constitute this transaction a "purpose credit," in each case within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 C.F.R. 221, as amended), or otherwise take or permit to be taken any action which would involve a violation of such Regulation U or of Regulation X (12 C.F.R. 224, as amended) or any other applicable regulation of such Board. No indebtedness being reduced or retired, directly or indirectly, out of the proceeds of the sale of the Notes was incurred for the purpose of purchasing or carrying any stock which is currently a "margin stock," and none of the Obligors, the General Partner or the Public Partnership owns or has any present intention of acquiring any amount of such "margin stock."

Section 5.15. Investment Company Act. Neither of the Obligors nor the General Partner is an "investment company," or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

Section 5.16. Public Utility Holding Company Act; Federal Power Act. Neither of the Obligors nor the General Partner is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended; none of the Obligors, the General Partner or the issue and sale of the Notes is subject to regulation under such Act; and neither of the Obligors nor the General Partner is a "public utility" as such term is defined in the Federal Power Act, as amended.

Section 5.17. ERISA. (a) None of the Obligors, the General Partner or any Related Person (other than Petro or any of its Non-Related Subsidiaries) has ever established, maintained, contributed to or been obligated to contribute to, and neither of the Obligors nor any Related Person of either of the Obligors has any liability or obligation with respect to, any Plan. Neither of the Obligors nor any Related Person of either of the Obligors has assumed, either by agreement (including the Partnership Agreement and the other Operative Agreements), by operation of law or otherwise, any liability or obligation with

respect to any "employee benefit plan" (as defined in ERISA) or any other compensation or benefit arrangement, agreement, policy, practice or understanding and neither of the Obligor nor any Related Person of either of the Obligor has any liability or obligation to provide any amount or type of compensation or benefit in respect of any employee or former employee of the Business which relates to periods, services performed or benefits or amounts accrued prior to the transfer of the Business or the Assets pursuant to the Operative Agreements and the transactions contemplated thereby. None of the Obligor, the General Partner nor any Related Person has incurred any material liability under Title IV of ERISA with respect to any such Plan and no event or condition exists or has occurred as a result of which such a liability would reasonably be expected to be incurred. None of the Obligor, the General Partner nor any Related Person has engaged in any transaction, including the transactions contemplated hereunder which could subject either of the Obligor or any Related Person of either of the Obligor to liability pursuant to section 4069(a) or 4212(c) of

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ERISA. There has been no reportable event (within the meaning of section 4043(b) of ERISA) or any other event or condition with respect to any Plan which presents a risk of the termination of, or the appointment of a trustee to administer, any such Plan by the PBGC. No prohibited transaction (within the meaning of section 406(a) of ERISA or section 4975 of the Code) exists or has occurred with respect to any Plan which has subjected or could reasonably be expected to subject either of the Obligor or the General Partner to a material liability under section 502(i) of ERISA or section 4975 of the Code. No liability to the PBGC (other than liability for premiums not yet due) has been or is expected to be incurred with regard to any Plan by either of the Obligor, the General Partner nor any Related Person. Neither of the Obligor, the General Partner nor any Related Person contributes or is obligated to contribute or has ever contributed or been obligated to contribute to any single employer plan that has at least two contributing sponsors not under common control. Neither of the Obligor is, nor are either of them expected to become, a "substantial employer" as defined in section 4001(a)(2) of ERISA with respect to any Plan. Neither of the Obligor nor the General Partner has ever maintained or contributed to any plan or arrangement which provides post-employment welfare benefits or coverage (other than continuation coverage provided pursuant to section 4980B of the Code).

(b) The execution and delivery of this Agreement and the issue and sale of the Notes will not involve any non-exempt "prohibited transaction" within the meaning of section 406 of ERISA or section 4975 of the Code. The representations by each of the Obligor and the General Partner in the immediately preceding sentence are made in reliance upon and subject to the accuracy of each Purchaser's representation in Section 6.2 of this Agreement as to the source of the funds to be used to pay the purchase price of the Notes to be purchased by such Purchaser. With respect to each employee benefit plan identified to the Obligor in accordance with clause (c) of Section 6.2 of this Agreement, neither of the Obligor nor the General Partner nor any "affiliate" (as defined in Section V(c) of the QPAM Exemption) of either of the Obligor or the General Partner has at this time, and has not exercised at any time within the one year period preceding the date of the Closing, the authority to appoint or terminate any Purchaser as manager of any of the assets of any such plan or to negotiate the terms of any management agreement with such Purchaser on behalf of any such plan.

Section 5.18. Environmental Matters. (a) Except as disclosed in Schedule 5.18, each of the Obligor and the General Partner is in compliance with all Environmental Laws applicable to it or to the Business or Assets except where such noncompliance would not have a Material Adverse Effect. Each of the Obligor has timely and properly applied for renewal of all environmental permits or licenses that have expired or are about to expire and are necessary for the conduct of the Business as now conducted and as proposed to be conducted, except where the failure to timely and properly reapply would not have a Material Adverse Effect. Schedule 5.18 lists (i) all notices from Federal, state or local environmental agencies to either of the Obligor or to the General Partner citing environmental violations that have not been finally resolved and disposed of, and no such violation, whether or not notice regarding such violation is listed on Schedule 5.18, if ultimately resolved against either of the Obligor or the General Partner, as the case may be, would have a Material Adverse Effect, and (ii) all current reports filed by either of the Obligor or the General Partner with any Federal, state or local environmental agency having jurisdiction over the Assets, true and complete copies of which

reports have been made available

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to the Purchasers and their special counsel and environmental advisor, if any. Notwithstanding any such notice, the Obligors and the General Partner are currently operating in all material respects within the limits set forth in such environmental permits or licenses and any current noncompliance with such permits or licenses will not result in any material liability or penalty to either of the Obligors or the General Partner or in the revocation, loss or termination of any such environmental permits or licenses, the revocation, loss or termination of which would have a Material Adverse Effect.

(b) Except as disclosed in Schedule 5.18, all facilities located on the real property included in the Assets which are subject to regulation by RCRA are and have been operated in compliance with RCRA, except where such noncompliance would not have a Material Adverse Effect and neither of the Obligors nor the General Partner has received, or, to the knowledge of either of the Obligors or the General Partner, been threatened with, a notice of violation of RCRA regarding such facilities.

(c) Except as disclosed in Schedule 5.18, no hazardous substance (as defined in CERCLA) or hazardous waste (as defined in RCRA) is located or present at any of the real property included in the Assets in violation of any Environmental Law, which violation will have a Material Adverse Effect, and with respect to such real property there has not occurred (i) any release or threatened release of any such hazardous substance, (ii) any discharge or threatened discharge of any substance into ground, surface, or navigable waters which violates any Federal, state, local or foreign laws, rules or regulations concerning water pollution, or (iii) any assertion of any Lien pursuant to Environmental Laws resulting from any use, spill, discharge or clean-up of any hazardous or toxic substance or waste, which occurrence will have a Material Adverse Effect.

(d) None of the matters disclosed in Schedule 5.18, either individually or in the aggregate, involves a violation of or a liability under any Environmental Law the consequences of which will have a Material Adverse Effect.

Section 5.19. Foreign Assets Control Regulations, Etc. The issue and sale of the Notes by the Obligors and their use of the proceeds thereof as contemplated by this Agreement will not violate any of the regulations (other than those regulations, if any, that are implicated solely as a result of the actions of the Purchasers) administered by the Office of Foreign Assets Control, the United States Department of the Treasury.

Section 5.20. Disclosure. Neither this Agreement, the other Operative Agreements, the Offering Materials, nor any other historical financial statement, document, certificate or instrument delivered to any Purchaser by or on behalf of either Obligor, any Restricted Subsidiary or the General Partner in connection with the transactions contemplated by this Agreement, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading. There is no fact known to either of the Obligors or the General Partner which has or in the future would (so far as either of the Obligors or the General Partner can now foresee) have a Material Adverse Effect which has not been set forth or referred to in this Agreement or the Offering Materials.

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Section 5.21. Chief Executive Office. The chief executive office of each of the Obligors and the General Partner and the office where each maintains its records relating to the transactions contemplated by the Operative Agreements is located at 2187 Atlantic Street, Stamford, CT 06902.

Section 5.22. Parity Lenders. The Notes constitute "Parity Debt" under the Trust Agreement and, upon agreeing in writing to be bound by the terms and provisions of the Trust Agreement, the Purchasers shall be entitled to all the benefits of "Parity Lenders" under the Trust Agreement.

Section 5.23. Filing and Recordation. On the date of Closing, all UCC financing statements have been duly filed in all public offices wherein such filing is necessary to perfect the Lien created by the Trust Agreement. The Trust Agreement creates a valid security interest in the collateral described

therein, which, on the date of Closing, constitutes a first priority perfected security interest therein.

Section 6. Purchaser's Representations; Source of Funds.

Section 6.1. Purchase for Investment. Each Purchaser represents that it is purchasing the Notes for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds, in each case not with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act of 1933, as amended, or with any present intention of distributing or selling any of the Notes, provided that the disposition of such Purchaser's property shall at all times be within its control. If a Purchaser is purchasing for the account of one or more pension or trust funds (other than pension or trust funds included in the general account of an insurance company), such Purchaser represents that (except to the extent that such Purchaser has otherwise advised Chapman and Cutler and the Obligors in writing) it has sole investment discretion with respect to the purchase of the Notes to be purchased by such Purchaser pursuant to this Agreement and the determination and decision on such Purchaser's behalf to purchase such Notes for such pension or trust funds is being made by the same individual or group of individuals who customarily pass on such investments.

Section 6.2. Source of Funds. Each Purchaser represents that at least one of the following statements is an accurate representation as to the source of funds to be used by such Purchaser to pay the purchase price of the Notes purchased by such Purchaser hereunder:

(a) if such Purchaser is an insurance company, no part of such funds constitutes assets allocated to any separate account maintained by such Purchaser in which an employee benefit plan (or its related trust) has any interest other than a separate account that is maintained solely in connection with its fixed contractual obligations under which the amounts payable, or credited, to such plan and to any participant or beneficiary of such plan (including any annuitant) are not affected in any manner by the investment performance of the separate account; or

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(b) if such Purchaser is an insurance company, to the extent that any of such funds constitutes assets allocated to any separate account maintained by such Purchaser, (i) such separate account is a "pooled separate account" within the meaning of Prohibited Transaction Class Exemption 90-1, in which case such Purchaser has disclosed to the Obligors the names of each employee benefit plan whose assets in such separate account exceed 10% of the total assets or are expected to exceed 10% of the total assets of such account as of the date of such purchase (and for the purposes of this subdivision (b), all employee benefit plans maintained by the same employer or employee organization are deemed to be a single plan), or (ii) such separate account contains only the assets of a specific employee benefit plan, complete and accurate information as to the identity of which such Purchaser has delivered to the Obligors in writing; or

(c) if such Purchaser is a "qualified professional asset manager" or "QPAM" (as defined in Part V of Prohibited Transaction Class Exemption 84-14, issued March 13, 1984 (the "QPAM Exemption")), all of such funds constitute assets of an "investment fund" (as defined in Part V of the QPAM Exemption) managed by such Purchaser, no employee benefit plan assets which are included in such investment fund, when combined with the assets of all other employee benefit plans (i) established or maintained by the same employer or an affiliate of such employer or by the same employee organization and (ii) managed by such Purchaser, exceed 20% of the total client assets managed by such Purchaser, the conditions of Section I(g) of the QPAM Exemption are satisfied and such Purchaser has disclosed to the Obligors the names of all employee benefit plans whose assets are included in such investment fund; or

(d) if such Purchaser is other than an insurance company, all or a portion of such funds consists of funds which do not constitute assets of any employee benefit plan (other than a governmental plan exempt from the coverage of ERISA) and the remaining portion, if any, of such funds consists of funds which may be deemed to constitute assets of one or more specific employee benefit plans, complete and accurate information as to the identity of each of which such Purchaser has delivered to the Obligors in writing; or

(e) if such Purchaser is an insurance company, to the extent that any of such funds constitutes assets of such Purchaser's general account, such Purchaser has disclosed to the Obligors the names of each employee benefit plan with respect to which the amount of the reserves and liabilities for such Purchaser's general account contracts held by or on behalf of such plan (within the meaning of Prohibited Transaction Class Exemption 95-60) exceed or are expected to exceed on the date of such purchase 10% of the total reserves and liabilities of such Purchaser's general account (and for the purposes of this subdivision (e), all employee benefit plans maintained by the same employer or employee organization are deemed to be a single plan).

As used in this Section 6.2, the terms "employee benefit plan," "governmental plan" and "separate account" shall have the respective meanings assigned to such terms in section 3 of ERISA.

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Section 7. Accounting; Financial Statements and Other Information.

Each Obligor will maintain, and each Obligor will cause each Restricted Subsidiary to maintain, a system of accounting established and administered in accordance with GAAP, and will accrue, and will cause each Restricted Subsidiary to accrue, all such liabilities as shall be required by GAAP. The Obligors will deliver to each Purchaser (in duplicate, unless such Purchaser has advised the Obligors otherwise), so long as such Purchaser shall be entitled to purchase Notes under this Agreement or such Purchaser or such Purchaser's nominee shall be the holder of any Notes, and to each other institutional investor holding any Notes :

(a) (i) as soon as practicable, but in any event within 60 days after the end of each of the first three quarterly fiscal periods in each fiscal year of Star Gas, consolidated (and (a) if the Restricted Subsidiaries constitute a Substantial Portion, then as to the Restricted Subsidiaries or (b) if the Restricted Subsidiaries do not constitute a Substantial Portion, but one or more Restricted Subsidiaries have outstanding Indebtedness owing to Persons other than Star Gas or any Restricted Subsidiary, or other than Star/Petro Intercompany Subordinated Debt, then as to such Restricted Subsidiaries, consolidating) balance sheets of Star Gas and the Restricted Subsidiaries as at the end of such period and the related consolidated (and, as to statements of operations and cash flows, if applicable and as appropriate, consolidating) statements of operations, partners' capital and cash flows of Star Gas and the Restricted Subsidiaries (A) for such period and (B) (in the case of the second and third quarterly periods) for the period from the beginning of the current fiscal year to the end of such quarterly period, setting forth in each case in comparative form the consolidated and, where applicable and as appropriate, consolidating figures for the corresponding periods of the previous fiscal year, all in reasonable detail and certified by the principal financial officer of the general partner of Star Gas as presenting fairly, in all material respects, the information contained therein (subject to changes resulting from normal year-end adjustments), in accordance with GAAP applied on a basis consistent with prior fiscal periods, (ii) as soon as practicable, but in any event within 60 days after the end of each of the first three quarterly fiscal periods in each fiscal year of Star Gas, financial statements of the type described in clause (i) but adjusted to show Petro Holdings as an investment of, and not consolidated with, Star Gas, provided that delivery within the time period specified above of copies of the Public Partnership's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements hereof, but only to the extent such reports otherwise satisfy the requirements of clause (i) and clause (ii) of this Section 7(a) (for purposes of this Section 7, "Substantial Portion" shall mean that either (x) the book value of the assets of the Restricted Subsidiaries exceed 5% of the book value of the consolidated assets of Star Gas and the Restricted Subsidiaries, or (y) the Restricted Subsidiaries account of more than 5% of the Consolidated Net Income of Star Gas and the Restricted Subsidiaries, in each case in respect of the four fiscal quarters ended as of the date of the applicable financial statement, provided that, with respect to Star/Petro, (I) the book value of the common stock of Petro Holdings shall be excluded from the determination of Substantial

Portion in clause (x) above and (II) the income of Petro Holdings shall be excluded from the determination of Substantial Portion in clause (y) above);

(b) (i) as soon as practicable, but in any event within 120 days after the end of each fiscal year of Star Gas, consolidated (and (a) if the Restricted Subsidiaries constitute a Substantial Portion, then as to the Restricted Subsidiaries or (b) if the Restricted Subsidiaries do not constitute a Substantial Portion, but one or more Restricted Subsidiaries have outstanding Indebtedness owing to Persons other than Star Gas or any Restricted Subsidiary, or other than Star/Petro Intercompany Subordinated Debt, then as to such Restricted Subsidiaries, consolidating) balance sheets of Star Gas and the Restricted Subsidiaries and the consolidated balance sheet of the general partner of Star Gas as at the end of such year and the related consolidated (and, as to statements of operations and cash flows, if applicable and as appropriate, consolidating) statements of operations, partners' capital and cash flows of Star Gas and the Restricted Subsidiaries, and the consolidated statements of income, surplus, cash flow and members' equity of the general partner of Star Gas for such fiscal year, setting forth in each case in comparative form the consolidated and, where applicable and as appropriate, consolidating figures for the previous fiscal year, all in reasonable detail, and (ii) as soon as practicable, but in any event within 120 days after the end of each fiscal year of Star Gas, financial statements of the type described in clause (i) but adjusted to show Petro Holdings as an investment of, and not consolidated with Star Gas, provided that delivery within the time periods specified above of copies of the Public Partnership's Annual Report on Form 10-K prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements hereof, but only to the extent such reports otherwise satisfy the requirements of clause (i) and clause (ii) of this Section 7(b) and (x) in the case of such consolidated financial statements of Star Gas specified in clause (i) and with respect to the financial statements specified in clause (ii), accompanied by a report thereon of KPMG Peat Marwick LLP or other independent public accountants of recognized national standing selected by Star Gas and acceptable to the Required Holders, which report shall state that such consolidated financial statements present fairly the financial position of Star Gas and the Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with GAAP applied on a basis consistent with prior years and that the audit by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards in effect in the United States from time to time (except that with respect to the financial statements specified in clause (ii), Petro Holdings and its Subsidiaries have not been consolidated), and (y) in the case of such consolidated financial statements of the general partner of Star Gas, such consolidating financial statements of Star Gas as described in clause (i), and the financial statements specified in clause (ii), certified by the principal financial officer of the general partner of Star Gas, as presenting fairly the information contained therein, in accordance with GAAP applied on a basis consistent with prior fiscal periods;

(c) together with each delivery of financial statements pursuant to subdivisions (a) and (b) of this Section 7, an Officers' Certificate of each Obligor

(i) stating that the signers have reviewed the terms of this Agreement and the other Operative Agreements and the Notes, and have made, or caused to be made under their supervision, a review in reasonable detail of the transactions and condition of the Obligors and the Restricted Subsidiaries during the accounting period covered by such financial statements and that the signers do not have knowledge of the existence and continuance as at the date of such Officers' Certificate of any condition or event which constitutes an Event of Default or Potential Event of Default, or, if any such condition or event exists, specifying the nature and period of existence thereof and what action the Obligors have taken or are taking or propose to take with respect thereto, (ii) specifying the amount available at the end of such accounting period for Restricted Payments in compliance

with Section 10.4 and showing in reasonable detail all calculations required in arriving at such amount, (iii) demonstrating in reasonable detail, if applicable, compliance during and at the end of such accounting period with the restrictions contained in Sections 10.1(b), (d), (e), (f), (h) and (i), 10.3(b), 10.7(a)(ii), 10.7(a)(iii) and 10.7(c)(iii), (iv) if not specified in the related financial statements being delivered pursuant to subdivisions (a) and (b) above, specifying the aggregate amount of interest paid or accrued by the Obligors and the Restricted Subsidiaries, and the aggregate amount of depreciation, depletion and amortization charged on the books of the Obligors and the Restricted Subsidiaries, during the fiscal period covered by such financial statements and describing in reasonable detail the number and nature of the parcels of real property, or rights thereto or interests therein, caused to be released by the Obligors from the Liens of the Security Documents pursuant to the Trust Agreement and in the case of the fee owned property, the value of the fee owned property caused to be released by the Obligors during such accounting period;

(d) together with each delivery of consolidated financial statements pursuant to subdivision (b) of this Section 7, a written statement by the independent public accountants giving the report thereon (i) stating that in connection with their audit examination, the terms of this Agreement, the other Operative Agreements and the Notes were reviewed to the extent considered necessary for the purpose of expressing an opinion on the consolidated financial statements and for making the statement contained in clause (ii) hereof (it being understood that no special audit procedures in addition to those required by generally accepted auditing standards then in effect in the United States shall be required) and (ii) stating whether, in the course of their audit examination, they obtained knowledge (and whether, as of the date of such written statement, they have knowledge) of the existence and continuance of any condition or event which constitutes an Event of Default or Potential Event of Default, and, if so, specifying the nature and period of existence thereof;

(e) promptly upon receipt thereof, copies of all reports submitted to Star Gas by independent public accountants in connection with each special audit or each annual or interim audit of the books of Star Gas or any Restricted Subsidiary made by such accountants, including, without limitation, the comment letter submitted by the accountants to management in connection with their annual audit;

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(f) promptly upon their becoming publicly available, copies of all financial statements, reports, notices and proxy statements sent or made available by either Obligor, the general partner of Star Gas or the Public Partnership to all of its security holders in compliance with the Securities Exchange Act of 1934, as amended from time to time, or any comparable Federal or state laws relating to the disclosure by any Person of information to its security holders, of all regular and periodic reports and all registration statements and prospectuses filed by either Obligor, the general partner of Star Gas or the Public Partnership with any securities exchange or with the Securities and Exchange Commission or any governmental authority succeeding to any of its functions (other than Registration Statements on Form S-8), and of all press releases and other statements made available by either Obligor, the general partner of Star Gas or the Public Partnership to the public concerning material developments in the business of either Obligor, the general partner of Star Gas or the Public Partnership, as the case may be;

(g) promptly, but in any event within five days, after any Responsible Officer knows or should (in the course of the normal performance of his or her duties) know that (i) any condition or event which constitutes an Event of Default or Potential Event of Default has occurred or exists, or is expected to occur or exist, (ii) the holder of any Note has given any notice or taken any other action with respect to a claimed Event of Default or Potential Event of Default under this Agreement or default under any other Operative Agreement or (iii) any Person has given any notice to either Obligor or any Restricted Subsidiary or taken any other action with respect to a claimed default or event or condition of the type referred to in Section 11(f), an Officers' Certificate of each Obligor describing the same and the period of existence thereof and what action the Obligors have taken, are taking and propose to take with respect thereto;

(h) promptly, but in any event within five days, after any Responsible Officer knows or should (in the course of the normal performance of his or her duties) know of the commencement of or significant development in any material litigation or material proceeding (including those regarding environmental matters) with respect to either Obligor or affecting either Obligor, any Restricted Subsidiary or any of their assets, a written notice describing in reasonable detail such commencement of or significant development in such litigation or proceeding;

(i) promptly, but in any event within five days after any Responsible Officer knows or should (in the course of the normal performance of his or her duties) know that any of the events or conditions specified below with respect to any Plan has occurred or exists, or is expected to occur or exist, a statement setting forth details respecting such event or condition and the action, if any, that the Obligors or any Related Person has taken, is taking and proposes to take or cause to be taken with respect thereto (and a copy of any notice or report filed with or given to or communication received from the PBGC, the Internal Revenue Service or the Department of Labor with respect to such event or condition):

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(i) any reportable event, as defined in section 4043(b) of ERISA and the regulations issued thereunder;

(ii) the filing under section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan;

(iii) a substantial cessation of operations within the meaning of section 4062(e) of ERISA under circumstances which could result in the treatment of either Obligor or any Related Person as a substantial employer under a "multiple employer plan" or the application of the provisions of section 4062, 4063 or 4064 of ERISA to either Obligor or any Related Person;

(iv) the taking of any steps by the PBGC or the institution by the PBGC of proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by either Obligor or any Related Person of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan;

(v) the complete or partial withdrawal by either Obligor or any Related Person under section 4063, 4203 or 4205 of ERISA from a Plan which is a "multiple employer plan" or a Multiemployer Plan, or the receipt by either Obligor or any Related Person of notice from a Multiemployer Plan regarding any alleged withdrawal or that it intends to impose withdrawal liability on either Obligor or any Related Person or that it is in reorganization or is insolvent within the meaning of section 4241 or 4245 of ERISA or that it intends to terminate under section 4041A of ERISA or from a "multiple employer plan" that it intends to terminate;

(vi) the taking of any steps concerning the threat or the institution of a proceeding against either Obligor or any Related Person to enforce section 515 of ERISA;

(vii) the occurrence or existence of any event or series of events which could result in a liability to either Obligor or any Related Person pursuant to section 4069(a) or 4212(c) of ERISA;

(viii) the failure to make a contribution to any Plan, which failure, either alone or when taken together with any other such failure, is sufficient to result in the imposition of a Lien on any property of either Obligor or any Related Person pursuant to section 302(f) of ERISA or section 412(n) of the Code or could result in the imposition of a material tax or material penalty pursuant to section 4971 of the Code on either Obligor or any Related Person;

(ix) the amendment of any Plan in a manner which would be treated as a termination of such Plan under section 4041(e) of ERISA

or require either

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Obligor or any Related Person to provide security to such Plan pursuant to section 307 of ERISA or section 401(a)(29) of the Code; or

(x) the incurrence of liability in connection with the occurrence of a "prohibited transaction" (within the meaning of section 406 of ERISA or section 4975 of the Code);

(j) promptly, but in any event within five days, after an officer of either of the Obligors, any Subsidiary or the general partner of Star Gas receives any notice or request from any Person (other than any Affiliate or any agent, attorney or similar party employed by either Obligor or the general partner of Star Gas) for information, or if either Obligor, any Subsidiary or the general partner of Star Gas provides any notice or information to any such Person (other than any Affiliate or any agent, attorney or similar party employed by either Obligor or the general partner of Star Gas) concerning the presence or release of any hazardous substance (as defined in CERCLA) or hazardous waste (as defined in RCRA) or other contaminants (as defined by any applicable Federal, state, local or foreign laws) within, on, from, relating to or affecting any property owned, leased, or subleased by either Obligor, any Subsidiary or the general partner of Star Gas, copies of each such notice, request or information; and

(k) with reasonable promptness, such other financial reports and information and data with respect to either Obligor, any Restricted Subsidiary, any Subsidiary (to the extent such reports, information and data relate to environmental matters or any material litigation or proceeding) or the general partner of Star Gas as from time to time may be requested by the holder of any Note.

Section 8. Inspection.

Each Obligor will permit or, in the case of Star Gas, cause the general partner of Star Gas to permit any authorized representatives designated by a Purchaser, so long as such Purchaser shall be entitled to purchase the Notes under this Agreement or such Purchaser or such Purchaser's nominee shall be the holder of any Notes, or by any other institutional holder of any Notes, to visit and inspect any of the properties of either Obligor, any Restricted Subsidiary and any other Subsidiary (to the extent relating to environmental or litigation matters) and any properties of the general partner of Star Gas or of such general partner's Subsidiaries relating to the Business, including the books of account of the Obligors, the Restricted Subsidiaries, such other Subsidiaries, the general partner of Star Gas and such general partner's Subsidiaries, and to make copies and take extracts therefrom, and to discuss its and their affairs, finances and accounts with its and their officers and (with reasonable notice) independent public accountants (and by this provision each of the Obligors and the general partner of Star Gas authorizes such accountants to discuss with such representatives the affairs, finances and accounts of such Obligor, any Restricted Subsidiary, such other Subsidiaries, the general partner of Star Gas or any of such general partner's Subsidiaries, as the case may be), all at such times and as often as may be requested, provided that the Obligors will bear the expense for the foregoing if an Event of Default or Potential Event of Default has occurred and is continuing.

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Section 9. Prepayment of Notes.

Section 9.1. Required Prepayments of the Notes. (a) On April 1, 2006 and on April 1, 2007, the Obligors will prepay \$2,500,000 aggregate principal amount of the Series A Notes (or such lesser principal amount of the Series A Notes as shall at the time be outstanding), at the principal amount of the Series A Notes so prepaid, without premium, together with interest accrued thereon. No acquisition of the Series A Notes by either Obligor or any of their Affiliates shall relieve the Obligors from their obligation to make the required prepayments provided for in this Section 9.1(a).

(b) The Series B Notes shall not be subject to a required prepayment prior to the final maturity thereof.

(c) Any partial prepayment of the Notes pursuant to Section 9.2, 9.3 or 9.4 shall be applied pro rata to the Series A Notes and the Series B Notes then outstanding to reduce (i) in the case of the Series A Notes, the prepayments required under Section 9.1(a) pro rata and (ii) in the case of the Series B Notes, the outstanding principal amount of the Series B Notes; provided that, in the case of the Series A Notes, any amounts prepaid pursuant to Section 9.3 on April 1, 2006 or April 1, 2007, may be applied first to satisfy the prepayment required on such date under Section 9.1(a).

(d) On the maturity date of each series of Notes, the Obligors will pay the then outstanding principal amount of such series of Notes together with interest accrued thereon.

Section 9.2. Optional Prepayments of the Notes with Make Whole Amount. The Notes shall be subject to prepayment, in whole at any time or from time to time in part (in an amount of not less than \$1,000,000), at the option of the Obligors, upon notice as provided in Section 9.5 at 100% of the principal amount of the Notes so prepaid plus interest thereon to the prepayment date and the Make Whole Amount.

Section 9.3. Contingent Prepayments on Disposition of Property. If at any time either Obligor or any of the Restricted Subsidiaries disposes of property or such property shall be damaged, destroyed or taken in eminent domain or there shall be title insurance proceeds with respect to such property, in any such case, with the result that there are Excess Proceeds, and the Obligors do not apply such Excess Proceeds in the manner described in Section 10.7(c)(iii)(B)(x), the Obligors shall prepay, upon notice as provided in Section 9.5 (which notice shall be given not later than 180 days after the date of such sale of property), a principal amount of the outstanding Notes equal to the amount of such Excess Proceeds allocable to the Notes, determined by allocating such Excess Proceeds pro rata among the holders of the Notes, the 2000 Notes, the 1998 Notes, the 1995 Notes and Parity Debt, if any, outstanding on the date such prepayment is to be made together with the make-whole amounts, if any, due with respect thereto, according to the aggregate then unpaid principal amounts of the Notes (and the Make Whole Amount, if any, on the principal amount of the Notes to be prepaid), the 2000 Notes, the 1998 Notes, the 1995 Notes and Parity Debt (and any applicable make-whole amounts due with respect thereto), respectively; provided, that if such Excess Proceeds are received

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within 180 days of a scheduled prepayment of the Series A Notes pursuant to Section 9.1(a), the Excess Proceeds allocable to the Series A Notes may first be applied to such scheduled prepayment. If the Obligors shall have elected to apply any portion of the Excess Proceeds in accordance with the proviso to the immediately preceding sentence, the Obligors shall notify the holders of the Series A Notes of such application within 5 days thereof. Each prepayment of Notes pursuant to this Section 9.3 shall be made at 100% of the principal amount of the Notes to be prepaid, plus interest thereon to the prepayment date plus, to the extent the prepayment is not made in satisfaction of a required prepayment in accordance with Section 9.1(a), the Make Whole Amount thereon.

Section 9.4. Prepayment on Taking or Destruction. In the event that damage, destruction or a taking shall occur in respect of all or a portion of the properties subject to any of the Security Documents, or there shall be proceeds under title insurance policies with respect to any real property, all Net Insurance Proceeds (as defined in the Mortgages), self-insurance amounts, Net Awards (as defined in the Mortgages) or title insurance proceeds which, as of any date, shall not theretofore have been applied to the cost of Restoration (as defined in the Mortgages) shall be deemed to be proceeds of property disposed of voluntarily, shall be subject to the provisions of Section 10.7(c) and, if subdivision (iii)(B)(y) of Section 10.7(c) is applicable thereto, shall be subject to the prepayment provisions of Section 9.3.

Section 9.5. Notice of Prepayments; Officers' Certificate. The Obligors will give each holder of any Notes irrevocable written notice of each prepayment under Section 9.2, 9.3 or 9.4 not less than 10 days and not more than 30 days prior to the date fixed for such prepayment, in each case specifying such prepayment date, the aggregate principal amount of the Notes and the principal

amount of each Note held by such holder to be prepaid and the Section under which such prepayment is to be made. Notice of prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the Make Whole Amount, if any, with respect thereto, shall become due and payable on such prepayment date. The Obligors shall, on or before the day on which they provide such written notice, give telephonic notice of the principal amount of the Notes to be prepaid and the prepayment date to each holder of any Notes which shall have designated a recipient of such notices in the Schedule of Purchasers attached hereto or by notice in writing to the Obligors. Each holder of a Note shall receive, on the Business Day immediately preceding the date scheduled for any such prepayment, an Officers' Certificate from each of the Obligors certifying that the conditions of the Section under which such prepayment is to be made have been fulfilled and specifying the particulars of such fulfillment. In the event that there shall have been a partial prepayment of the Notes under Section 9.2, 9.3 or 9.4, the Obligors shall promptly give notice to the holders of the Notes, accompanied by an Officers' Certificate from each of the Obligors setting forth the principal amount of each of the Notes that was prepaid and specifying how each such amount was determined and, in the case of the Series A Notes, setting forth the reduced amount of each required prepayment thereafter becoming due under Section 9.1(a), and certifying that such reduction has been computed in accordance with Section 9.1(c).

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Section 9.6. Allocation of Partial Prepayments. Upon any partial prepayment of the Notes, the principal amount so prepaid shall be allocated (in integral multiples of \$1,000 as nearly as practicable) to all Notes at the time outstanding in proportion to the respective outstanding principal amounts thereof not theretofore called for prepayment, with adjustments, to the extent practicable, to compensate for any prior prepayments not made exactly in such proportion.

Section 9.7. Maturity; Surrender, Etc. In the case of each prepayment, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make Whole Amount, if any. From and after such date, unless the Obligors shall fail to pay such principal amount when so due and payable, together with the interest and Make Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall, after such payment or prepayment in full, be surrendered to the Obligors and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 9.8. Acquisition of Notes. Neither of the Obligors nor the general partner of Star Gas shall, nor shall either of the Obligors or the general partner of Star Gas permit any of their respective Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated final maturity (other than by prepayment pursuant to Section 9.1, 9.2, 9.3 or 9.4 or upon acceleration of such final maturity pursuant to Section 11), or purchase or otherwise acquire, directly or indirectly, Notes held by any holder or any 2000 Notes, 1998 Notes, 1995 Notes or Parity Debt (other than pursuant to scheduled prepayments in accordance with the terms of such Notes, the 2000 Notes, 1998 Notes, 1995 Notes or Parity Debt or any other prepayment of indebtedness outstanding under the Bank Credit Facilities or any other Parity Debt of a similar revolving nature). Any Notes prepaid or otherwise retired or purchased or otherwise acquired by either of the Obligors, the general partner of Star Gas or any of their respective Subsidiaries or Affiliates shall not be deemed to be outstanding for any purpose under this Agreement.

Section 10. Business and Financial Covenants of the Obligors.

Each Obligor, jointly and severally, covenants that from the date of this Agreement through the Closing and thereafter so long as any of the Notes are outstanding:

Section 10.1. Indebtedness. Neither Obligor will, nor will either Obligor permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except that:

(a) the Obligors may become and remain liable with respect to the Indebtedness evidenced by the 2000 Notes, the 1998 Notes, the 1995

Notes and the Notes;

(b) Star Gas and the Restricted Subsidiaries may become and remain liable with respect to Funded Debt incurred by Star Gas and the Restricted Subsidiaries to

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finance the making of expenditures for the improvement or repair of or additions to the Assets, or to renew, refund, refinance or replace any such Funded Debt provided that (i) the aggregate principal amount of Funded Debt incurred under this Section 10.1(b) and outstanding at any time would not exceed the sum of \$35,000,000 plus the aggregate amount of Capital Contributions made during the period from and after the date of Closing to and including the date such Funded Debt is incurred, and (ii) if such Funded Debt is to be secured under the Security Documents as provided in Section 10.2(i), the agreement or instrument pursuant to which such Funded Debt is incurred (A) contains no financial or business covenants that are more restrictive on the Obligors or their Subsidiaries than, or that are in addition to, those contained in this Section 10 (unless prior to or simultaneously with the incurrence of such Funded Debt this Agreement is amended to provide the benefits of such more restrictive covenants to the holders of the Notes) and (B) specifies no events of default (other than with respect to the payment of principal and interest on such Funded Debt or the accuracy of representations and warranties made in connection with such agreement or instrument) which are capable of occurring prior to the occurrence of the Events of Default specified in Section 11 (unless prior to or simultaneously with the incurrence of such Funded Debt this Agreement is amended to provide the benefit of such events of default to the holders of the Notes);

(c) any Restricted Subsidiary may become and remain liable with respect to Indebtedness of such Restricted Subsidiary owing to Star Gas or to another Restricted Subsidiary, provided that such Indebtedness is created and is outstanding under an agreement or instrument pursuant to which such Indebtedness is subordinated to the Notes and to Indebtedness secured under the Security Documents at least to the extent provided in the subordination provisions set forth in Exhibit C and provided further that such Indebtedness is evidenced by an Intercompany Note pledged to the Trustee;

(d) Star Gas and the Restricted Subsidiaries may become and remain liable with respect to unsecured Indebtedness owing to the general partner of Star Gas or an Affiliate of the general partner of Star Gas, provided that (i) the aggregate principal amount of such Indebtedness of Star Gas and the Restricted Subsidiaries outstanding at any time shall not be in excess of \$10,000,000 plus Star/Petro Intercompany Subordinated Debt and (ii) such Indebtedness is created and is outstanding under an agreement or instrument pursuant to which such Indebtedness is subordinated to the Notes and to Indebtedness secured under the Security Documents at least to the extent provided in the subordination provisions set forth in Exhibit C.

(e) Star Gas may become and remain liable with respect to Indebtedness incurred under the Bank Credit Facilities, provided that

(i) the Initial Acquisition Facility will be in an aggregate principal amount not in excess of \$25,000,000 outstanding at any time, and

(ii) in respect of the Working Capital Facility:

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(1) there shall be a period of at least 30 consecutive days during each fiscal year of Star Gas on each day of which there shall be no such Indebtedness outstanding under the Working Capital Facility,

(2) the aggregate principal amount of loans in respect of the Working Capital Facility at any time outstanding thereunder plus any Tranche A Letter of Credit Exposure (or

similar exposure under letters of credit) in respect of the Working Capital Facility (collectively, the "Exposure") shall not be in excess of \$24,000,000;

(3) on the date the Exposure exceeds \$18,000,000 and on each day thereafter until the date the Exposure no longer exceeds \$18,000,000 (x) the ratio of Consolidated Cash Flow to Consolidated Interest Expense will be greater than 2.0 to 1.0, (y) the Exposure shall not exceed the Borrowing Base except that, for purposes hereof, the percentage in respect of Eligible Commodities Inventory included in the definition of Loan Value of Eligible Commodities Inventory shall be 80%, and (z) Star Gas will deliver a Borrowing Base Certificate to each holder of a Note at the same time it delivers a Borrowing Base Certificate to the Agent or to any Bank under the Bank Credit Facilities;

(for purposes of this subdivision (e), the terms Borrowing Base, Borrowing Base Certificate, Loan Value of Eligible Commodities Inventory, Tranche A Letter of Credit Exposure and any other capitalized term used by reference in any of the foregoing shall have the meanings specified in the Bank Credit Facilities as in effect on the date of the Closing);

(f) Star Gas and the Restricted Subsidiaries may become and remain liable with respect to Indebtedness, in addition to that otherwise permitted by the foregoing subdivisions of this Section 10.1, if on the date Star Gas or any Restricted Subsidiary becomes liable with respect to any such additional Indebtedness and immediately after giving effect thereto and to the substantially concurrent repayment of any other Indebtedness (i) the ratio of Consolidated Cash Flow to Consolidated Pro Forma Debt Service is greater than 2.50 to 1.0 and (ii) the ratio of Consolidated Cash Flow to Maximum Consolidated Pro Forma Debt Service is greater than 1.25 to 1.0, provided that, in addition to the foregoing, if such Indebtedness is Funded Debt incurred by Star Gas or any Restricted Subsidiary to finance the making of expenditures for the improvement or repair of or additions to the Assets, and if such Indebtedness is to be secured under the Security Documents as provided in Section 10.2(i), such Indebtedness shall be incurred pursuant to an agreement or instrument which complies with the requirements set forth in clause (ii) of the proviso to Section 10.1(b);

(g) [Intentionally omitted.]

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(h) Star Gas and any Restricted Subsidiary may become and remain liable with respect to pre-existing Indebtedness relating to any Person, business or assets acquired by Star Gas or such Restricted Subsidiary, as the case may be, provided that (1) no condition or event shall exist which constitutes an Event of Default or Potential Event of Default, (2) such Indebtedness was not incurred in anticipation of the acquisition of such Person, business or assets and (3) after giving effect to such Person becoming a Restricted Subsidiary, or the acquisition of such business or assets, Star Gas or such Restricted Subsidiary could incur at least \$1 of additional Indebtedness in compliance with the requirements set forth in clause (ii) of Section 10.1(f);

(i) so long as no Event of Default or Potential Event of Default has occurred and is continuing, Star Gas and the Restricted Subsidiaries may become and remain liable with respect to Indebtedness evidenced by Funded Debt incurred for any refinancing, refunding, or replacement of Indebtedness permitted pursuant to subdivisions (a) and (e)(i) of this Section 10.1 (any such refinancing, refunding, or replacement of Funded Debt originally incurred pursuant to Section 10.1(e)(i) shall be referred to as "Refinanced Acquisition Debt"), provided that (i) the aggregate principal amount of such Funded Debt shall not exceed the aggregate principal amount of such outstanding Indebtedness being refinanced, refunded or replaced together with any accrued interest and Make Whole Amount with respect thereto, (ii) at the time of such refinancing, refunding, or replacement of such Funded Debt and after giving effect thereto, the ratio of Consolidated Cash

Flow to Consolidated Interest Expenses shall exceed 2.25 to 1.0, (iii) the maturity date of such Funded Debt shall not be sooner than the maturity date of such Indebtedness being refinanced, refunded or replaced, and (iv) such Funded Debt shall be secured on a pari passu basis with the Indebtedness secured by the Security Documents;

(j) so long as no Event of Default or Potential Event of Default has occurred and is continuing, Star Gas and the Restricted Subsidiaries may become and remain liable with respect to unsecured Indebtedness incurred for any extension, renewal, refunding or replacement of Indebtedness permitted pursuant to subdivisions (a), (b), (e), (f) and (h) of this Section 10.1, or other unsecured Indebtedness permitted by this Section 10.1, provided that (i) the principal amount of such unsecured Indebtedness to be incurred shall not exceed the principal amount of such Indebtedness or such unsecured Indebtedness being extended, renewed or refunded together with any accrued interest and Make Whole Amount with respect thereto and (ii) the maturity date of such unsecured Indebtedness shall not be sooner than the maturity date of such Indebtedness being extended, renewed or refunded;

(k) any Restricted Subsidiary may become and remain liable with respect to Indebtedness evidenced by the Security Documents; and

(l) Star Gas may become and remain liable with respect to unsecured Indebtedness owing to a Seller in connection with the acquisition of an Acquired Business Entity from such Seller, provided that (i) the aggregate principal amount of such

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Indebtedness of Star Gas at any time shall not exceed \$5,000,000, and (ii) the aggregate EBITDA generated by such Acquired Business Entity for so long as such Indebtedness is outstanding shall exceed the aggregate amount of all principal and interest that will become due and payable on such Indebtedness until such Indebtedness is repaid in full.

Notwithstanding the foregoing, the aggregate principal amount of all Indebtedness of all Restricted Subsidiaries at any time outstanding (other than Indebtedness permitted by Section 10.1(k)) shall not exceed \$10 million plus Star/Petro Intercompany Subordinated Debt. For the purpose of this Section 10.1, any Person becoming a Restricted Subsidiary after the date of this Agreement shall be deemed to have become liable with respect to all of its then outstanding Indebtedness at the time it becomes a Restricted Subsidiary, and any Person extending, renewing or refunding any Indebtedness shall be deemed to have become liable with respect to such Indebtedness at the time of such extension, renewal or refunding. Star Gas or any Restricted Subsidiary shall be deemed to have become liable with respect to any Indebtedness securing any real property acquired by Star Gas or such Restricted Subsidiary, as the case may be, at the time of such acquisition.

Section 10.2. Liens, Etc. Neither Obligor will, nor will either Obligor permit any Restricted Subsidiary to, directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any property or asset (including any document or instrument in respect of goods or accounts receivable) of such Obligor or any Restricted Subsidiary, whether now owned or held or hereafter acquired, or any income or profits therefrom (whether or not provision is made for the equal and ratable securing of the Notes in accordance with the provisions of Section 10.17), except:

(a) Liens for taxes, assessments or other governmental charges the payment of which is not at the time required by Section 10.9;

(b) Liens of landlords and carriers, vendors, warehousemen, mechanics, materialmen, repairmen and other like Liens incurred in the ordinary course of business for sums not yet due or the payment of which is not at the time required by Section 10.9, in each case not incurred or made in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of property;

(c) Liens (other than any Lien imposed by ERISA) incurred or deposits made in the ordinary course of business (i) in connection

with workers' compensation, unemployment insurance and other types of social security, or (ii) to secure (or to obtain letters of credit that secure) the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, performance bonds, purchase, construction or sales contracts and other similar obligations, in each case not incurred or made in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of property;

(d) any attachment or judgment Lien, unless the judgment it secures shall not, within 60 days after the entry thereof, have been discharged or execution thereof stayed

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pending appeal, or shall not have been discharged within 60 days after expiration of any such stay;

(e) leases or subleases granted to others, easements, rights-of-way, restrictions and other similar charges or encumbrances, which, in each case, are granted, entered into or created in the ordinary course of the business of Star Gas or any Subsidiary and which do not interfere with the ordinary conduct of the business of Star Gas or any Subsidiary;

(f) Liens on property or assets of any Restricted Subsidiary securing Indebtedness of such Restricted Subsidiary owing to Star Gas or any other Restricted Subsidiary;

(g) Liens existing on the Assets at the time of the acquisition thereof by Star Gas and described in Schedule 10.2;

(h) Liens created by any of the Security Documents;

(i) Liens created by any of the Security Documents securing Indebtedness incurred in accordance with Section 10.1(b) or, to the extent incurred to finance the making of capital improvements, repairs and additions to Star Gas's Assets, Section 10.1(f) (but only to the extent it complies with the requirements thereof), provided that (1) such Liens are effected through an amendment to the Security Documents to the extent necessary to provide the holders of such Indebtedness equal and ratable security in the property and assets subject to the Security Documents with the holders of the Notes and of other Indebtedness secured under the Security Documents as provided in Section 10.1(b) or 10.1(f), (2) the Security Documents are amended to the extent necessary to extend the Lien thereof to any property or assets acquired or otherwise financed with the proceeds of such Indebtedness, (3) Star Gas has delivered to the Trustee an Officers' Certificate demonstrating that the principal amount of such Indebtedness does not exceed the lesser of the cost to Star Gas of such property or assets and the fair market value of such property or assets (as determined in good faith by the general partner of Star Gas), that such incurrence of Indebtedness pursuant to Section 10.1(b) or 10.1(f), as the case may be, complies in all respects with the requirements of such Section and that the amendments to the Security Documents required by this Section 10.2(i) and the filing and recordation of such amendments and related supplements will not have a Material Adverse Effect, and (4) Star Gas has delivered to the Trustee an opinion of counsel reasonably satisfactory to the Trustee to the effect that the Lien of the Security Documents has attached and is perfected with respect to such additional property and assets;

(j) Liens existing on any property of any Person at the time it becomes a Restricted Subsidiary, or existing prior to the time of acquisition (and not created in anticipation of such acquisition) upon any property acquired by Star Gas or any Restricted Subsidiary through purchase, merger or consolidation or otherwise, whether or not assumed by Star Gas or such Restricted Subsidiary, or created to secure Indebtedness

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incurred under Section 10.1(f) to pay all or any part of the purchase

price ("Purchase Money Lien") of property acquired by Star Gas or a Restricted Subsidiary, provided that (i) any such Lien shall be confined solely to the item or items of property so acquired and, if required by the terms of the instrument originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired property, (ii) such item or items of property so acquired (other than property (which may include stock or other equity interests) subject to Liens existing prior to the time of acquisition and not created in anticipation of such acquisition) are not required to become part of the Mortgaged Property under the terms of the Security Documents, (iii) the principal amount of the Indebtedness secured by any such Lien shall at no time exceed an amount equal to the lesser of (A) the cost of such property to Star Gas or such Restricted Subsidiary, as the case may be, and (B) the fair market value of such property (as determined in good faith by the general partner of Star Gas) at the time such Person owning such property becomes a Restricted Subsidiary or at the time of such acquisition by Star Gas or such Restricted Subsidiary, as the case may be, (iv) any such Purchase Money Lien shall be created not later than 90 days after, in the case of property, its acquisition, or, in the case of improvements, their completion and (v) any such Lien (other than a Purchase Money Lien) shall not have been created or assumed in contemplation of such Person's becoming a Restricted Subsidiary or such acquisition of property by Star Gas or any Subsidiary;

(k) Liens in amounts not exceeding \$100,000 incurred, required or provided for under state law in connection with self-insurance arrangements;

(l) Liens arising from or constituting Permitted Encumbrances; and

(m) any Lien renewing, extending or refunding any Lien permitted by the foregoing subdivisions of this Section 10.2, provided that (i) the Indebtedness secured by any such Lien shall not exceed the amount of such Indebtedness outstanding immediately prior to the renewal, extension or refunding of such Lien, (ii) no Assets encumbered by any such Lien other than the Assets encumbered immediately prior to such renewal, extension or refunding shall be encumbered thereby and (iii) the maturity date of the Indebtedness secured by any such Lien shall not be sooner than the maturity date of such Indebtedness outstanding immediately prior to the renewal, extension or refunding of such Lien.

Section 10.3. Investments, Guaranties, Etc. Neither Obligor will, nor will either Obligor permit any Restricted Subsidiary to, directly or indirectly (i) make or own any Investment in any Person, or (ii) create or become liable with respect to any Guaranty, except:

(a) Star Gas or any Restricted Subsidiary may make and own Investments in:

(1) marketable obligations issued or unconditionally guaranteed by the United States of America, or issued by any agency thereof and backed by the full

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faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof,

(2) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and having as at any date of determination the highest generic rating obtainable from either Standard & Poor's Ratings Group or Moody's Investors Service, Inc.,

(3) commercial paper maturing no more than 270 days from the date of creation thereof and having as at any date of determination one of the two highest generic ratings obtainable from either Standard & Poor's Ratings Group or Moody's Investors Service, Inc.,

(4) certificates of deposit maturing one year or less from the date of acquisition thereof issued by commercial banks incorporated under the laws of the United States of America or any state thereof or the District of Columbia or Canada, (A) the commercial paper or other short-term unsecured debt obligations of which are rated either A-2 or better (or comparably if the rating system is changed) by Standard & Poor's Ratings Group or Prime-2 or better (or comparably if the rating system is changed) by Moody's Investors Service, Inc. or (B) the long-term debt obligations of which are rated either AA- or better (or comparably if the rating system is changed) by Standard & Poor's Ratings Group or Aa3 or better (or comparably if the rating system is changed) by Moody's Investors Service, Inc. ("Permitted Banks"),

(5) bankers' acceptances eligible for rediscount under requirements of The Board of Governors of the Federal Reserve System and accepted by Permitted Banks, and

(6) obligations of the type described in clause (1), (2), (3) or (4) above purchased from a securities dealer designated as a "primary dealer" by the Federal Reserve Bank of New York or from a Permitted Bank as counterparty to a written repurchase agreement obligating such counterparty to repurchase such obligations not later than 14 days after the purchase thereof and which provides that the obligations which are the subject thereof are held for the benefit of Star Gas or a Subsidiary by a custodian which is a Permitted Bank and which is not a counterparty to the repurchase agreement in question;

(b) Star Gas and any Restricted Subsidiary may make and own Investments in any Restricted Subsidiary or Investments in capital stock of, or other equity interests in, any Person which simultaneously therewith becomes a Restricted Subsidiary, and any Restricted Subsidiary may make and permit to be outstanding Investments in Star Gas

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and may create or become liable with respect to any Guaranty in respect of the Obligor's obligations under the Notes, the 2000 Notes, the 1998 Notes and the 1995 Notes;

(c) (i) Star Gas or any Restricted Subsidiary may make and own Investments in the capital stock of, or joint venture, partnership or other equity interests in, or may make contributions to capital in the ordinary course of business in any Unrestricted Subsidiary, except Petro Holdings, if immediately after giving effect to the making of any such Investment, (A) the aggregate amount of all such Investments made and outstanding pursuant to this subdivision (c) shall not at any time exceed \$15,000,000 and (B) the aggregate amount of all Investments made and outstanding pursuant to this subdivision (c) (i) as at the end of any fiscal quarter of Star Gas shall not exceed by more than \$5,000,000 the amount of such Investments outstanding as at the end of the corresponding fiscal quarter of the immediately preceding fiscal year of Star Gas, in the case of both clauses (A) and (B) of this subdivision (c) (i), disregarding any such investment which on the date of determination could be made pursuant to subdivision (b) of this Section 10.3 and net of cash distributions received from all Unrestricted Subsidiaries, excluding Petro Holdings, for such period; and

(ii) Star/Petro may make and own Investments in Petro Holdings, but only with the Public Partnership Restricted Proceeds;

(d) Star Gas or any Restricted Subsidiary may make and own Investments (i) constituting trade credits or advances to any Person incurred in the ordinary course of business, (ii) arising out of loans and advances to employees for travel, entertainment and relocation expenses, in each case incurred in the ordinary course of business or (iii) acquired by reason of the exercise of customary creditors' rights upon default or pursuant to the bankruptcy, insolvency or reorganization of a debtor;

(e) Star Gas or any Restricted Subsidiary may create or become liable with respect to any Guaranty constituting an obligation, warranty or indemnity, not guaranteeing Indebtedness of any Person, which is undertaken or made in the ordinary course of business;

(f) Star Gas may create and become liable with respect to any Interest Rate Agreements; and

(g) Star Gas may create and become liable with respect to Commodity Hedging Agreements.

Section 10.4. Restricted Payments. (a) Star Gas will not directly or indirectly declare, order, pay, make or set apart any sum for any Restricted Payment, except that Star Gas may make, pay or set apart once within 45 days from the last day of each calendar quarter a Restricted Payment if (i) such Restricted Payment is in an amount not exceeding Available Cash, (ii) prior to and immediately after giving effect to any such proposed action no condition or event shall exist which constitutes an Event of Default or Potential Event of Default under Section 11(b),

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(iii) the ratio of Consolidated Cash Flow to Consolidated Interest Expense is greater than 1.75 to 1.00, and (iv) Star Gas shall have given to each holder of a Note written notice thereof on the date such Restricted Payment is declared, which date shall be at least 10 days prior to the date such Restricted Payment is made. Star Gas will not, in any event directly or indirectly declare, order, pay or make any Restricted Payment except in cash.

(b) Notwithstanding 10.4(a) above, Star Gas may make, pay or set apart once within 45 days from the last day of each calendar quarter a Restricted Payment in an amount equal to the amount of dividends or distributions actually received in cash indirectly from Petro Holdings within 45 days from the last day of such calendar quarter, provided that the following conditions are met: (i) prior to and immediately after giving effect to any such proposed action, no condition or event shall exist which constitutes an Event of Default or Potential Event of Default under Section 11(b), (ii) the ratio of Consolidated Cash Flow plus dividends/distributions from Petro Holdings to Consolidated Interest Expense is greater than 1.75 to 1.00, and (iii) Star Gas shall have given to each holder of a Note written notice thereof on the date such Restricted Payment is declared, which date shall be at least 10 days prior to the date such Restricted Payment is made. Star Gas will not, in any event, directly or indirectly declare, order, pay or make any Restricted Payment except in cash.

(c) Notwithstanding any other provision of the Star/Petro Intercompany Subordinated Note, (i) until all amounts due under the Notes and this Agreement shall have been paid in full, no principal payment on the Star/Petro Intercompany Subordinated Note may be made, except (A) if the proceeds used for such repayment have been received from the proceeds of capital contributions or equity investments indirectly made by the Public Partnership in Star/Petro and (B) prior to and immediately after giving effect to any such prepayment no condition or event shall exist which constitutes an Event of Default or Potential Event of Default; and (ii) no interest payment shall be payable on the Star/Petro Intercompany Subordinated Debt, unless (A) the ratio of Consolidated Cash Flow to Consolidated Interest Expense is greater than 2.0 to 1.0 for the most recent four quarter period ending prior to the time of such payment and (B) prior to and immediately after giving effect to any such interest payment, no condition or event shall exist which constitutes an Event of Default or Potential Event of Default.

Section 10.5. Transactions with Affiliates. Neither Obligor will, nor will either Obligor permit any Restricted Subsidiary to, directly or indirectly, engage in any transaction with any Affiliate of Star Gas, including, without limitation, the purchase, sale or exchange of assets or the rendering of any service, except pursuant to the reasonable requirements of Star Gas's or such Restricted Subsidiary's business and upon fair and reasonable terms that are no less favorable to Star Gas or such Restricted Subsidiary, as the case may be, than those which might be obtained in an arm's-length transaction at the time such transaction is agreed upon from Persons which are not such an Affiliate, provided that the foregoing limitations and restrictions shall not apply to any transaction between Star Gas and any Restricted Subsidiary or between Restricted Subsidiaries.

Section 10.6. Subsidiary Stock and Indebtedness. Neither Obligor will:

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(a) directly or indirectly sell, assign, pledge or otherwise dispose of any Indebtedness of or any shares of stock or similar interests of (or warrants, rights or options to acquire stock or similar interests of) any Subsidiary, except to a Restricted Subsidiary;

(b) permit any Restricted Subsidiary directly or indirectly to sell, assign, pledge or otherwise dispose of any Indebtedness of (i) Star Gas or (ii) any other Restricted Subsidiary, or any shares of stock or similar interests of (or warrants, rights or options to acquire stock or similar interests of) any other Subsidiary, except to, in the case of clause (i), Star Gas or, in all other cases, a Restricted Subsidiary;

(c) permit any Restricted Subsidiary to have outstanding any shares of stock or similar interests which are preferred over any other shares of stock or similar interests owned by Star Gas unless such shares of preferred stock or similar interests are owned by Star Gas; or

(d) permit any Subsidiary directly or indirectly to issue or sell (including, without limitation, in connection with a merger or consolidation of a Restricted Subsidiary otherwise permitted by Section 10.7(a)) any shares of its stock or similar interests (or warrants, rights or options to acquire its stock or similar interests) except to Star Gas or a Restricted Subsidiary;

provided that, (i) any Restricted Subsidiary may sell, assign or otherwise dispose of Indebtedness of Star Gas if, assuming such Indebtedness were incurred immediately after such sale, assignment or disposition, such Indebtedness would be permitted under Section 10.1 (and if such Indebtedness is secured, such Lien would be permitted pursuant to Section 10.2) and (ii) subject to compliance with Section 10.7(c), all Indebtedness and shares of stock or partnership interests of any Restricted Subsidiary owned by Star Gas may be simultaneously sold as an entirety for a cash consideration at least equal to the fair value thereof (as determined in good faith by the general partner of Star Gas) at the time of such sale if such Restricted Subsidiary does not at the time own (A) any Indebtedness of Star Gas (other than Indebtedness which, if incurred immediately after such transaction, would be permitted under Section 10.1) or (B) any Indebtedness, stock or other interest in any other Restricted Subsidiary which is not also being simultaneously sold as an entirety in compliance with this proviso or Section 10.7(b)(ii).

Section 10.7. Consolidation, Merger, Sale of Assets, Etc. Neither Obligor will, nor will either Obligor permit any Restricted Subsidiary to, directly or indirectly,

(a) consolidate with or merge into any other Person or permit any other Person to consolidate with or merge into it, except that:

(i) any Restricted Subsidiary may consolidate with or merge into Star Gas or, except in the case of Star/Petro, another Restricted Subsidiary if, in the case of a consolidation with or merger into Star Gas, Star Gas shall be the surviving Person and if, immediately after giving effect to such transaction, no

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condition or event shall exist which constitutes an Event of Default or Potential Event of Default; and

(ii) any entity (other than a Restricted Subsidiary) may consolidate with or merge into Star Gas or a Restricted Subsidiary if Star Gas or such Restricted Subsidiary, as the case may be, shall be the surviving Person and if, immediately after giving effect to such transaction, (A) Star Gas (1) shall not have a Consolidated Net Worth (determined in accordance with GAAP applied on a basis consistent with the financial statements of Star Gas most recently delivered pursuant to Section 7(b)) of less than the Consolidated Net Worth of Star Gas immediately prior to the effectiveness of such transaction, (2) shall not be liable with respect to any Indebtedness or allow its property to be subject to any Lien which it could not become liable with

respect to or allow its property to become subject to under this Agreement on the date of such transaction, and (3) could incur, if the consolidating or merging entity has outstanding Indebtedness, at least \$1 of additional Indebtedness in compliance with Section 10.1(f) after giving effect to such transaction, (x) substantially all of the assets of Star Gas and the Restricted Subsidiaries shall be located and substantially all of their business shall be conducted within the continental United States, (B) no condition or event shall exist which constitutes an Event of Default or Potential Event of Default and (C) at the expense of the Obligors, the Notes are promptly, but in any event within 20 Business Days from the date of such transaction, re-rated by an Approved Rating Agency; and

(iii) Star Gas may consolidate with or merge into any other entity if (A) the surviving entity is a corporation or limited partnership organized and existing under the laws of the United States of America or a state thereof or the District of Columbia, with substantially all of its properties located and its business conducted within the continental United States, (B) such corporation or limited partnership expressly and unconditionally assumes the obligations of Star Gas under this Agreement, each of the other Operating Agreements and the Notes, and delivers to each holder of a Note at the time outstanding in connection with such assumption an opinion of counsel reasonably satisfactory to the Required Holders with respect to such matters incident to such assumption as may be reasonably requested by such holders, including, without limitation, as to the due authorization and execution of the related agreement of assumption and the enforceability of such agreement against such corporation or partnership, (C) immediately after giving effect to such transaction, such corporation or limited partnership (1) shall not have a Consolidated Net Worth (determined in accordance with GAAP applied on a basis consistent with the financial statements of Star Gas most recently delivered pursuant to Section 7(b)) of less than the Consolidated Net Worth of Star Gas immediately prior to the effectiveness of such transaction, (2) shall not be liable with respect to any Indebtedness or allow its property to be subject to any Lien which it could not become liable with respect to or allow its property to become subject to under this Agreement on the

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date of such transaction and (3) could incur at least \$1 of additional Indebtedness in compliance with Section 10.1(f) after giving effect to such transaction, (D) immediately after giving effect to such transaction no condition or event shall exist which constitutes an Event of Default or a Potential Event of Default and (E) at the expense of the Obligors, the Notes are promptly, but in any event within 20 Business Days from the date of such transaction, re-rated by an Approved Rating Agency; or

(b) sell, lease, abandon or otherwise dispose of all or substantially all its assets, except that:

(i) any Restricted Subsidiary may sell, lease or otherwise dispose of all or substantially all its assets to Star Gas or, except in the case of Star/Petro, to another Restricted Subsidiary; and

(ii) Star Gas may sell, lease or otherwise dispose of all or substantially all its assets to any corporation or limited partnership into which Star Gas could be consolidated or merged in compliance with subdivision (a)(iii) of this Section 10.7, provided that (A) each of the conditions set forth in such subdivision (a)(iii) shall have been fulfilled, and (B) no such disposition shall relieve Star Gas from its obligations under this Agreement, the other Operative Agreements or the Notes; or

(c) sell, lease abandon or otherwise dispose of any property to any Person other than Star Gas or any Restricted Subsidiary (except in a transaction permitted by subdivision (a)(iii) or (b)(ii) of this Section 10.7 or an abandonment or other disposition of Inventory in the ordinary course of business) unless:

(i) at least 80% of the consideration therefor shall be in the form of cash consideration,

(ii) immediately after giving effect to such proposed disposition no condition or event shall exist which constitutes an Event of Default or Potential Event of Default,

(iii) either

(A) the aggregate net proceeds of all property so disposed of (whether or not leased back) by Star Gas and all Restricted Subsidiaries during the current fiscal year (including property disposed of through dispositions of shares pursuant to Section 10.6 or sales of assets pursuant to Section 10.7(b) and including all proceeds under title insurance policies with respect to real property and all Net Insurance Proceeds (as defined in the Mortgages), self-insurance amount and Net Awards (as defined in the Mortgages) with respect to property lost as a result of damage, destruction

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or a taking which have not been applied to the cost of Restoration (as defined in the Mortgages)), less the amount of all such net proceeds previously applied in accordance with subdivision (iii)(B) of this Section 10.7(c) and the amount of such net proceeds equal to the purchase price of any assets acquired to the extent that (1) such assets were acquired within 180 days prior to the date of such disposal of property, (2) the purchase price of such assets was not previously applied to reduce the amount of net proceeds of property disposed of under this Section 10.7(c), (3) such assets were acquired for subsequent replacement of the property so disposed of or may be productively used in the United States in the conduct of the Business, (4) such assets are subject to the Lien of the Security Documents, and (5) to the extent such assets were acquired (in whole or in part) with borrowed money, such borrowing has been repaid in full, (x) shall not exceed \$5,000,000 during such fiscal year and (y) when aggregated with such net proceeds of all prior transactions under this Section 10.7(c), shall not exceed \$15,000,000; or

(B) in the event that such net proceeds (less the amount thereof previously applied in accordance with this subdivision (iii)(B) and the amount thereof equal to the purchase price of any assets acquired to the extent that (1) such assets were acquired within 180 days prior to the date of such disposal of property, (2) the purchase price of such assets was not previously applied to reduce the amount of net proceeds of property disposed of under this Section 10.7(c), (3) such assets were acquired for subsequent replacement of the property so disposed of or may be productively used in the United States in the conduct of the Business, (4) such assets are subject to the Lien of the Security Documents, and (5) to the extent such assets were acquired (in whole or in part) with borrowed money, such borrowing has been repaid in full) during the current fiscal year exceed \$5,000,000 or, when aggregated with such net proceeds of all prior transactions under this Section 10.7(c), exceed \$15,000,000 (the larger amount of such excess net proceeds actually realized being herein called "Excess Proceeds"), Star Gas shall promptly pay over to the Trustee under the Trust Agreement such Excess Proceeds not at the time held by the Trustee for application by the Trustee (x) within 180 days of the date of the disposal or loss of property to the acquisition of assets in replacement of the property so disposed of or lost or of assets which may be productively used in the United States in the conduct of the Business (and such newly acquired assets shall be subjected to the Lien of the Security Documents) or to the cost of Restoration (as defined in the Mortgages), or (y) to the extent of Excess Proceeds not applied pursuant to the immediately preceding clause (x), to the payment and/or prepayment of the Notes, the 2000 Notes, the 1998 Notes, the 1995 Notes and Parity Debt, if any, pursuant to Section 9.1 and/or 9.3, all as provided in Section 4(d) of the Trust Agreement and such Section 9.1 and/or 9.3, and the

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Trustee shall have received an Officers' Certificate from the general partner of Star Gas certifying that the consideration received for such property is at least equal to its fair value (as determined in good faith by the general partner of Star Gas) and that such consideration has been applied in accordance with the terms of this Agreement, and

(iv) in the case of any sale, lease or other disposition of Mortgaged Property which includes real property (or any interest therein), or any sale, lease or other disposition of Mortgaged Property resulting in the aggregate net proceeds of all such sales, leases or other dispositions exceeding \$10,000,000, the Trustee shall have received an Officers' Certificate from the general partner of Star Gas certifying that such sale, lease or other disposition is in the best interest of Star Gas and will not have a Material Adverse Effect.

Notwithstanding the foregoing, Star Gas and any Restricted Subsidiary may sell or dispose of (i) real property assets sold or disposed of within 12 months of the acquisition of such assets, and (ii) all other assets sold or disposed of within 6 months of the acquisition of such assets, in each case constituting a portion of an acquired business, if (y) such assets are specifically designated to the holders of any Notes in writing prior to such acquisition as assets to be disposed of, and (z) the Trustee shall have received an Officers' Certificate from the general partner of Star Gas certifying that the consideration received for such property is at least equal to its fair value (as determined in good faith by the general partner of Star Gas). Such sales under this paragraph will not be applied towards the annual or cumulative limitations in subdivision (c) of this Section 10.7. The holders of Notes agree to take all actions necessary to cause dispositions of Mortgaged Property made in compliance with this Section 10.7 to be made free and clear of the Liens created by the Security Documents.

Section 10.8. Partnership or Corporate Existence, Etc.; Business. (a) (i) Star Gas will at all times preserve and keep in full force and effect its partnership existence and (subject to the provisions of subdivision (b) of this Section 10.8) its status as a partnership not taxable as a corporation for Federal income tax purposes; (ii) Star/Petro will at all times keep in full force and effect its corporate existence; (iii) each Obligor will cause each Restricted Subsidiary to keep in full force and effect its partnership or corporate existence; and (iv) each Obligor will, and each Obligor will cause each Restricted Subsidiary to, at all times preserve and keep in full force and effect all of its material rights and franchises (in each case except as otherwise specifically permitted in Sections 10.6 and 10.7 and except that the partnership or corporate existence of any Restricted Subsidiary (other than Star/Petro), and any right or franchise of Star Gas or any Restricted Subsidiary, may be terminated if, in the good faith judgment of the general partner of Star Gas, such termination is in the best interest of Star Gas, is not disadvantageous to the holders of the Notes in any material respect and would not have a Material Adverse Effect).

(b) Star Gas shall not be obligated to preserve its status as a partnership not taxable as a corporation for Federal income tax purposes if (i) Star Gas's failure to preserve such status shall be the result of an amendment to the tax laws enacted by the Congress of the United States and (ii) after giving effect to the loss of such status the ratio of Consolidated Cash Flow to Maximum

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Consolidated Pro Forma Debt Service, determined as of the date of the loss of such status, would be greater than 1.1 to 1.0, assuming, for the purposes of the computation of Consolidated Cash Flow, that Consolidated Cash Flow would be reduced by taxes at the applicable tax rate for Star Gas for such period had Star Gas been taxable as a corporation.

(c) Neither Obligor will, nor will either Obligor permit any Restricted Subsidiary to, engage in any lines of business other than the Business in which the Obligors and their Restricted Subsidiaries are engaged in on the date of this Agreement and described in the Public Partnership's SEC Form 10-K for the fiscal year ended September 30, 2000 and other activities incidental or related to the Business.

Section 10.9. Payment of Taxes and Claims. Each Obligor will, and each

Obligor will cause each Subsidiary to, pay all taxes, assessments and other governmental charges or levies imposed upon it or any of its properties or assets or in respect of any of its franchises, business, income or profits when the same become due and payable, but in any event before any penalty or interest accrues thereon, and all claims (including, without limitation, claims for labor, services, materials and supplies) for sums which have become due and payable and which by law have or might become a Lien upon any of its properties or assets, and promptly reimburse the holders of the Notes for any such taxes, assessments, charges or claims paid by them; provided that no such tax, assessment, charge or claim need be paid or reimbursed if being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and if such reserves or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor and be adequate in the good faith judgment of the general partner of Star Gas.

Section 10.10. Compliance with ERISA. Neither Obligor will, nor will either Obligor permit any Subsidiary or Related Person of either Obligor to:

(a) (i) engage in any transaction in connection with which either Obligor or any Subsidiary could be subject to either a civil penalty assessed pursuant to section 502(i) of ERISA or a tax imposed by section 4975 of the Code, (ii) terminate (within the meaning of Title IV of ERISA) or withdraw from any Plan in a manner, or take, or fail to take, any other action with respect to any Plan (including, without limitation, a substantial cessation of operations within the meaning of section 4062(e) of ERISA), (iii) establish, maintain, contribute to or become obligated to contribute to any welfare benefit plan (as defined in section 3(1) of ERISA) or other welfare benefit arrangement which provides post-employment benefits, which cannot be unilaterally terminated by either Obligor, (iv) fail to make full payment when due of all amounts which, under the provisions of any Plan or applicable law, either Obligor or any Subsidiary or Related Person of either Obligor is required to pay as contributions thereto, result in the imposition of a Lien or permit to exist any material accumulated funding deficiency, whether or not waived, with respect to any Plan or (v) engage in any transaction in connection with which either Obligor, any Subsidiary or any Related Person of either Obligor could be subject to liability pursuant to section 4069(a) or 4212(c) of ERISA, if, as a result of any such event, condition or transaction described in clauses (i) through (v) above, either individually or together with any other such event or

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condition, could result in (x) the imposition of a Lien on any assets or property of either Obligor or (y) any liability to either Obligor, any Subsidiary or any Related Person of either Obligor, which liability could have a Material Adverse Effect; or

(b) as of any date of determination (i) permit the amount of unfunded benefit liabilities under any Plan maintained at such time by either Obligor or any Subsidiary or Related Persons of either Obligor to exceed the current value of the assets of any such Plan or (ii) permit the aggregate liability incurred by either Obligor and any Subsidiary and Related Persons of either Obligor pursuant to Title IV of ERISA with respect to one or more terminations of, or one or more complete or partial withdrawals from, any Plan to exceed \$1,000,000.

As used in this Section 10.10, the term "accumulated funding deficiency" has the meaning specified in section 302 of ERISA and section 412 of the Code, the term "current value" has the meaning specified in section 3 of ERISA and the terms "benefit liabilities" and "amount of unfunded benefit liabilities" have the meanings specified in section 4001 of ERISA.

Section 10.11. Maintenance of Properties; Insurance. To the extent required by the Security Documents, each Obligor will maintain or cause to be maintained in working order and condition, in accordance with normal industry standards, all properties used or useful in the business of either Obligor and the Restricted Subsidiaries and from time to time will make or cause to be made all appropriate repairs, renewals and replacements thereof. To the extent required by the Security Documents, each Obligor will maintain or cause to be maintained, with Permitted Insurers, insurance with respect to its properties and business and the properties and business of the Restricted Subsidiaries of the types and in the amounts specified in the Security Documents and the Trustee shall be named as an additional insured party on each insurance policy obtained

or maintained pursuant thereto.

Section 10.12. Operative Agreements; Security Documents. Each Obligor will, and each Obligor will cause each Restricted Subsidiary to, perform and comply with all of its obligations under each of the Operative Agreements to which it is a party, will enforce each such Operative Agreement against each other party thereto and will not accept the termination of any such Operative Agreement, unless the taking of or omitting to take any such action would not have a Material Adverse Effect, and will not amend, modify or supplement any Operative Agreement without the prior written consent of the Required Holders, provided that (a) the MLP Agreement and the Partnership Agreement may be amended, modified or supplemented without the prior written consent of the Required Holders if such amendment, modification or supplement would not have a Material Adverse Effect and Star Gas shall have delivered to each holder of a Note a copy of such proposed amendment, modification or supplement together with an Officers' Certificate describing such proposed amendment, modification or supplement and confirming that such proposed amendment, modification or supplement would not have a Material Adverse Effect and (b) the Bank Credit Facilities may be amended, modified or supplemented without the prior written consent of the Required Holders if such amendment, modification or supplement may be made without the written consent of any holders of the Notes under the Trust Agreement.

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Section 10.13. Chief Executive Office. Neither Obligor will move its chief executive office and the office at which it maintains its records relating to the transactions contemplated by this Agreement and the Security Documents unless (a) not less than 45 days' prior written notice of its intention to do so, clearly describing the new location, shall have been given to the Trustee and each holder of a Note and (b) such action, reasonably satisfactory to the Trustee and each holder of a Note, to maintain any security interest in the property subject to the Security Documents at all times fully perfected and in full force and effect shall have been taken.

Section 10.14. Recordation. The Obligors will promptly, but in any event within 30 days from the date of the Closing, cause to be duly recorded, published, registered and filed all Security Documents (in each case, not previously recorded, published, registered or filed in accordance with Section 4.8), in such manner and in such places as is required by law to establish, perfect, preserve and protect the rights and first priority security interests of the parties thereto and their respective successors and assigns in all of the Mortgaged Property. The Obligors will pay all taxes, fees and other charges then due in connection with the execution, delivery, recording, publishing, registration and filing of such documents or instruments in such places.

Section 10.15. Information Required by Rule 144A. Each Obligor covenants that it will, upon the prior written request of the holder of any Note, provide such holder, and any qualified institutional buyer designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act of 1933, as amended, in connection with the resale of Notes, except at such times as such Obligor is subject to the reporting requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. For the purpose of this Section 10.15, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act of 1933, as amended.

Section 10.16. Covenant to Secure Notes Equally. Each Obligor covenants that, if it or any Restricted Subsidiary shall create or assume any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than Liens permitted by the provisions of Section 10.2 (unless prior written consent to the creation or assumption thereof shall have been obtained pursuant to Section 18), it will make or cause to be made effective provision whereby the Notes will be secured by such Lien equally and ratably with any and all other Indebtedness thereby secured so long as any such other Indebtedness shall be so secured, it being understood that the provision of such equal and ratable security shall not constitute a cure or waiver of any related Event of Default.

Section 10.17. Compliance with Laws. Each Obligor will, and each Obligor will cause each Subsidiary to, comply with all applicable statutes, rules, regulations, and orders of, and all applicable restrictions imposed by, the United States, foreign countries, states, provinces and municipalities, and of or by any governmental department, commission, board, regulatory authority,

bureau, agency and instrumentality of the foregoing, and of or by any court, arbitrator or grand jury, in respect of the conduct of their respective businesses and the ownership of their respective properties or business (including, without limitation, Environmental Laws), except

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such as are being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor or the failure to so comply would not be expected to have a Material Adverse Effect.

Section 10.18. Further Assurances. At any time and from to time promptly, the Obligors shall, at their expense, execute and deliver to each holder of a Note and to the Trustee such further instruments and documents, and take such further action, as the holders of the Notes may from time to time reasonably request, in order to further carry out the intent and purpose of this Agreement and to establish and protect the rights, interests and remedies created, or intended to be created, in favor of the holders of the Notes, including, without limitation, the execution, delivery and recordation and filing of security agreements and financing statements and continuation statements under the Uniform Commercial Code of any applicable jurisdiction.

Section 10.19. Subsidiaries. (a) Star Gas may designate any Restricted Subsidiary or newly acquired or formed Subsidiary as an Unrestricted Subsidiary or any Unrestricted Subsidiary or newly acquired or formed Subsidiary as a Restricted Subsidiary, in each case subject to satisfaction of the following conditions:

(i) immediately before and after giving effect to such designation no condition or event shall exist which constitutes an Event of Default or Potential Event of Default;

(ii) immediately after giving effect to such designation, (1) (other than in the case of a designation of an Unrestricted Subsidiary that does not have any Indebtedness as a Restricted Subsidiary), Star Gas would be permitted to incur at least \$1 of additional Indebtedness in compliance with subdivisions (i) and (ii) of Section 10.1(f), (2) Star Gas and the Restricted Subsidiaries would not be liable with respect to Indebtedness or any Guarantee, would not own any Investments and their property would not be subject to any Lien which is not permitted by this Agreement and (3) substantially all of Star Gas's assets will be located, and substantially all of Star Gas's business will be conducted, in the United States;

(iii) in the case of a designation as an Unrestricted Subsidiary, (A) if such designation (and all other prior designations of Restricted Subsidiaries or newly acquired or formed Subsidiaries as Unrestricted Subsidiaries during the current fiscal year) were deemed to constitute a sale by Star Gas of all the assets of the Subsidiary so designated, such sale would be in compliance with subdivision (iii) (A) of Section 10.7(c) and (B) if such designation (and all other prior designations of Restricted Subsidiaries or newly acquired or formed Subsidiaries as Unrestricted Subsidiaries during the current fiscal year) were deemed to constitute an Investment by Star Gas in respect of all the assets of the Subsidiary so designated, such Investment would be in compliance with Section 10.3(c), in each case with the net proceeds of such sale or the amount of such Investment being deemed to equal the net book value of such assets in the case of a Restricted Subsidiary or the cost of acquisition or formation in the case of a newly

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acquired or formed Subsidiary, provided, that this subdivision (iii) of this Section 10.19(a) shall not apply to an acquisition or formation by Star Gas or a Restricted Subsidiary of a newly acquired or formed Unrestricted Subsidiary to the extent such acquisition or formation (1) is funded solely by the net cash proceeds received by Star Gas from the general partner of Star Gas or from the Public Partnership as a capital contribution or as consideration for the issuance by Star Gas of additional partnership interests or (2) the assets involved in such acquisition are

acquired in exchange for additional partnership interests of Star Gas or the Public Partnership;

(iv) in the case of a designation of a Restricted Subsidiary as an Unrestricted Subsidiary, such Restricted Subsidiary shall not have been an Unrestricted Subsidiary prior to being designated a Restricted Subsidiary;

(v) in the case of a designation of an Unrestricted Subsidiary as a Restricted Subsidiary, such Unrestricted Subsidiary at the time of such designation has a positive Consolidated Net Worth;

(vi) Star Gas shall deliver to each holder of Notes, within 20 Business Days after any such designation, an Officers' Certificate stating the effective date of such designation and confirming compliance with the provisions of this Section 10.19;

(vii) On the date of the Closing, Star/Petro shall be designated as a Restricted Subsidiary and, notwithstanding any other provision of this Section 10.19(a), such designation shall not be changed without the consent of the Required Holders; and

(viii) On the date of the Closing, Petro Holdings shall be designated as an Unrestricted Subsidiary and, notwithstanding any other provision of this Section 10.19(a), such designation shall not be changed without the consent of the Required Holders.

In the case of the designation of any Unrestricted Subsidiary as a Restricted Subsidiary, such new Restricted Subsidiary shall be deemed to have (A) made or acquired all Investments owned by it, and (B) incurred all Indebtedness owing by it and all Liens to which it or any of its properties are subject, on the date of such designation.

(b) Star Gas will cause each Restricted Subsidiary, at the time it is or is deemed to be designated as a Restricted Subsidiary, to (i) become a party to the Obligor Security Agreement and the Subsidiary Guarantee Agreement by execution of a Supplemental Agreement and (ii) enter into such documents (in form and substance satisfactory to the Required Holders) as may be necessary or as any holder of Notes may request in order to secure such Restricted Subsidiary's obligations under the Subsidiary Guarantee Agreement with all or substantially all of the assets of such Restricted Subsidiary.

(c) Star Gas will not own any Subsidiaries other than Wholly-Owned Subsidiaries satisfying the requirements in clauses (a), (b) and (c) of the definition of Restricted Subsidiary.

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Section 10.20. Rating. If (i) the General Partner of Star Gas shall withdraw as general partner of Star Gas or (ii) if any person (as such term is used in rule 13(d) or rule 14(d)(2) of the Exchange Act of 1934, as amended (the "Exchange Act"), as in effect on the date of the Closing), or related persons constituting a group (as such term is used in rule 13d-5 under the Exchange Act, as in effect on the date of the Closing), or related persons constituting a group (as such term is used in rule 13d-5 under the Exchange Act, as in effect on the date of the Closing) shall acquire a majority of the Common Units, then the Obligors at their expense shall promptly, but in any event within 20 Business Days from the date of such event or condition, have the Notes re-rated by an Approved Rating Agency.

Section 10.21. Accounting Changes. Neither Obligor will, nor will either Obligor suffer or permit any Restricted Subsidiary to, make any significant change in accounting treatment or reporting practices, except as required by GAAP. Each Obligor will, and each Obligor will cause each Restricted Subsidiary to, cause its fiscal year to end on September 30 in each year.

Section 10.22. Certain Real Property. Without affecting the obligations of either Obligor or any of the Restricted Subsidiaries under any of the Security Documents, in the event that either Obligor or any Restricted Subsidiary, at any time after the date of this Agreement, whether directly or indirectly, acquires any interest in any real property, including any fee or other ownership interest in one or more properties with an aggregate cost in excess of \$50,000, or any interest under one or more leases of real property for a term in excess of three years and involving aggregate average payments in excess of \$100,000 per annum (each such interest, an "After Acquired Property"), the Obligors will, or the

Obligors will cause such Restricted Subsidiary to, as soon as practical provide written notice thereof to each holder of a Note, setting forth with specificity a description of such After Acquired Property, the location of such After Acquired Property, any structures or improvements thereon and an appraisal or its good-faith estimate of the current value of such real property ("Current Value"). The Required Holders may require the applicable Obligor or the applicable Restricted Subsidiary to grant and record a mortgage in favor of the Trustee on such After Acquired Property, provided that no new mortgage on such After Acquired Property shall be required if the costs that would be incurred as a result thereof are excessive in relation to the benefits that would be conferred thereby. In the event a mortgage is granted, the applicable Obligor or the applicable Restricted Subsidiary shall execute and deliver to the Trustee a mortgage, together with such documents or instruments as the Required Holders shall require. In no event shall any title insurance policy for any such After Acquired Property be in an amount which is less than the Current Value of such After Acquired Property. If, at any time, the aggregate cost to the Obligors and the Restricted Subsidiaries of each interest in real property (a) acquired by either Obligor or any Restricted Subsidiary, whether directly or indirectly, at any time after the date of this Agreement, at a cost equal to or less than \$50,000, (b) at such time, owned directly or indirectly by either Obligor or any Restricted Subsidiary and (c) for which a mortgage in favor of the Trustee is not in effect (the "Aggregate Cost of Unmortgaged Property"), exceeds \$500,000, the Obligors will, as soon as practical, and in any event within 10 Business Days, provide written notice thereof to each holder of a Note, setting forth with specificity a description of each such interest in real property, the location of such real property and an appraisal or its good-faith estimate of the current value of each such real property. The Required Holders may require the applicable Obligor or the

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applicable Restricted Subsidiary to grant and record a mortgage in favor of the Trustee on one or more of such real property so that the Aggregate Cost of Unmortgaged Property does not exceed \$500,000, provided that no new mortgage on any such real property shall be required if the costs that would be incurred as a result thereof are excessive in relation to the benefits that would be conferred thereby. In the event a mortgage is required, the applicable Obligor or the applicable Restricted Subsidiary shall execute and deliver to the Trustee a mortgage, together with such documents or instruments as the Required Holders shall require. Further, with regard to any interest in real property, including any fee or other ownership interest in real property or any material lease of real property, currently owned or held by either Obligor or any Restricted Subsidiary and which is not being encumbered by a mortgage of even date herewith (each such interest, an "Existing Unmortgaged Property"), upon the written request of the Required Holders, the applicable Obligor will, or the Obligors will cause any applicable Restricted Subsidiary to, execute and deliver to the Trustee a mortgage, together with such documents or instruments as the Required Holders shall require. In no event shall the title insurance policy for any such Existing Unmortgaged Property be in an amount which is less than the Current Value of such Existing Unmortgaged Property. The Obligors shall pay all fees and expenses, including reasonable attorneys' fees and expenses and expenses of any customary environmental due diligence, and title insurance charges and premiums, in connection with the obligations of the Obligors and the Restricted Subsidiaries under this Section 10.22.

Section 10.23. Sale and Lease-Back Transactions. Neither Obligor will, nor will either Obligor cause or permit any of the Restricted Subsidiaries to, enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred.

Section 10.24. Acquisitions. Except as otherwise permitted by Section 10.7, neither Obligor will, nor will either Obligor cause or permit any of the Restricted Subsidiaries to, purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or any substantial part of the assets of any other Person, except that (a) either Obligor or any Restricted Subsidiary may purchase inventory in the ordinary course of business and (b) either Obligor or any Restricted Subsidiary may engage in any such acquisition if no Event of Default or Potential Event of Default has occurred and is continuing at the time of any such acquisition or would occur immediately after giving effect thereto.

Section 10.25. Impairment of Security Interests. Neither Obligor will, nor will either Obligor permit any of the Subsidiaries to, take or omit to take any action, which action or omission might or would have the result of materially impairing the security interests in favor of the Trustee with respect to the Mortgaged Property, and neither Obligor will, nor will either Obligor permit any of the Subsidiaries to, grant to any Person (other than the Trustee) any interest whatsoever in the Mortgaged Property.

Section 10.26. Limitation on Restrictions on Subsidiary Dividends, Etc. Neither Obligor will, nor will either Obligor cause or permit any of the Restricted Subsidiaries to, directly or

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indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends or make any other distributions on or in respect of its capital stock, or pay any indebtedness owed to Star Gas or any Restricted Subsidiary, (b) make loans or advances to Star Gas or any Restricted Subsidiary or (c) transfer any of its properties or assets to Star Gas or any Restricted Subsidiary, except for such encumbrances or restrictions existing under or by reason of (i) customary non-assignment provisions in any lease governing a leasehold interest or other contract entered into in the ordinary course of business consistent with past practices or (ii) this Agreement or any other Operative Agreement.

Section 10.27. No Other Negative Pledges. Neither Obligor will, nor will either Obligor cause or permit any of the Restricted Subsidiaries to, directly or indirectly, enter into any agreement prohibiting the creation or assumption of any Lien upon the properties or assets of either Obligor or any Restricted Subsidiary, whether now owned or hereafter acquired, or requiring an obligation to be secured if some other obligation is secured, except for this Agreement, the 2000 Note Agreement, the 1998 Note Agreement, the 1995 Note Agreements, the Bank Credit Facilities and any Parity Debt Agreement (as defined in the Trust Agreement).

Section 10.28. Sales of Receivables. Neither Obligor will, nor will either Obligor cause or permit any of the Restricted Subsidiaries to, sell with recourse, discount or otherwise sell or dispose of its notes or accounts receivable, except for accounts receivable consisting of assets of an operating unit sold as a going concern in accordance with all other provisions of this Agreement.

Section 10.29. Fixed Price Supply Contracts; Certain Policies. (a) Neither Obligor will, nor will either Obligor permit any of the Restricted Subsidiaries to, at any time be a party or subject to any contract for the purchase or supply by such parties of propane or other product except where (i) the purchase price is set with reference to a spot index or indices substantially contemporaneously with the delivery of such product or (ii) delivery of such propane or other product is to be made no more than one year after the purchase price is agreed to.

(b) Star Gas will not amend, modify or waive the trading policy or supply inventory position policy existing as of the date of the Closing except that Star Gas may amend its supply inventory position policy such that such policy provides that neither it nor any of the Restricted Subsidiaries will hold on hand more than 90 days of commodities inventory. The Obligors will provide each holder of a Note with prompt written notice of any such new commodity hedging agreement or any such change in such policy. Subject to the foregoing exception, Star Gas and the Restricted Subsidiaries will comply in all material respects with such policies at all times.

Section 10.30. Certain Operations. Neither Obligor shall permit Petro or any of its Affiliates (other than the Star Gas and the Restricted Subsidiaries) to acquire a business which derives any revenues from the sale of propane if, after giving effect to such acquisition, Petro's Pro Forma Propane Volumes would equal or exceed the lesser of (a) 15% of Star Gas's reported propane volumes sold for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of such acquisition and (b) 15 million gallons of propane (such lesser

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amount, the "maximum permitted amount"). If as a result of an acquisition, Petro's Pro Forma Propane Volumes exceed the maximum permitted amount, Petro shall not be in violation of this Section 10.30 if within the period of 90 days following such acquisition it completes the disposition of sufficient propane volume to reduce Petro's Pro Forma Propane Volumes below the maximum permitted amount. For purposes of this Section 10.30, "Petro's Pro Forma Propane Volumes" shall mean the actual propane volumes sold by Petro and any of its Affiliates (other than Star Gas and the Restricted Subsidiaries) for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of determination plus the propane volumes sold of the propane business to be acquired for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of determination. In addition, in the event Petro or any of its Affiliates (other than Star Gas and the Restricted Subsidiaries) owns a propane business, Star Gas shall not permit Petro or any such Affiliate to accept as a customer (except for de minimis, unintentional and isolated acceptances) any Person who is (or was during the last billing cycle of Star Gas and the Restricted Subsidiaries) a customer of Star Gas and the Restricted Subsidiaries.

Section 10.31. Independent Organizational Existence. Except as set forth on Schedule 10.31, (a) each Obligor shall maintain, and each Obligor shall cause each of the Subsidiaries (other than Petro and its Subsidiaries) to maintain, books, records and accounts that are separate from the books, records and accounts of Petro or any of its Subsidiaries such that: (i) the revenues of Star Gas and its Subsidiaries will be credited to the accounts of Star Gas and its Subsidiaries only; (ii) all expenses incurred by Star Gas and its Subsidiaries shall be paid only from the accounts of Star Gas and its Subsidiaries (other than those paid by Petro and allocated to Star Gas in the manner set forth in clause (c) of this Section); (iii) only officers and employees of the general partner of Star Gas, Star Gas and its Subsidiaries in their capacity as such shall have the authority to make disbursements with respect to the accounts of Star Gas and its Subsidiaries; (iv) there shall occur no sharing of accounts or funds between Star Gas and its Subsidiaries (other than Petro and its Subsidiaries), on the one hand, and Petro or any of its Subsidiaries, on the other hand, and (v) all cash and funds of Star Gas and its Subsidiaries (other than Petro and its Subsidiaries) shall be managed separately from the cash and funds of Petro or any of its Subsidiaries, and there shall not occur any commingling including for investment purposes, of funds or assets of Star Gas and its Subsidiaries (other than Petro and its Subsidiaries) with the funds or assets of Petro or any of its Subsidiaries.

(b) All full-time employees, consultants and agents of Star Gas and its Subsidiaries (other than Petro and its Subsidiaries) shall be compensated directly from the bank accounts of the general partner of Star Gas, Star Gas and such Subsidiaries for services provided by such employees, consultants and agents and, to the extent any employee, consultant or agent is also an employee, consultant or agent of Petro or any of its Subsidiaries, the compensation of such employee, consultant or agent shall be allocated in accordance with clause (c) of this Section among Star Gas and its Subsidiaries (other than Petro and its Subsidiaries), on the one hand, and Petro and any of its Subsidiaries, on the other hand, on a basis which reasonably reflects the services rendered to Star Gas and its Subsidiaries (other than Petro and its Subsidiaries).

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(c) All overhead expenses (including telephone and other utility charges) for items shared by Star Gas and its Subsidiaries (other than Petro and its Subsidiaries), on the one hand, and Petro or any of its Subsidiaries, on the other hand, shall be allocated on the basis of actual use to the extent practicable and, to the extent such allocation is not practicable, on a basis reasonably related to actual use.

(d) Star Gas shall not permit Petro or any of its Subsidiaries to be named as a loss payee or additional insured on the insurance policy covering the property of Star Gas or any of its Subsidiaries (other than Petro and its Subsidiaries), or enter into an agreement with the holder of such policy whereby in the event of a loss in connection with such property, proceeds are paid to Petro and its Subsidiaries.

Section 10.32. Damage, Destruction, Taking, Etc. In the event of any damage, destruction or a taking in respect of all or a portion of the properties subject to any of the Security Documents or in the event there shall be proceeds under title insurance policies with respect to any real property, neither Obligor will apply any Net Insurance Proceeds (as defined in the Mortgages),

self-insurance amounts, Net Awards (as defined in the Mortgages) or title insurance proceeds, if such proceeds (whether resulting from one or a series of events or circumstances) exceed \$25,000,000 in the aggregate, to the cost of Restoration (as defined in the Mortgages) or to replacements or other assets without the prior written consent of the Required Holders.

Section 11. Events of Default; Acceleration.

If any of the following conditions or events ("Events of Default") shall occur and be continuing

(a) the Obligors shall default in the payment of any principal of or Make Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Obligors shall default in the payment of any interest on any Note or any amount due and payable under any Operative Agreement for more than 5 Business Days after the same becomes due and payable; or

(c) the Obligors shall default in the performance of or compliance with any term contained in Section 7(h) or any of Sections 10.1 through 10.8, inclusive and Section 10.10(b); or

(d) either Obligor, the general partner of Star Gas, the Public Partnership or any Restricted Subsidiary shall default in the performance of or compliance with any other term contained in this Agreement or any other Operative Agreement and such default shall not have been remedied within 30 days after such default shall first have become known to any officer of such Person or written notice thereof shall have been received by either Obligor or the general partner of Star Gas; or

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(e) any representation or warranty made in writing by or on behalf of either Obligor or any of their Affiliates in this Agreement, any other Operative Agreement or in any instrument furnished in connection with the transactions contemplated by this Agreement shall prove to have been false or incorrect in any material respect on the date as of which made or deemed made; or

(f) either Obligor or any Restricted Subsidiary (as principal or guarantor or other surety) shall default in the payment of any amount of principal of or premium or interest on the Bank Credit Facilities, or other Indebtedness which is outstanding in a principal amount of at least \$2,000,000 in the aggregate (other than the Notes); or any event shall occur or condition shall exist in respect of the Bank Credit Facilities, or other Indebtedness which is outstanding in a principal amount of at least \$2,000,000 or under any evidence of any such Indebtedness or of any mortgage, indenture or other agreement relating to the Bank Credit Facilities or such other Indebtedness the effect of which is to cause (or to permit one or more Persons to cause) such Bank Credit Facilities or other Indebtedness to become due before its stated maturity or before its regularly scheduled dates of payment or to permit the holders thereof to cause either Obligor or any Restricted Subsidiary to repurchase or repay such Bank Credit Facilities or other Indebtedness, and such default, event or condition shall continue for more than the period of grace, if any, specified therein and shall not have been waived pursuant thereto; or

(g) filing by or on the behalf of either Obligor or the general partner of Star Gas of a voluntary petition or an answer seeking reorganization, arrangement, readjustment of its debts or for any other relief under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar act or law, state or Federal, now or hereafter existing ("Bankruptcy Law"), or any action by either Obligor or the general partner of Star Gas for, or consent or acquiescence to, the appointment of receiver, trustee or other custodian of either Obligor, or the general partner of Star Gas, or of all or a substantial part of its property; or the making by either Obligor or the general partner of Star Gas of any assignment for the benefit of creditors, or the admission by either Obligor or the general partner of Star Gas in writing of its inability to pay its debts as they become due; or

(h) filing of any involuntary petition against either Obligor or the general partner of Star Gas in bankruptcy or seeking reorganization, arrangement, readjustment of its debts or for any other relief under any Bankruptcy Law and an order for relief by a court having jurisdiction in the premises shall have been issued or entered therein; or any other similar relief shall be granted under any applicable Federal or state law; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee or other officer having similar powers over either Obligor or the general partner of Star Gas or over all or a part of its property shall have been entered; or the involuntary appointment of an interim receiver, trustee or other custodian of either Obligor or the general partner of Star Gas or of all or a substantial part of its property; or the issuance of a warrant of attachment, execution or similar process against any substantial part of the property of either Obligor or the general partner of Star Gas;

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and continuance of any such event for 60 consecutive days unless dismissed, bonded to the satisfaction of the court having jurisdiction in the premises or discharged; or

(i) filing by or on the behalf of any Restricted Subsidiary of a voluntary petition or an answer seeking reorganization, arrangement, readjustment of its debts or for any other relief under any Bankruptcy Law, or any action by any Restricted Subsidiary for, or consent or acquiescence to, the appointment of a receiver, trustee or other custodian of such Restricted Subsidiary or of all or a substantial part of its property; or the making by any Restricted Subsidiary of any assignment for the benefit of creditors; or the admission by any Restricted Subsidiary in writing of its inability to pay its debts as they become due; or

(j) filing of any involuntary petition against any Restricted Subsidiary in bankruptcy or seeking reorganization, arrangement, readjustment of its debts or for any other relief under any Bankruptcy Law and an order for relief by a court having jurisdiction in the premises shall have been issued or entered therein; or any other similar relief shall be granted under any applicable Federal or state law; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee or other officer having similar powers over any Restricted Subsidiary or over all or a part of its property shall have been entered; or the involuntary appointment of an interim receiver, trustee or other custodian of any Restricted Subsidiary or of all or a substantial part of its property; or the issuance of a warrant of attachment, execution or similar process against any substantial part of the property of any Restricted Subsidiary; and continuance of any such event for 60 consecutive days unless dismissed, bonded to the satisfaction of the court having jurisdiction in the premises or discharged, or

(k) a final judgment or judgments (which is or are non-appealable or which has or have not been stayed pending appeal or as to which all rights to appeal have expired or been exhausted) shall be rendered against either Obligor or any Restricted Subsidiary for the payment of money in excess of \$1,000,000 in the aggregate and any one of such judgments shall not be discharged or execution thereon stayed pending appeal within 45 days after the date due, or, in the event of such a stay, such judgment shall not be discharged within 30 days after such stay expires or any action shall be legally taken by a creditor to levy upon the assets or properties of either Obligor or any Restricted Subsidiary to enforce any such judgment; or

(l) any of the Operative Agreements shall at any time, for any reason, cease to be in full force and effect or shall be declared to be null and void in whole or in any material part by the final judgment (which is non-appealable or has not been stayed pending appeal or as to which all rights to appeal have expired or been exhausted) of any court or other governmental or regulatory authority having jurisdiction in respect thereof, or if the validity or the enforceability of any of the Operative Agreements shall be contested by or on behalf of either Obligor, the General Partner, the general partner of Star Gas, the Public Partnership or any Restricted Subsidiary, or either Obligor, the

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General Partner, the general partner of Star Gas, the Public Partnership or any Restricted Subsidiary shall renounce any of the Operative Agreements, or deny that it is bound by the terms of any of the Operative Agreements; or

(m) any order, judgement or decree is entered in any proceedings against an Obligor decreeing a split-up of such Obligor which requires the divestiture of assets of such Obligor or the divestiture of the stock of a Restricted Subsidiary which would not be permitted if such divestiture were considered a partial disposition of assets pursuant to Section 10.7(c) and such order, judgment or decree shall not be dismissed or execution thereon stayed pending appeal within 30 days after entry thereof, or, in the event of such a stay, such order, judgment or decree shall not be discharged within 30 days after such stay expires; or

(n) there shall occur at any time a change in Legal Requirements specifically applicable to either Obligor or to the Business or to the business of the wholesale and retail sale, distribution and storage of propane gas and related petroleum derivative products and the related retail sale of supplies and equipment, including home appliances which would have a Material Adverse Effect (other than on the prospects (financial or otherwise) of the Obligors or the Business) and 60 days after the earlier of (i) such occurrence shall first have become known to any officer of either Obligor or the general partner of Star Gas or (ii) written notice thereof shall have been received by either Obligor or the general partner of Star Gas from any holder of any Note, such Material Adverse Effect shall be continuing; or

(o) any Lien purported to be created by any Security Document shall cease to be, or shall for any reason be asserted by either Obligor, the general partner of Star Gas or any Restricted Subsidiary not to be, a valid, perfected, first priority Lien on the securities, properties or assets covered thereby, other than as a result of an act or omission of the Trustee or any holder of a Note; or

(p) any governmental authority revokes or fails to renew any material license, permit or franchise of either Obligor or any Restricted Subsidiary, or either Obligor or any Restricted Subsidiary for any reason loses any material license, permit or franchise, or either Obligor or any Restricted Subsidiary suffers the imposition of any restraining order, escrow, suspension or impound of funds in connection with any proceeding, (judicial or administrative) with respect to any material license, permit or franchise;

then, (x) upon the occurrence of any Event of Default described in subdivision (g) or (h) of this Section 11, the unpaid principal amount of and accrued interest on the Notes shall automatically become due and payable, or, (y) upon the occurrence and continuance of any other Event of Default, any holder or holders of 50% or more in principal amount of the Notes at the time outstanding, may at any time (unless all defaults shall theretofore have been remedied in accordance with the terms hereof) at its or their option, by written notice or notices to either Obligor, declare all the Notes to be due and payable, whereupon the same shall forthwith mature and become due and payable, together with interest accrued thereon and, to the extent permitted

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by applicable law, the applicable Make Whole Amount, if any, with respect to such Notes, all without presentment, demand, protest or further notice, which are hereby waived, provided that during the existence of an Event of Default described in subdivision (a) or (b) (insofar as it relates to interest on any Note) of this Section 11, any holder of the Notes at the time outstanding may, at its option, by notice in writing to either Obligor, declare the Notes then held by such holder to be due and payable, whereupon the Notes then held by such holder shall forthwith mature and become due and payable, together with interest accrued thereon and, to the extent permitted by applicable law, the applicable Make Whole Amount, if any, with respect to such Notes.

At any time after the principal of, and interest accrued on, all the Notes are declared due and payable, the Required Holders, by written notice to the Obligors, may rescind and annul any such declaration and its consequences (other than in respect of any Note which has been individually accelerated pursuant to the proviso contained in the immediately preceding paragraph) if (x) the

Obligors have paid all overdue interest on the Notes, the principal of and Make Whole Amount, if any, on any such Notes which have become due otherwise than by reason of such declaration, and interest on such overdue principal and the applicable Make Whole Amount, if any, and (to the extent permitted by applicable law) overdue interest, at a rate per annum equal to the rate of interest stated on the face of such Notes plus 2.0%, (y) all Events of Default, other than nonpayment of amounts which have become due solely by reason of such declaration, and all conditions and events which constitute Events of Default or Potential Events of Default have been cured or waived, and (z) no judgment or decree has been entered for the payment of any monies due pursuant to the Notes or this Agreement; but no such rescission and annulment shall extend to or affect any subsequent Event of Default or Potential Event of Default or impair any right consequent thereon.

Section 12. Remedies on Default; Recourse, Etc.

In case any one or more Events of Default or Potential Events of Default shall occur and be continuing, (a) the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in such Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise, and (b) the Trustee and the holders of the Notes may exercise any rights or remedies in their respective capacities under the Security Documents in accordance with the provisions thereof. In case of a default in the payment or performance of any provision hereof or of the Notes or of the Security Documents, the Obligors will pay to the holder of each Note such further amount as shall be sufficient to cover the cost and expenses of collection, including, without limitation, reasonable attorneys' fees, expenses and disbursements, and any out-of-pocket costs and expenses of any such holder incurred in connection with analyzing, evaluating, protecting, ascertaining, defending or enforcing any of its rights as set forth herein or in any of the Security Documents. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any

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holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise.

Section 13. Definitions.

As used herein the following terms have the following respective meanings:

"Acquired Business Entity" means (i) any business entity the capital stock or assets of which have been acquired substantially as an entirety by Star Gas by purchase, merger or consolidation, and (ii) any other assets which were operated as an identifiable business unit, i.e., a branch or division of a business entity and which have been acquired substantially as an entirety by Star Gas.

"Administrative Agent" shall mean Fleet National Bank f/k/a BankBoston, N.A., in its capacity as administrative agent for the Banks under the Bank Credit Facilities, and its successors in such capacity.

"Affiliate" shall mean as applied to any Person, any other Person directly or indirectly controlling or controlled by or under common control with such Person, provided that (a) for purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with") as used with respect to any Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether as a general partner or through the ownership of voting securities or by contract or otherwise, (b) as applied to either Obligor, the term "Affiliate" shall include Petro, the general partner of Star Gas and the Public Partnership, and (c) no Purchaser nor any other Person which is an institution shall be deemed to be an Affiliate of either Obligor solely by reason of ownership of the Notes or other securities issued in exchange for the

Notes or by reason of having the benefits of any agreements or covenants contained in this Agreement or other Operative Agreements.

"After Acquired Property" shall have the meaning provided in Section 10.22.

"Aggregate Cost of Unmortgaged Property" shall have the meaning specified in Section 10.22.

"All Star Gas Mortgages" shall mean those certain deeds of trust and/or mortgages to be entered into between Star Gas and/or a Restricted Subsidiary and the Trustee in respect of certain parcels of real property located in Indiana, Michigan and Ohio acquired by Star Gas from All Star Gas Inc. of Indiana, All Star Gas Inc. of Michigan and All Star Gas Inc. of Ohio pursuant to that certain Purchase Agreement dated January 27, 2000.

"Approved Rating Agency" shall mean Standard & Poor's Rating Group, Moody's Investor Service, Inc., or Fitch Investors Service, Inc.

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"Assets" shall mean the assets conveyed to Star Gas pursuant to the Conveyance Agreements and/or the assets covered by the Security Documents, as the context may require.

"Available Cash" shall mean with respect to any calendar quarter, (a) the sum of (i) all cash of Star Gas and the Restricted Subsidiaries on hand at the end of such quarter (other than Public Partnership Restricted Proceeds) and (ii) all additional cash of Star Gas and the Restricted Subsidiaries on hand on the date of determination of Available Cash with respect to such quarter obtained through available borrowings under the Working Capital Facility made after the end of such quarter (provided that such borrowings under the Working Capital Facility shall in no event exceed available borrowings under the Working Capital Facility as of the end of such quarter), less (b) any cash reserves in such amounts as the general partner of Star Gas shall determine to be necessary or appropriate in its reasonable discretion to (A) provide for the proper conduct of the business of Star Gas and the Restricted Subsidiaries (including, without limitation, cash reserves for future capital expenditures) or (B) provide funds for distributions under sections 5.4(a)(i), (ii), and (iii) or 5.4(b)(i) of the MLP Agreement in respect of any one or more of the next four quarters or (C) comply with applicable law or any loan agreement (including this Agreement), mortgage, security agreement, debt instrument or other agreement or obligation to which Star Gas or any Restricted Subsidiary is a party or its assets are subject, (including the payment of principal, Make Whole Amount, if applicable, and interest) of the Obligors in respect of the Notes; provided that Available Cash shall exclude without duplication (x) in each calendar quarter a reserve equal to at least 50% of the aggregate amount of all interest payments in respect of all Indebtedness of Star Gas and the Restricted Subsidiaries upon which interest is due semiannually or less frequently to be made in the next quarter (assuming, in the case of Indebtedness incurred under the Bank Credit Facilities and other Indebtedness bearing interest at fluctuating interest rates which cannot be determined in advance, that the interest rate in effect on the last Business Day of the immediately preceding calendar quarter will remain in effect until such Indebtedness is due to be paid), (y) with respect to any Indebtedness secured equally and ratably with the Notes of which principal is payable annually, in the third calendar quarter immediately preceding each calendar quarter in which any scheduled principal payment is due with respect to such Notes and other Indebtedness (a "principal payment quarter"), a reserve equal to at least 25% of the aggregate amount of all principal to be paid in respect of such Notes and other such Indebtedness secured equally and ratably with the Notes in such principal payment quarter; in the second calendar quarter immediately preceding a principal payment quarter, a reserve equal to at least 50% of the aggregate amount of all principal to be paid in respect of such Notes and other such Indebtedness in such principal payment quarter; and in the calendar quarter immediately preceding a principal payment quarter, a reserve equal to at least 75% of the aggregate amount of all principal to be paid in respect of such Notes and other such Indebtedness in such principal payment quarter, and (z) with respect to the Notes and any other Indebtedness secured equally and ratably with the Notes of which principal is payable semiannually, in each calendar quarter which immediately precedes a quarter in which principal is payable in respect of such Notes and such Indebtedness a reserve equal to at least 50% of the aggregate amount of all principal to be paid in respect of such

Notes and other such Indebtedness in the next quarter; provided further that the amount of such reserve specified in clauses (x), (y) and (z) of this definition for principal amounts to be paid shall be reduced by the aggregate

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principal amount of all binding, irrevocable letters of credit established to refinance such principal amounts.

"Bank Credit Facilities" shall mean that Credit Agreement, dated as of December 13, 1995, among Star Gas, Fleet National Bank f/k/a Bank Boston, N.A., as administrative agent, Bank of America, N.A. as successor to NationsBank, N.A., as documentation agent and the lenders named therein as amended by the First Amendment dated as of May 31, 1996, the Second Amendment dated as of October 21, 1997, the Third Amendment dated as of April 15, 1998, the Fourth Amendment dated as of November 3, 1998, the Fifth Amendment dated as of January 22, 1999, the Sixth Amendment dated as of March 25, 1999, the Seventh Amendment dated as of June 18, 1999, the Eighth Amendment dated as of June 30, 2000, the Ninth Amendment dated as of September 29, 2000 and the Tenth Amendment dated as of November 27, 2000, and any extension, renewal, refunding, or replacement thereof otherwise permitted to be incurred and outstanding under Section 10.1(e), pursuant to which the Initial Acquisition Facility and the Working Capital Facility will be made available to Star Gas.

"Bankruptcy Law" shall have the meaning specified in Section 11(g).

"Banks" shall mean the financial institutions listed in the signature pages of the Bank Credit Facilities, each assignee which becomes a lender under the Bank Credit Facilities pursuant to the terms thereof and their respective successors.

"Business" shall mean the operation by Star Gas and its Subsidiaries of the wholesale and retail sale, distribution and storage of propane gas and related petroleum derivative products and the related retail sale of supplies and equipment, including home appliances.

"Business Day" shall mean any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized by law to be closed.

"Called Principal" shall mean with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 9.2, 9.3 or 9.4 or becomes or is declared to be immediately due and payable pursuant to Section 11, as the context requires.

"Capital Contribution" shall mean the net cash proceeds received by Star Gas from the general partner of Star Gas or from the Public Partnership as a capital contribution or as consideration for the issuance by Star Gas of additional partnership interests, in each case for the sole purpose of financing the expenditures referred to in Section 10.1(b).

"Capital Lease" shall mean as applied to any Person, any lease of any property (whether real, personal or mixed) by such Person (as lessee or guarantor or other surety) which would, in accordance with GAAP, be required to be classified and accounted for as a capital lease on a balance sheet of such Person.

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"Cash Collateral Agreement" shall mean the Cash Collateral Agreement dated as of December 13, 1995, between Star Gas and the Administrative Agent, as amended from time to time.

"CERCLA" shall mean the Federal Comprehensive Environmental Response, Compensation and Liability Act, as amended.

"Closing" shall have the meaning specified in Section 3.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Commodity Hedging Agreement(s)" shall mean any agreement or arrangement designed solely to protect Star Gas against fluctuations in the price of propane with respect to quantities of propane that Star Gas reasonably expects to purchase from suppliers, sell to its customers or need for its inventory during the period covered by such agreement or arrangement.

"Common Units" shall have the meaning provided for in the MLP Agreement.

"Consolidated Cash Flow" shall mean, at any date of determination, for the period of four consecutive fiscal quarters most recently completed at least 45 days (except that in connection with any calculation required pursuant to Section 10.4, for the period of four consecutive fiscal quarters most recently completed) prior to such date of determination,

(a) the sum of, without duplication, the amounts for such period, taken as a single accounting period, (i) Consolidated Net Income and (ii) all amounts deducted in arriving at such Consolidated Net Income in respect of (1) interest charges (including amortization of debt discount and expense and imputed interest on Capital Lease obligations), (2) provisions for all taxes and reserves (including, reserves for deferred income taxes) and (3) non-cash items, less

(b) without duplication, any cash items added in the determination of such Consolidated Net Income for such period.

Consolidated Cash Flow shall be calculated after giving effect, on a pro forma basis for the four consecutive fiscal quarters most recently completed at least 45 days (except that in connection with any calculation required pursuant to Section 10.4, for the period of four consecutive fiscal quarters most recently completed) prior to such date of determination to, without duplication, any asset sales or asset acquisitions (including, without limitation, any asset acquisition giving rise to the need to make such calculation as a result of Star Gas or any Restricted Subsidiary (including any Person who becomes a Restricted Subsidiary as a result of such asset acquisition) incurring, assuming or otherwise being liable for acquired Indebtedness) occurring during the period commencing on the first day of such four fiscal quarter period to and including the date of determination (the "Reference Period"), as if such asset sale or asset acquisition occurred on the first day of the Reference Period; provided, that Consolidated Cash Flow generated by an acquired business or asset shall be determined for the four full fiscal quarters preceding the date

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of acquisition of such business or asset, on the basis of, without duplication, (x) the historical sales volume of the acquired asset less an estimated post-acquisition loss of sales volume of three percent (3%) minus (y) the actual cost to Star Gas of the goods sold as determined for the volume determined in clause (x) above minus (z) the pro forma expenses that would have been incurred by Star Gas in the operation of such acquired business or asset during such period computed on the basis of personnel expenses for employees retained or to be retained by Star Gas in the operation of such acquired business or asset and non-personnel costs and expenses incurred by Star Gas or the general partner of Star Gas in the operation of Star Gas's business at similarly situated Star Gas facilities or Restricted Subsidiary facilities.

"Consolidated Interest Expense" shall mean, as of any date of determination, the total amount payable by Star Gas and the Restricted Subsidiaries on a consolidated basis, during the period of four consecutive fiscal quarters most recently completed at least 45 days (except that in connection with any calculation required pursuant to Section 10.4, during the period of four consecutive fiscal quarters most recently completed) prior to such date of determination, in respect of all interest charges (including amortization of debt discount and expense and imputed interest on actual payments under Capital Lease obligations) with respect to Indebtedness of Star Gas and the Restricted Subsidiaries outstanding during such period of four consecutive fiscal quarters.

"Consolidated Net Income" shall mean, with reference to any period, the net income (or deficit) of Star Gas and its Restricted Subsidiaries for such period (taken as a cumulative whole), after deducting all operating expenses, provisions for all taxes and reserves (including reserves for deferred income taxes) and all other proper deductions, all determined in accordance with GAAP on a consolidated basis, after eliminating all intercompany transactions and after deducting portions of income properly attributable to minority interests, if any, in the stock and surplus of Restricted Subsidiaries, provided that there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with Star Gas or a Restricted Subsidiary, (b) the income (or deficit) of any Person (other than a Restricted Subsidiary) in which Star Gas or any Restricted Subsidiary has an ownership interest, except to the extent that any such income has been actually received by Star Gas or such Restricted Subsidiary in the form of dividends (but subject to the limitations specified in the proviso below), (c) the undistributed earnings of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary is not at the time permitted by the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary, (d) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of income accrued during such period, (e) any aggregate net gain (but not any aggregate net loss) during such period arising from the sale, exchange or other disposition of capital assets (such terms to include all fixed assets, whether tangible or intangible, all Inventory sold in conjunction with the disposition of fixed assets, and all securities), (f) any write-up of any asset, (g) any net gain from the collection of the proceeds of life insurance policies, (h) any gain arising from the acquisition of any securities, or the extinguishment, under GAAP, of any Indebtedness, of Star Gas or any Restricted Subsidiary, (i) any net income or gain (but not any net loss) during such period from any change in

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accounting, from any discontinued operations or the disposition thereof, from any extraordinary events or from any prior period adjustments, (j) any deferred credit representing the excess equity in any Restricted Subsidiary at the date of acquisition over the cost of the investment in such Restricted Subsidiary, and (k) in the case of a successor to Star Gas by consolidation or merger or as a transferee of its assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets; provided, further, that notwithstanding clause (b) above, there shall be excluded in any event the income (or deficit) of Petro Holdings, whether or not any amounts are actually received by Star Gas or any Restricted Subsidiary from or through Petro Holdings in the form of dividends or otherwise.

"Consolidated Net Worth" shall mean, as to Star Gas, the amount by which

(a) the total assets of Star Gas and the Restricted Subsidiaries appearing on a consolidated balance sheet of Star Gas and the Restricted Subsidiaries prepared in accordance with GAAP as of the date of determination (after eliminating all amounts properly attributable to minority interests in the stock and surplus, if any, of the Restricted Subsidiaries) exceeds

(b) total liabilities of Star Gas and the Restricted Subsidiaries appearing on a consolidated balance sheet of Star Gas and the Restricted Subsidiaries prepared in accordance with GAAP as of the date of determination on a consolidated basis,

in each case after eliminating all intercompany transactions, and as to any other Person, the amount by which

(i) the total assets of such Person and its Subsidiaries appearing on a consolidated balance sheet of such Person and its Subsidiaries prepared in accordance with GAAP as of the date of determination (after eliminating all amounts properly attributable to minority interests in the stock and surplus, if any, of its Subsidiaries) exceeds

(ii) total liabilities of such Person and its Subsidiaries appearing on a consolidated balance sheet of such Person and its Subsidiaries

prepared in accordance with GAAP as of the date of determination on a consolidated basis,

in each case after eliminating all intercompany transactions.

"Consolidated Pro Forma Debt Service" shall mean as of any date of determination, the total amount payable by Star Gas and the Restricted Subsidiaries on a consolidated basis, during the four consecutive calendar quarters next succeeding the date of determination, in respect of scheduled principal payments and all interest charges (excluding amortization of debt discount and expense) with respect to Indebtedness of Star Gas and the Restricted Subsidiaries outstanding on such date of determination, after giving effect to any Indebtedness proposed to be incurred on such date and to the substantially concurrent repayment of any other Indebtedness, and (a) including actual payments under Capital Lease obligations, (b) assuming, in the case of

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Indebtedness (other than Indebtedness incurred under the Bank Credit Facilities) bearing interest at fluctuating interest rates which cannot be determined in advance, that the rate in effect on such date will remain in effect throughout such period, (c) assuming in the case of Indebtedness incurred under the Bank Credit Facilities, that (1) the interest payments payable during such four consecutive calendar quarters next succeeding the date of determination will equal the actual interest payments associated with the Bank Credit Facilities during the most recent four fiscal quarters, (2) except for the twelve-month period immediately prior to the termination or final maturity thereof (unless extended, renewed or replaced), no principal payments will be made under the Working Capital Facility and (3) principal payments relating to the Initial Acquisition Facility will become due based on the assumption that the conversion to the fixed amortization schedule pursuant to sections 2.01(c) and 2.02(g) of the Bank Credit Facilities, (d) treating the principal amount of all Indebtedness outstanding as of such date of determination under a revolving credit or similar agreement (other than the Bank Credit Facilities as maturing and becoming due and payable on the scheduled maturity date or dates thereof (including, the maturity of any payment required by any commitment reduction or similar amortization provision), without regard to any provision permitting such maturity to be extended, (e) including any other designated debt repayments due within twelve months from such date of determination and (f) excluding principal and interest payments in connection with Star/Petro Intercompany Subordinated Debt.

"Conveyance Agreements" shall mean (a) the Contribution, Conveyance and Assumption Agreement, dated as of December 20, 1995, among Star Gas Corporation, Star Gas, Star Gas Partners, L.P., Stellar Propane Services Corp., Star Gas Silgas of Illinois, Inc. and Silgas Inc. and (b) each of the individual conveyances, assignments and bills of sale delivered to Star Gas pursuant to the Contribution, Conveyance and Assumption Agreement referred to in the foregoing clause (a).

"Current Value" shall have the meaning provided for in Section 10.22.

"Discounted Value" shall mean, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on a semi-annual basis) equal to the Reinvestment Yield plus 50 basis points with respect to such Called Principal.

"Documentation Agent" shall mean Bank of America, N.A. as successor to NationsBank, N.A., in its capacity as documentation agent for the Banks under the Bank Credit Facilities, and its successors in such capacity.

"Dollar" and sign "\$" shall mean lawful money of the United States of America.

"EBITDA" shall mean for any period the net income of an Acquired Business Entity, plus (to the extent deducted in determining such net income) the sum of (i) all interest and income tax expense of such Acquired Business Entity during such period, and (ii) all

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depreciation and amortization expense of such Acquired Business Entity during such period, all such items of income and expense being calculated in accordance with GAAP.

"Environmental Laws" shall mean applicable Federal, state, local and foreign laws, rules or regulations relating to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes into the environment (including, without limitation, air, surface water, ground water or land), or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Event of Default" shall have the meaning specified in Section 11.

"Excess Proceeds" shall have the meaning specified in Section 10.7(c).

"Existing Unmortgaged Property" shall have the meaning specified in Section 10.22.

"Funded Debt" shall mean, as applied to any Person, all Indebtedness of such Person which by its terms or by the terms of any instrument or agreement relating thereto matures more than one year from the date of the initial creation thereof, provided that Funded Debt shall include any Indebtedness which does not otherwise come within the foregoing definition but which is directly or indirectly renewable or extendible at the option of the debtor to a date one year or more (including an option of the debtor under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of one year or more) from the date of the initial creation thereof, provided further that, in the case of Star Gas, Funded Debt shall not include any Indebtedness under the Working Capital Facility.

"GAAP" shall mean generally accepted accounting principles in effect in the United States from time to time.

"General Partner" shall mean Star Gas LLC, a Delaware limited liability company.

"General Partner Guarantee Agreement" shall mean the General Partner Guarantee Agreement between the General Partner and the Trustee, dated as of March 25, 1999, as amended from time to time.

"General Partner of Star Gas" shall mean the General Partner, so long as it holds a general partner interest in Star Gas, and any successor to such interest or any part thereof, so long as such successor shall hold such interest or part thereof.

"Guaranty" shall mean, as applied to any Person, any direct or indirect liability, contingent or otherwise, of such Person with respect to any indebtedness, lease, dividend or other

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obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business) or discounted or sold with recourse by such Person, or in respect of which such Person is otherwise directly or indirectly liable or any other obligation under any contract which, in economic effect, is substantially equivalent to a guaranty, including, without limitation, any such obligation of a partnership in which such Person is a general partner or of a joint venture in which such Person is a joint venturer,

and any such obligation in effect guaranteed by such Person through any agreement (contingent or otherwise) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain the solvency or any balance sheet or other financial condition of the obligor of such obligation, or to make payment for any products, materials or supplies or for any transportation or services regardless of the non-delivery or nonfurnishing thereof, in any such case if the purpose or intent of such agreement is to provide assurance that such obligation will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected against loss in respect thereof.

"Hazardous Materials" shall mean any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products, polychlorinated biphenyls, urea-formaldehyde insulation, asbestos or asbestos-containing materials, pollutants, contaminants, radioactivity, and any other materials or substances of any kind, whether or not any such substance is defined as hazardous under any Environmental Law, that is regulated pursuant to any Environmental Law or that could give rise to liability under any Environmental Law.

"Indebtedness" shall mean as applied to any Person (without duplication):

(a) any indebtedness for borrowed money which such Person has directly or indirectly created, incurred or assumed;

(b) any indebtedness, whether or not for borrowed money, with respect to which such Person has become directly or indirectly liable and which represents the deferred purchase price (or a portion thereof) or has been incurred to finance the purchase price (or a portion thereof) of any property or service or business acquired by such Person, whether by purchase, consolidation, merger or otherwise;

(c) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses;

(d) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to property acquired by the Person (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property);

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(e) any obligations under Capital Leases to the extent such obligations would, in accordance with GAAP, appear on a balance sheet of such Person;

(f) any indebtedness, whether or not for borrowed money, secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien in respect of property owned by such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, provided that the amount of such Indebtedness if not so assumed shall in no event be deemed to be greater than the fair market value from time to time (as determined in good faith by such Person) of the property subject to such Lien;

(g) all redeemable capital stock of such Person valued at the greater of its voluntary or involuntary maximum fixed repurchase price plus accrued dividends;

(h) any preferred stock of any Subsidiary of such Person valued at the sum of the liquidation preference thereof or any mandatory redemption payment obligations in respect thereof plus, in either case, accrued dividends thereon;

(i) any indebtedness of the character referred to in clause (a) through (h) of this definition deemed to be extinguished under GAAP but for which such Person remains legally liable; and

(j) any indebtedness of any other Person of the character referred to in clause (a) through (i) of this definition with respect to which the Person whose Indebtedness is being determined has become liable by way of a Guaranty.

Notwithstanding the foregoing, in determining the Indebtedness of Star Gas and the Restricted Subsidiaries, there shall be excluded all undrawn letters of credit (not yet due and payable), trade accounts payable, accrued interest and other accrued expenses and customer credit balances arising in the ordinary course of business on ordinary terms.

"Initial Acquisition Facility" shall mean that Initial Acquisition Facility under the Bank Credit Facilities which shall permit borrowings thereunder in an aggregate amount of up to \$25,000,000 (not including any Refinanced Acquisition Debt) and which shall be secured by the Mortgaged Property pursuant to the Security Documents, and any extension, renewal, refunding or replacement thereof, provided that the aggregate amount that may be outstanding pursuant thereto shall not exceed \$25,000,000 (not including any Refinanced Acquisition Debt).

"Intercompany Notes" shall mean any and all promissory notes of a Restricted Subsidiary issued to Star Gas or to another Restricted Subsidiary, in the form attached as Exhibit C hereto or such other form as may be satisfactory to the Required Holders, representing all Indebtedness of such Restricted Subsidiary to Star Gas or such other Restricted Subsidiary, as the case may be.

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"Interest Rate Agreement" shall mean any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement or arrangement designed solely to protect Star Gas against fluctuations in interest rates on Indebtedness outstanding under the Bank Credit Facilities entered into with one or more of the banks party to the Bank Credit Facilities.

"Inventory" shall mean goods held by a Person for sale or lease or to be furnished under contracts of service or if such Person has so furnished them, or if they are raw materials, work in process or materials used or consumed in the Business (but not goods which are, or may become, fixed assets, or which have a relatively long period of use).

"Investment" shall mean, as applied to any Person, any direct or indirect purchase or other acquisition by such Person of stock or other securities of any other Person, or any direct or indirect loan, advance or capital contribution by such Person to any other Person, and any other item which would be classified as an "investment" on a balance sheet of such Person prepared in accordance with GAAP, including, without limitation, any direct or indirect contribution by such Person of property or assets to a joint venture, partnership or other business entity in which such Person retains an interest. For the purposes of Section 10.3(b), the amount involved in Investments made during any period shall be the aggregate cost to Star Gas of all such Investments made during such period, determined in accordance with GAAP, but without regard to unrealized increases or decreases in value, or write-ups, write-downs or write-offs, of such investments and without regard to the existence of any undistributed earnings or accrued interest with respect thereto accrued after the respective dates on which such Investments were made, less any net return of capital realized during such period upon the sale, repayment or other liquidation of such Investment (determined in accordance with GAAP, but without regard to any amounts received during such period as earnings (in the form of dividends not constituting a return of capital, interest or otherwise) on such Investment) or as loans from any Person in whom such Investments have been made.

"Investment Grade" shall mean, in any case, the lowest of (a) in the case of a rating conducted by Standard & Poor's Ratings Group, a rating of at least BBB- or PPR2-, (b) in the case of a rating conducted by Duff and Phelps Credit Rating Co. or Fitch Investors Service, Inc., a rating of at least BBB- or (c) in the case of a rating conducted by Moody's Investor Service, Inc., a rating of at least Baa3.

"Legal Requirement" shall mean any law, statute, ordinance, decree, requirement, order, judgment, rule or regulation (or published official

interpretation by any governmental authority of any of the foregoing) of any governmental authority.

"Lien" shall mean, as to any Person, any mortgage, lien (statutory or otherwise), pledge, reservation, right of entry, encroachment, easement, right of way, restrictive covenant, license, charge, security interest or other encumbrance in or on, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease with respect to, any property or asset owned or held by such Person, or the signing or filing of a financing statement with respect to any of the foregoing

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which names such Person as debtor, or the signing of any security agreement with respect to any of the foregoing authorizing any other party as the secured party thereunder to file any financing statement or any other agreement to give or grant any of the foregoing. For the purposes of this Agreement, a Person shall be deemed to be the owner of any asset which it has placed in trust for the benefit of the holders of Indebtedness of such Person and such trust shall be deemed to be a Lien if such Person remains legally liable therefor, notwithstanding that such Indebtedness is or may be deemed to be extinguished under GAAP.

"Lockbox Agreements" shall mean any and all agreements among any bank, in its capacity as the depository bank, Star Gas or a Restricted Subsidiary and the Trustee in substantially the form attached hereto as Exhibit Q to the 1995 Note Agreements, as amended from time to time.

"Make Whole Amount" shall mean with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments of the Called Principal of such Note over such Called Principal. The Make Whole Amount shall in no event be less than zero.

"Material Adverse Effect" shall mean a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or prospects (financial or otherwise) of the Obligors or the Business, (b) the ability of either Obligor, the General Partner or any Restricted Subsidiary to perform its obligations under this Agreement or any other Operative Agreement or (c) the validity, enforceability, perfection or priority of this Agreement or any other Operative Agreement or of the rights or remedies of the holder of any Notes or the Trustee.

"Maximum Consolidated Pro Forma Debt Service" shall mean, as of any date of determination, the highest total amount payable by Star Gas and the Restricted Subsidiaries on a consolidated basis, during any period of four consecutive fiscal quarters, commencing with the fiscal quarter in which such date of determination occurs and ending on the latest maturity date of the Notes, in respect of scheduled principal payments and all interest charges with respect to all Indebtedness of Star Gas and the Restricted Subsidiaries outstanding or to be outstanding, after giving effect to any Indebtedness proposed to be incurred on such date and to the substantially concurrent repayment of any other Indebtedness, and (a) including actual payments under Capital Lease obligations, (b) assuming, in the case of Indebtedness (other than Indebtedness incurred under the Bank Credit Facilities) bearing interest at fluctuating interest rates which cannot be determined in advance, that the rate in effect on such date will remain in effect throughout such period, (c) assuming in the case of Indebtedness incurred under the Bank Credit Facilities, that (1) the interest payments payable during such four consecutive calendar quarters next succeeding the date of determination will equal the actual interest payments associated with the Bank Credit Facilities during the most recent four fiscal quarters, (2) except for the twelve-month period immediately prior to the termination or final maturity thereof (unless extended or renewed) no principal payments will be made under the Working Capital Facility and (3) principal payments relating to the Initial Acquisition Facility will become due based on the assumption that the conversion to the fixed amortization schedule pursuant to section 2.01(c) and 2.02(g) of the Bank Credit Facilities, (d) treating the principal amount of all

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Indebtedness outstanding as of such date of determination under a revolving credit or similar agreement (other than the Bank Credit Facilities) as maturing and becoming due and payable on the scheduled maturity date or dates thereof (including the maturity of any payment required by any commitment reduction or similar amortization provision), without regard to any provision permitting such maturity date to be extended, (e) including any other designated debt repayments due within twelve months from such date of determination and (f) excluding principal and interest payments in connection with Star/Petro Intercompany Subordinated Debt.

"maximum permitted amount" shall have the meaning specified in Section 10.30.

"MLP Agreement" shall mean the Agreement of Limited Partnership of Star Gas Partners, L.P., dated as of December 20, 1995, as amended from time to time.

"Mortgage(s)" shall mean the separate mortgage, security agreement and fixture filings among Star Gas, Star Gas LLC as successor to Petroleum Heat and Power Co., Inc. and Star Gas Corporation and the Trustee, substantially in the form of Exhibit D1 to the 1995 Note Agreements, and the All Star Gas Mortgages, each as amended from time to time.

"Mortgaged Property" shall mean collectively, the properties referred to as the "Mortgaged Property" in the Mortgages or as the "Collateral" under the Obligor Security Agreement and as the "Security" in the Trust Agreement.

"Multiemployer Plan" shall mean a Plan which is a "multiemployer plan" within the meaning of section 4001(a)(3) of ERISA.

"1995 Note Agreements" shall mean the separate Note Agreements, each dated as of December 13, 1995, among Star Gas, Star Gas LLC as successor to Petroleum Heat and Power Co., Inc. and Star Gas Corporation and the respective purchasers listed in the Schedule of Purchasers attached thereto, as amended by the First Amendment to Note Agreements dated as of May 31, 1996 and the Second Amendment to Note Agreements dated as of March 25, 1999, as further amended, supplemented, restated or modified from time to time.

"1995 Notes" shall mean the 8.04% First Mortgage Notes due September 15, 2009 of the Obligors issued pursuant to the 1995 Note Agreements in an original aggregate principal amount of \$85,000,000.

"1998 Note Agreement" shall mean the Note Agreement, dated as of January 22, 1998, between the Obligors and the purchaser listed in the Schedule of Purchasers attached thereto, as amended by that certain First Amendment to Note Agreement dated as of March 25, 1999, and as further amended, supplemented, restated or modified from time to time.

"1998 Notes" shall mean the 7.17% First Mortgage Notes due September 15, 2010 of the Obligors issued pursuant to the 1998 Note Agreement in an original aggregate principal amount of \$11,000,000.

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Star Gas Propane, L.P.
Star/Petro, Inc.

"Non-Related Subsidiaries" shall mean Subsidiaries of Petro other than any such Subsidiary which is a Related Person.

"Notes" shall have the meaning specified in Section 1.

"Obligor Security Agreement" shall mean the Pledge and Security Agreement, dated as of December 13, 1995, among Star Gas, Star Gas LLC as successor to Petroleum Heat and Power Co., Inc. and Star Gas Corporation, the Restricted Subsidiaries named therein and the Trustee, as amended from time to time.

"Obligors" shall have the meaning specified in the Introduction.

"Offering Materials" shall have the meaning specified in Section 5.4.

"Officers' Certificate" shall mean as to any corporation, a certificate

executed on its behalf by the Chairman of the Board of Directors (if an officer) or its President or one of its Vice Presidents and its Treasurer, or Controller, or one of its Assistant Treasurers or Assistant Controllers, and, as to any partnership, a certificate executed on behalf of such partnership by its general partner in a manner which would qualify such certificate as an Officers' Certificate of such general partner hereunder.

"Operative Agreements" shall mean this Agreement, the Notes, the 2000 Note Agreement, the 1998 Note Agreement, the 1995 Note Agreements, the Bank Credit Facilities, the Security Documents, the Intercompany Notes, the Conveyance Agreements, the MLP Agreement and the Partnership Agreement.

"Parity Debt" shall mean Indebtedness of either Obligor incurred in accordance with Section 10.1(b), 10.1(e), 10.1(f) or 10.1(i) and secured by the Lien of the Security Documents in accordance with Section 10.2(h) or 10.2(i).

"Partnership Agreement" shall mean the Agreement of Limited Partnership of Star Gas, as in effect on the date of the Closing, and as the same may from time to time be amended, modified or supplemented in accordance with the terms thereof and Section 10.12 hereof.

"Partners Security Agreement" shall mean the Amended and Restated Pledge and Security Agreement among the Public Partnership, the General Partner and the Trustee, dated as of March 25, 1999, as amended from time to time.

"PBGC" shall mean the Pension Benefit Guaranty Corporation or any governmental authority succeeding to any of its functions.

"Perfection Certificate" shall mean a certificate from Star Gas in substantially the form attached thereto as Exhibit S to the 1995 Note Agreements.

"Permitted Banks" shall have the meaning specified in Section 10.3(a)(4).

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Star Gas Propane, L.P.
Star/Petro, Inc.

"Permitted Encumbrances" shall mean the encumbrances and exceptions to title to the Assets described in the Security Documents.

"Permitted Exceptions" shall have the meaning specified in Section 5.8(a).

"Permitted Insurers" shall mean insurers with ratings of A or better according to Best's Insurance Reports or a comparable rating agency for insurance companies located outside of the United States and Canada and with assets of no less than \$500 million.

"Person" shall mean a corporation, a firm, a joint venture, an association, a partnership, a limited liability company, an organization, a business, a trust or other entity or enterprise, an individual, a government or political subdivision thereof or a governmental agency, department or instrumentality.

"Petro" shall mean Petroleum Heat and Power Co., Inc., a Minnesota corporation.

"Petro Holdings" shall mean Petro Holdings, Inc. and its Subsidiaries.

"Petro's Pro Forma Propane Volumes" shall have the meaning specified in Section 10.30.

"Plan" shall mean an "employee benefit plan" (as defined in section 3(3) of ERISA) subject to Title IV of ERISA which is or has been established or maintained, or to which contributions are or have been made, by the General Partner, either Obligor or any Related Person or to which the General Partner, either Obligor or any Related Person is or has been obligated to contribute, or an employee benefit plan as to which the General Partner, either Obligor or any Related Person could be treated as a contributory sponsor under section 4069 or section 4212 of ERISA if such plan were terminated.

"Potential Event of Default" shall mean any condition or event which, with notice or lapse of time or both, would become an Event of Default.

"Public Partnership" shall mean Star Gas Partners, L.P., a Delaware limited partnership.

"Public Partnership Restricted Proceeds" shall mean all proceeds of (a) borrowings by Star/Petro from the Public Partnership and (b) capital contributions or equity investments indirectly made by the Public Partnership in Star/Petro, which proceeds, upon receipt thereof, are designated for investment by Star/Petro in Petro Holdings.

"Purchase Money Lien" shall have the meaning specified in Section 10.2(j).

"Purchasers" shall have the meaning set forth in the Introduction.

"QPAM Exemption" shall have the meaning specified in Section 6.2(c).

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Star/Petro, Inc.

"RCRA" shall mean the Federal Resource Conservation and Recovery Act, as amended.

"Refinanced Acquisition Debt" shall mean any Indebtedness originally incurred under the Initial Acquisition Facility which has been refinanced pursuant to Section 10.1(i).

"Reinvestment Yield" shall mean with respect to the Called Principal of any Note, the yield to maturity implied by (a) the yields reported, as of 10:00 a.m. (New York City time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX-1" on the Bloomberg Financial Market Screen (or such other display as may replace Page PX-1 on the Bloomberg Financial Market Screen) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (b) the Treasury constant maturity series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15(519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (i) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (ii) interpolating linearly between yields reported to various maturities.

"Related Person" shall mean any trade or business, whether or not incorporated, which, as of any date of determination, would be treated as a single employer together with the General Partner or either Obligor under section 414 of the Code.

"Remaining Average Life" shall mean with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (a) such Called Principal into (b) the sum of the products obtained by multiplying (i) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (ii) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" shall mean with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Sections 9 or 11.

"Required Holders" shall mean the holders of at least 66-2/3% principal amount of the Notes at the time outstanding.

Star Gas Propane, L.P.
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"Responsible Officer" shall mean the President, any Vice President, the Chief Financial Officer, the Treasurer and the Secretary of the general partner of Star Gas or Star/Petro, as the case may be, and any other officer of the general partner of Star Gas or Star/Petro, as the case may be, who is responsible for compliance with or performance of any obligation under this Agreement or the other Operative Agreements and any employee of Star Gas or Star/Petro or any employee or officer of Petro performing any of the above functions.

"Restricted Payment" shall mean as to any Person, (a) any payment, dividend or other distribution, direct or indirect, in respect of any partnership interest (general or limited) or membership interest in, or on account of any shares of any class of stock of, such Person, except a distribution payable solely in additional partnership interests or membership interests in, or shares of stock of, such Person, and (b) any payment, direct or indirect, on account of the redemption, retirement, purchase or other acquisition of any partnership interest or membership interest in, or any shares of any class of stock of, such Person now or hereafter outstanding or of any warrants, rights or options to acquire any such shares, except to the extent that the consideration therefor consists of shares of stock of such Person.

"Restricted Subsidiary" shall mean any Wholly-Owned Subsidiary of Star Gas (a) organized under the laws of the United States or any state thereof or the District of Columbia, (b) none of the capital stock or ownership interests of which is owned by Unrestricted Subsidiaries, (c) substantially all of the operating assets of which are located in, and substantially all of the business of which is conducted within the United States and which business consists of the wholesale and retail sale, distribution and storage of propane gas and related petroleum derivative products and/or the related retail sale of supplies and equipment, including home appliances, and (d) designated by Star Gas as a Restricted Subsidiary in Schedule 13 or at a subsequent date; provided, however, that (i) to the extent a newly formed or acquired Wholly-Owned Subsidiary satisfying the requirements of the foregoing clauses (a), (b) and (c) is not declared either a Restricted Subsidiary or an Unrestricted Subsidiary within 90 days of its formation or acquisition, such Wholly-Owned Subsidiary shall be deemed a Restricted Subsidiary and (ii) a Restricted Subsidiary may be designated as an Unrestricted Subsidiary in accordance with the provisions of Section 10.19(a).

"Security Documents" shall mean the Trust Agreement, the Mortgage(s), the Obligor Security Agreement, the General Partner Guarantee Agreement, the Subsidiary Guarantee Agreement, the Partners Security Agreement, the Perfection Certificate, the Lockbox Agreements, the Cash Collateral Agreement, and all other security agreements and documents and instruments executed and delivered in order to secure the Indebtedness and/or perfect the Liens referred to in the Trust Agreement.

"Seller" shall mean, with respect to any Acquired Business Entity, the Person from whom Star Gas acquires (whether by purchase, merger or consolidation) such Acquired Business Entity.

"Series A Notes" shall have the meaning specified in Section 1.

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"Series B Notes" shall have the meaning specified in Section 1.

"Settlement Date" shall mean, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 9.2, 9.3 or 9.4 or is declared to be or becomes immediately due and payable pursuant to Section 11, as the context requires.

"Star Gas" shall have the meaning specified in the Introduction.

"Star/Petro" shall have the meaning specified in the Introduction.

"Star/Petro Intercompany Subordinated Debt" shall mean the borrowing of Star/Petro from the Public Partnership evidenced by the Star/Petro Intercompany Subordinated Note.

"Star/Petro Intercompany Subordinated Note" shall mean the note evidencing the Star/Petro Intercompany Subordinated Debt, which shall be fully subordinate to the prior payment, in full, of the principal, interest and premium, if any, on the Notes, with the terms as specified in the form of Intercompany Note annexed as Exhibit C hereto, but modified (as set forth more fully in Section 10.4(c) hereof) to permit (i) investments indirectly made by the Public Partnership, and (ii) interest payments in the event that the ratio of Consolidated Cash Flow to Consolidated Interest Expense is greater than 2.0 to 1.0.

"Subsidiary" shall mean, as to any Person, any corporation, association, partnership, joint venture or other business entity at least a majority (by number of votes) of the stock of any class or classes (or equivalent interests) of which is at the time owned by such Person or by one or more Subsidiaries of such Person or by such Person and one or more of its Subsidiaries, if the holders of the stock of such class or classes (or equivalent interests) (a) are ordinarily, in the absence of contingencies, entitled to vote for the election of a majority of the directors (or Persons performing similar functions) of such business entity, even though the right so to vote has been suspended by the happening of such a contingency, or (b) are at the time entitled, as such holders, to vote for the election of the majority of the directors (or Persons performing similar functions) of such business entity, whether or not the right so to vote exists by reason of the happening of a contingency. Unless the context otherwise requires, any reference to a Subsidiary shall mean a Subsidiary of Star Gas.

"Subsidiary Guarantee Agreement" shall mean the Guarantee Agreement among the Restricted Subsidiaries and the Trustee, dated as of December 13, 1995, as amended from time to time.

"Substantial Portion" shall have the meaning specified in Section 7(a).

"Supplemental Agreement" shall mean an agreement between a Restricted Subsidiary and the Trustee in the form attached as Exhibit U to the 1995 Note Agreements, as amended from time to time.

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"Trust Agreement" shall mean the Intercreditor and Trust Agreement, dated as of December 13, 1995, among Star Gas, Star Gas LLC as successor to Petroleum Heat and Power Co., Inc. and Star Gas Corporation, the Public Partnership, the Restricted Subsidiaries named therein, the Trustee, the purchasers of the 1995 Notes, the Administrative Agent, the Documentation Agent and the Banks, as amended from time to time.

"Trustee" shall mean HSBC Bank USA f/k/a Marine Midland Bank, as Trustee under the Trust Agreement and its successors and assigns thereunder.

"2000 Note Agreement" shall mean the Note Agreement, dated as of March 30, 2000, among the Obligors and the purchasers listed in the Schedule of Purchasers attached thereto, as amended by the First Amendment to Note Agreement dated as of September 30, 2000, as further amended, supplemented, restated or modified from time to time.

"2000 Notes" shall mean the 8.67% First Mortgage Notes, Series A, due March 30, 2012 and the 8.72% First Mortgage Notes, Series B, due March 30, 2015, of the Obligors issued pursuant to the 2000 Note Agreement in an original aggregate principal amount of \$27,500,000.

"Uniform Commercial Code" shall mean the Uniform Commercial Code or similar statute in effect from time to time in any jurisdiction.

"Unrestricted Subsidiary" shall mean any Wholly-Owned Subsidiary other than a Restricted Subsidiary which is organized under the laws of the United States or any state thereof or the District of Columbia and substantially all of the operating assets of which are located in, and substantially all of the business

of which is conducted within the United States and which business consists of the wholesale and retail sale, distribution and storage of propane gas and related petroleum derivative products and the related retail sale of supplies and equipment, including home appliances.

"Wholly-Owned" shall mean as applied to any Subsidiary, a Subsidiary all of the outstanding shares (other than directors' qualifying shares, if required by law) of every class of stock or other equity interests of which are at the time owned by Star Gas or by one or more Wholly-Owned Subsidiaries or by Star Gas and one or more Wholly-Owned Subsidiaries.

"Working Capital Facility" shall mean that Working Capital Facility under the Bank Credit Facilities which shall permit borrowings thereunder in aggregate amount outstanding at any time no greater than as permitted by Section 10.1(e) (ii) and which shall be secured by the Mortgaged Property pursuant to the Security Documents and any extension, renewal, refunding or replacement thereof, provided that the aggregate amounts that may be outstanding pursuant thereto shall be permitted by Section 10.1(e) (ii).

Section 14. Registration, Transfer and Substitution of Notes.

Section 14.1. Note Register; Ownership of Notes. Any Notes issued in substantially the form of Exhibit A1 or A2 are in "registered form." The Obligors will keep at the principal office

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of Star Gas a register in which the Obligors will provide for the registration of Notes in registered form and the registration of transfers of Notes in registered form. The Obligors may treat the Person in whose name any Note is registered on such register as the owner thereof for the purpose of receiving payment of the principal of and the Make Whole Amount, if any, and interest on such Note and for all other purposes, whether or not such Note shall be overdue, and the Obligors shall not be affected by any notice to the contrary. All references in this Agreement or in a Note to a "holder" of any Note shall mean the Person in whose name such Note is at the time registered on such register.

Section 14.2. Transfer and Exchange of Notes. Upon surrender of any Note for registration of transfer or for exchange to the Obligors at the principal office of Star Gas, the Obligors at their expense will execute and deliver in exchange therefor a new Note or Notes of the same series in denominations of at least \$100,000 (except one Note may be issued in a lesser principal amount if the unpaid principal amount of the surrendered Note is not evenly divisible by, or is less than, \$100,000), as requested by the holder or transferee, which aggregate the unpaid principal amount of such surrendered Note. Each such new Note shall be in registered form. Each such Note shall be dated so that there will be no loss of interest on such surrendered Note and otherwise of like tenor, and shall be registered in the name or names of such Person as such holder or transferee may request. Any Note in lieu of which any such new Note has been executed and delivered shall not be deemed to be an outstanding Note for any purpose of this Agreement.

Section 14.3. Replacement of Notes. Upon receipt of evidence reasonably satisfactory to the Obligors of the loss, theft, destruction or mutilation of any Note and, in the case of any such loss, theft or destruction of any Note, upon delivery of an indemnity bond in such reasonable amount as the Obligors may determine (or, in the case of any Note held by a Purchaser or another institutional holder or such Purchaser's or other institutional holder's nominee, of an indemnity agreement from such Purchaser or such other institutional holder), or, in the case of any such mutilation, upon the surrender of such Note for cancellation to the Obligors at the principal office of Star Gas, the Obligors at their expense will execute and deliver, in lieu thereof, a new Note of the same series in the unpaid principal amount of such lost, stolen, destroyed or mutilated Note, dated so that there will be no loss of interest on such Note and otherwise of like tenor. Any Note in lieu of which any such new Note has been so executed and delivered by the Obligors shall not be deemed to be an outstanding Note for any purpose of this Agreement.

Section 14.4. Notes Held by Obligors Etc., Deemed Not Outstanding. For the purposes of determining whether the holders of the Notes of the requisite principal amount at the time outstanding have taken any action authorized by this Agreement or any other Operative Agreement with respect to the giving of consents or approvals or with respect to the acceleration upon an Event of Default, any Notes directly or indirectly owned by either Obligor, the

general partner of Star Gas or any of their respective Affiliates shall be disregarded and deemed not to be outstanding.

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Section 15. Payments on Notes.

Section 15.1. Place of Payment. Payments of principal, Make Whole Amount, if any, and interest becoming due and payable on the Notes shall be made at the principal office of the Trustee, in the Borough of Manhattan, the City and State of New York, unless the Obligors, by written notice to each holder of any Notes, shall designate the principal office of another bank or trust company in such Borough as such place of payment, in which case the principal office of such other bank or trust company shall thereafter be such place of payment.

Section 15.2. Home Office Payment. So long as a Purchaser or its nominee shall be the holder of any Note, and notwithstanding anything contained in Section 15.1 or in such Note to the contrary, the Obligors will pay all sums becoming due on such Note for principal, Make Whole Amount, if any, and interest no later than 12:00 noon (New York City time) and by the method and at the address specified for such Purchaser for such purpose in Schedule A, or by such other reasonable method or at such other address as such Purchaser shall have from time to time specified to the Obligors in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that any Note paid or prepaid in full shall, after such payment or prepayment in full, be surrendered to the Obligors at the principal office of Star Gas or at the place of payment maintained by the Obligors pursuant to Section 15.1 for cancellation. Prior to any sale or other disposition of any Note held by a Purchaser or such Purchaser's nominee such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Obligors in exchange for a new Note or Notes pursuant to Section 14.2. The Obligors will afford the benefits of this Section 15.2 to any institutional investor which is the direct or indirect transferee of any Note purchased by a Purchaser under this Agreement and which has made the same agreement relating to such Note as such Purchaser has made in this Section 15.2.

Section 16. Expenses, Indemnification, Etc.

(a) Whether or not the transactions contemplated hereby shall be consummated, the Obligors will pay all expenses in connection with such transactions and in connection with any amendments or waivers (whether or not the same become effective) under or in respect of this Agreement or the other Operative Agreements, including, without limitation: (i) the costs and expenses of preparing and reproducing this Agreement and the other Operative Agreements, of furnishing all opinions by counsel for the Obligors or the general partner of Star Gas (including any opinions requested by the Purchasers' special counsel, Chapman and Cutler, as to any legal matter arising hereunder) and all certificates on behalf of the Obligors or the general partner of Star Gas, and of the Obligors' or the general partner of Star Gas's performance of and compliance with all agreements and conditions contained herein on its part to be performed or complied with; (ii) the cost of delivering to each Purchaser's principal office, insured to such Purchaser's satisfaction, the Notes sold to such Purchaser hereunder and any Notes delivered to such Purchaser upon any substitution thereof pursuant to Section 14 and of such Purchaser's delivering any Notes, insured to such Purchaser's satisfaction, upon any such substitution; (iii) the fees, expenses and disbursements of the Purchasers' special counsel, Chapman and

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Cutler, and the Purchasers' local counsel in connection with such transactions and any such amendments or waivers; (iv) the costs and expenses, including attorneys' fees, incurred by any Purchaser or any subsequent holder of a Note in enforcing (or determining whether or how to enforce) any rights under this Agreement or any other Operative Agreement including, without limitation, the Notes or in responding to any subpoena or other legal process in connection with this Agreement or the transactions contemplated hereby or by reason of any Purchaser or any subsequent holder of Notes having acquired any Note, including without limitation, costs and expenses incurred in any bankruptcy case; (v) the cost and expenses of obtaining a Private Placement Number for each series of the Notes; and (vi) the reasonable out-of-pocket expenses incurred by any Purchaser in connection with such transactions and any such amendments or waivers. The

Obligors also will pay, and will save the Purchasers and each other holder of any Notes harmless from, all claims in respect of the fees, if any, of brokers and finders (unless engaged by the Purchasers) and any and all liabilities with respect to any taxes (including interest and penalties) which may be payable in respect of the execution and delivery hereof, the issue of the Notes hereunder and any amendment or waiver under or in respect hereof or of the Notes. In furtherance of the foregoing, on the date of the Closing, the Obligors will pay the fees and disbursements of the Purchasers' special counsel which are reflected as unpaid in the statement of Chapman and Cutler, their special counsel, delivered to Star Gas prior to the date of the Closing; and thereafter the Obligors will pay, promptly upon receipt of supplemental statements therefor from time to time, additional fees, if any, and disbursements of the Purchasers' special counsel in connection with the transactions hereby contemplated (including unposted disbursements as of the date of the Closing).

(b) The Obligors will protect, indemnify and save harmless the Trustee and each present, future and former holder of any Note and their respective officers, directors, trustees, employees, agents and representatives (individually, an "Indemnified Party" and collectively, the "Indemnified Parties") from and against all losses, liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys' fees and expenses) imposed upon or incurred by or asserted against any Indemnified Party by reason of (i) ownership of the Mortgaged Property, or any interest therein, or receipt of any rent or other sum therefrom, (ii) any accident or injury to or death of persons or loss of or damage to property occurring on or about the Mortgaged Property or any part thereof, (iii) any use, non-use or condition of the Mortgaged Property or any part thereof, (iv) any failure on the part of either Obligor, the General Partner, the general partner of Star Gas or any of their respective Subsidiaries or Affiliates to perform or comply with any of the terms of this Agreement or any other Operative Agreement, (v) the performance of any labor or services or the furnishing of any materials or other property in respect of the Mortgaged Property or any part thereof, (vi) any negligence or tortious act on the part of either Obligor, the General Partner, the general partner of Star Gas, any of their respective Subsidiaries or Affiliates or any of their respective agents, contractors, sublessees, licensees or invitees, (vii) any work in connection with any alterations, changes or construction of the Mortgaged Property, (viii) any other relationship that has arisen or may arise between either Obligor, the General Partner, the general partner of Star Gas or any of their respective Subsidiaries or Affiliates and the Indemnified Parties or the Mortgaged Property as a result of the delivery or performance of this Agreement, any other Operative Agreement or any action contemplated hereby or thereby or by any other document executed in connection

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herewith or therewith, (ix) the presence or removal, or the discharge, spillage, leakage, emission, release, threat of release or disposal, of any Hazardous Substances on, under, about or from the Mortgaged Property or the noncompliance with any Legal Requirement relating thereto, whether arising prior to the issuance of the Notes or at any time thereafter and whether or not either Obligor, the General Partner, the general partner of Star Gas or any of their respective Subsidiaries or Affiliates is responsible therefor or (x) the holding of, or any interest in, any sum deposited or paid under this Agreement, the Notes or any other Operative Agreement, provided that nothing contained herein shall be deemed to require the Obligors to indemnify the Indemnified Parties for conditions (other than matters covered by clause (vi) above) first occurring subsequent to the earlier of (1) the taking of exclusive possession and control of the Mortgaged Property for operational purposes pursuant to Section 21.10 of the Mortgages or Section 6.03 of the Obligor Security Agreement, or (2) the foreclosure of the Lien under any Security Document and the transfer of title to the Trustee.

In case any action, claim, suit or proceeding is brought against an Indemnified Party by reason of any such occurrence, the Obligors may, and upon the request of such Indemnified Party will, at the Obligors' expense resist and defend such action, suit or proceeding or cause the same to be resisted and defended by counsel for the insurer of the liability or by counsel designated by the Obligors and reasonably satisfactory to the Indemnified Party, as the case may be, provided that any Indemnified Party shall be entitled to participate in any such action, suit or proceeding with counsel of its own choice but at its own expense. In any event, if the Obligors fail to assume the defense within a reasonable time after any such request, the Indemnified Party may assume such defense or other indemnification obligations and the fees and expenses of its

attorney will be paid by the Obligors. The obligations of the Obligors under this Section 16 shall survive any termination or satisfaction of this Agreement. Any amounts payable to any Indemnified Party under this Section 16 which are not paid within 15 days after written demand therefor by any Indemnified Party shall bear interest at the rate of 9.95% per annum from the date of such demand. In the event that the Obligors shall be required to pay any indemnity under this Section 16, the Obligors shall pay the Indemnified Party an amount which, after deduction of all taxes required to be paid by such Indemnified Party in respect of the receipt or accrual thereof (after giving credit for any savings in respect of any such taxes by reason of deductions, credit or allowances in respect of the payment of the expense indemnified against, and of any other such taxes), shall be equal to the amount of such indemnity.

(c) In connection with the Closing, the General Partner and the Obligors are requesting that each Purchaser make available for funding an amount equal to the principal amount specified opposite such Purchaser's name in Schedule A. If, for any reason, on the date scheduled by the General Partner and the Obligors as the date for the Closing, (i) the closing conditions are not satisfied by 11:00 a.m. on such scheduled date, (ii) the General Partner and the Obligors do not, by 11:00 a.m. on such scheduled date reschedule such Closing for a subsequent date, and (iii) the Closing in fact does not occur on such scheduled date, the General Partner and the Obligors will protect, indemnify and hold each Purchaser harmless from and against any and all losses resulting from such Purchaser's failure or inability to invest on the scheduled date for the Closing the purchase price of the Notes to be purchased by such Purchaser, for the period

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ending on the next following Business Day at a rate of interest equal to or greater than the rate of interest on such Purchaser's Notes.

Section 17. Survival of Representations and Warranties.

All representations and warranties contained in this Agreement or the other Operative Agreements, or made in writing by or on behalf of the General Partner, either Obligor, the general partner of Star Gas or any of their Affiliates in connection with the transactions contemplated by this Agreement or the other Operative Agreements, shall survive the execution and delivery of this Agreement and the other Operative Agreements, any investigation at any time made by any Purchaser or on any Purchaser's behalf, the purchase of the Notes by the Purchasers under this Agreement and any disposition or payment of the Notes. All statements contained in any certificate or other instrument delivered by or on behalf of either Obligor, the General Partner, any Restricted Subsidiary or the general partner of Star Gas pursuant to this Agreement and/or the other Operative Agreements or in connection with any amendment, waiver or modification of this Agreement, any of the other Operative Agreements or the Notes shall be deemed representations and warranties of the Obligors under this Agreement.

Section 18. Amendments and Waivers.

Any term of this Agreement or of the Notes may be amended and the observance of any term of this Agreement or of the Notes may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Obligors and the Required Holders, provided that, without the prior written consent of the holders of all the Notes at the time outstanding, no such amendment or waiver shall (a) change the maturity or the principal amount of, or change the rate of interest or the time of payment of interest on, or change the amount or the time of payment of any principal or Make Whole Amount payable on any prepayment of, any Note, (b) release any Lien against the Mortgaged Property for the benefit of the holders of the Notes, (c) reduce the aforesaid percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver or change the rights of the holders with respect thereto, (d) change the percentage of the principal amount of the Notes the holders of which may declare the Notes to be due and payable as provided in Section 11 or change the rights of the holders with respect thereto, (e) decrease the percentage of the principal amount of the Notes the holders of which may rescind and annul any such declaration as provided in Section 11 or (f) modify the provisions of Section 9.8. Any amendment or waiver effected in accordance with this Section 18 shall be binding upon each holder of any Note at the time outstanding, each future holder of any Note and the Obligors.

Section 19. Notices, Etc.

Except as otherwise provided in this Agreement, notices and other communications under this Agreement shall be in writing and shall be delivered by hand, by express courier service or by registered or certified mail, return receipt requested, postage prepaid, addressed, (a) if to a Purchaser, at the address for such Purchaser set forth in Schedule A or at such other address as such Purchaser shall have furnished to the Obligors in writing, except as otherwise provided in

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Section 15.2 with respect to payments on Notes held by such Purchaser or such Purchaser's nominee, or (b) if to any other holder of any Note, at such address as such other holder shall have furnished to the Obligors in writing, or, until such other holder so furnishes to the Obligors an address, then to and at the address of the last holder of such Note who has furnished an address to the Obligors, or (c) if to either Obligor, at 2187 Atlantic Street, Stamford, Connecticut 06902 to the attention of Secretary, Star Gas Propane, L.P., with a copy to Vice President-Finance, Star Gas LLC, at the address listed immediately above, or at such other address, or to the attention of such other officer, as the Obligors shall have furnished to each such Purchaser and each such holder in writing. Any notice so addressed and mailed shall be deemed to be given three Business Days after being so mailed.

Section 20. Reproduction of Documents.

This Agreement, each other Operative Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and notifications which may hereafter be executed, (b) documents received by the Purchasers at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to the Purchasers or any other holder of any Note, may be reproduced by any such Purchaser or holder by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and such Purchaser or holder may destroy any original document so reproduced. Each of the Obligors and the General Partner agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser or holder in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

Section 21. Adjustment of Interest Rate.

(a) Star Gas agrees to maintain a continuing rating relationship with an Approved Rating Agency lasting as long as the Notes are outstanding, pursuant to which the Notes shall be re-rated at least annually.

(b) After April 30, 2001, if the Notes shall cease to have a rating from an Approved Rating Agency, the interest rate payable on the Notes shall be increased by 150 basis points effective 20 Business Days from the date that the Notes cease to have such rating until the date that the Notes are assigned a new rating by an Approved Rating Agency.

(c) In the event that the Notes receive a rating below Investment Grade in a rating of the Notes conducted by an Approved Rating Agency pursuant to subdivision (ii)(C) or (iii)(E) of Section 10.7(a) or Section 10.20, the interest rate payable by the Obligors on the Notes shall be increased by 150 basis points effective from the date of the event giving rise to the requirement that such rating be obtained until such date an Approved Rating Agency gives the Notes a rating equivalent to or higher than Investment Grade.

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(d) If and when Petro ceases to be a Wholly-Owned Subsidiary, at the expense of the Obligors, the Notes shall be promptly, but in any event within 20 days from the date of such occurrence, re-rated by an Approved Rating Agency. In the event the Notes receive a rating below Investment Grade in a rating of the Notes conducted by an Approved Rating Agency pursuant to the preceding sentence, the interest rate payable by the Obligors on the Notes shall be increased by 150 basis points effective from the date Petro ceases to be a Wholly-Owned Subsidiary until such date an Approved Rating Agency gives the

Notes a rating equivalent to or higher than Investment Grade.

Section 22. Miscellaneous.

This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto, whether so expressed or not, and, in particular, shall inure to the benefit of and be enforceable by any holder or holders at the time of the Notes or any part thereof. Except as stated in Section 17, this Agreement embodies the entire agreement and understanding between the Purchasers and the Obligors and supersedes all prior agreements and understandings relating to the subject matter hereof. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

Section 23. Submission to Jurisdiction.

For the purpose of assuring that any holder of Notes may enforce its rights under this Agreement and the Notes, each of the Obligors and the General Partner, for itself and its successors and assigns, hereby, to the fullest extent permitted by applicable law, irrevocably (a) agrees that any legal or equitable action, suit or proceeding brought against it arising out of or relating to this Agreement or any transaction contemplated hereby or the subject matter of any of the foregoing or for recognition or enforcement of any judgment rendered in any such action, suit or proceeding may be instituted in any state or Federal court sitting in the State of New York, (b) waives any objection which it may now or hereafter have to the laying of venue of any such action, suit or proceeding brought in any such court, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum, or any right to require the proceeding to be conducted in any other jurisdiction by reason of its present or future domicile, (c) irrevocably submits itself to the non-exclusive jurisdiction of any state or Federal court of competent jurisdiction sitting in the State of New York for purposes of any such action, suit or proceeding, and (d) irrevocably waives any immunity from jurisdiction to which it might otherwise be entitled in any such action, suit or proceeding which may be instituted in any state or Federal court sitting in the State of New York, and irrevocably waives any immunity from, or objection to, the maintaining of an action against it to enforce any judgment for money obtained in any such action, suit or proceeding and any immunity from execution.

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Section 24. Waiver of Jury Trial.

Each of the parties hereto irrevocably and unconditionally waives the right to trial by jury in any legal or equitable action, suit or proceeding arising out of or relating to this Agreement or the Notes or any transaction contemplated hereby or thereby or the subject matter of any of the foregoing.

Section 25. Governing Law.

This Agreement has been executed and delivered in the City of New York, State of New York, United States of America. This Agreement and (unless otherwise expressly provided) all amendments and supplements to, and all consents and waivers pursuant to, this Agreement shall in all respects be governed by, and construed and enforced in accordance with, the internal laws of the State of New York, including all matters of construction, validity and performance.

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If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterpart of this letter and return the same to the undersigned, whereupon this letter shall become a binding agreement between you and the undersigned.

Very truly yours,

Star Gas Propane, L.P.

By: Star Gas LLC, General Partner

By: _____
Title

Star/Petro, Inc.

By _____
Title:

The foregoing Agreement is hereby accepted and agreed to as of the date first above written.

[Variation]
[The Canada Life Assurance Company]
[The Guardian Life Insurance Company of
America]
[Country Life Insurance Company]

By _____
Name:
Title:

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Schedules and Exhibits Omitted

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CREDIT AGREEMENT

Dated as of March 30, 2001

by and among

TOTAL GAS & ELECTRIC, INC.

and

THE CHASE MANHATTAN BANK
as Agent

and

THE LENDERS PARTY HERETO

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CREDIT AGREEMENT (as the same may be amended, supplemented or otherwise modified from time to time, this "Agreement"), dated as of March 30, 2001,

 between TOTAL GAS & ELECTRIC, INC., a Florida corporation (the "Borrower"), the

 LENDERS which from time to time are parties to this Agreement (individually, a "Lender" and collectively, the "Lenders") and THE CHASE MANHATTAN BANK

 ("Chase") as agent for the Lenders (the "Agent").

RECITALS

A. The Borrower is a provider of certain energy and energy related products and services for customers related to the deregulated natural gas and electric industry (the "Business").

B. The Borrower has requested the following credit facilities from the Lenders: (i) a \$15,350,000 revolving credit facility for working capital purposes and (ii) a \$3,000,000 revolving credit facility which converts to a

term loan facility for financing acquisitions for customer accounts and Capital Expenditures (as defined herein).

C. The Lenders are willing, on the terms and subject to the conditions set forth in this Agreement, to agree to the Borrower's requests.

Accordingly, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.1 Defined Terms. The following terms (whether or not

underscored) when used in this Agreement, including its preamble and recitals, shall, except where the context otherwise requires, have the following meanings:

"Affiliate" of any Person means as applied to any Person, any other Person

directly or indirectly controlling or controlled by or under common control with such Person, provided that, for purposes, of this definition, "control" as used with respect to any Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether as a general partner or through the ownership of voting securities or by contract or otherwise; and provided further that no member of

the Sevin Group shall be an Affiliate for purposes of this Agreement.

"Agent" is defined in the preamble and includes each other Person as shall

have subsequently been appointed as a successor agent pursuant to Section 10.9.

"Agent-Related Person" means Chase in its capacity as agent and any

successor agent arising under Section 10.9, and their respective Affiliates, and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

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"Agreement" is defined in the preamble.

"Applicable Prime Rate Margin" means, with respect to any Prime Rate Loan, 1.00 percent per annum.

"Applicable Lending Office" means, with respect to each Lender, with

respect to each type of Loan, the lending office as designated for such type of Loan below its name on the signature pages hereof or such other office of such Lender or of an affiliate of such Lender as such Lender may from time to time specify to the Agent and the Borrower as the office at which its Loans of such type are to be made and maintained.

"Applicable LIBOR Margin" means, with respect any LIBOR Loan, 3.00 percent

per annum.

"Asset Disposition" is defined in Section 8.2.8.

"Assignee Lender" is defined in Section 11.11.1.

"Assignment and Acceptance Agreement" means an Assignment and Acceptance Agreement substantially in the form of Exhibit E hereto.

"Bankruptcy Code" means Title 11 of the United States Code, as amended from

time to time, or any successor statute.

"Bankruptcy Law" is defined in Section 9.1.8.

"Borrower" is defined in the preamble.

"Borrowing" means the Loans of the same type and, in the case of LIBOR

Loans, having the same Interest Period made by all Lenders on the same Business
Day and pursuant to the same Borrowing Request in accordance with Section 2.3.

"Borrowing Base Certificate" means a certificate executed by a Responsible

Officer of the Borrower substantially in the form of Exhibit B hereto.

"Borrowing Request" means a Loan request and certificate duly executed by a

Responsible Officer of the Borrower, substantially in the form of Exhibit C

hereto.

"Business" is defined in the preamble.

"Business Day" means:

(a) any day which is neither a Saturday or Sunday nor a legal holiday
on which banks are authorized or required to be closed in New York, New
York; and

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(b) relative to the making, continuing, prepaying or repaying of any
LIBOR Loans, any day on which dealings in Dollars are carried on in the
London interbank market.

"Capital Expenditures" means, for any period, the aggregate amount of all

payments made during such period by any Person directly or indirectly for the
purpose of acquiring, constructing or maintaining fixed assets, real property or
equipment that, in accordance with GAAP, would be added as a debit to the fixed
asset account of such Person, including, without limitation, all amounts paid or
payable during such period with respect to Capitalized Lease Liabilities and
interest that are required to be capitalized in accordance with GAAP.

"Capital Stock" means, with respect to any Person, any capital stock

(including preferred stock), shares, units, interests, participations or other
ownership interests (however designated, including without limitation such items
as they may apply to a partnership, limited liability company or similar Person)
of such Person and any rights, warrants or options to purchase any thereof.

"Capitalized Lease Liabilities" means all monetary obligations of the

Borrower or any Material Subsidiary under any leasing or similar arrangement
which, in accordance with GAAP, would be classified as capitalized leases, and,
for purposes of this Agreement and each other Loan Document, the amount of such
obligations shall be the capitalized amount thereof, determined in accordance
with GAAP, and the stated maturity thereof shall be the date of the last payment
of rent or any other amount due under such lease prior to the first date upon
which such lease may be terminated by the lessee without payment of a penalty.

"Casualty Event" means, with respect to any Property of the Borrower or any

of the Material Subsidiaries, any loss of or damage to, or any condemnation or
other taking of, such Property for which such Person receives insurance
proceeds, or proceeds of a condemnation award or other compensation.

"Casualty Proceeds" is defined in Section 3.1.3(g).

"CERCLA" means the Comprehensive Environmental Response, Compensation and

Liability Act of 1980, 42 U.S.C. (S) 9601 et seq., as amended.

"CERCLIS" means the Comprehensive Environmental Response Compensation

Liability Information System List.

"Change in Control" means:

(a) the Sevin Group shall fail to own directly at least a 51%
ownership interest in the Managing General Partner with voting power to
elect the board of directors or other governing body; or

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(b) the Managing General Partner shall fail to own directly 100% of
the general partnership interests in Star Propane, or if Star Propane shall
have been converted to corporate form, at least 51 % of the voting shares
of Star Propane; or

(c) the Managing General Partner shall fail to own directly 100% of
the general partnership interests in Star Gas Partners, or if Star Gas
Partners shall have been converted to corporate form, at least 51 % of the
voting shares of Star Gas Partners; or

(d) (i) Star Gas Partners shall fail to own directly or indirectly
at least 72.7% of the voting shares of the Borrower, or (ii) Star Gas
Partners shall fail to own directly or indirectly at least an 72.7%
ownership interest in the Borrower provided that the 72.7% may be reduced

by 11 % due to the exercise of certain stock options outstanding as of the
Effective Date; or

(e) Star Gas Partners shall fail to own directly at least 99% in Star
Propane; or

(f) Star Gas Partners shall fail to own, directly or indirectly, 51 %
of each of Petro Holdings Inc. and its Subsidiaries existing as of the
Effective Date; or

(g) (i) the Borrower shall fail to own directly 100% of the voting
shares of each Material Subsidiary, or (ii) the Borrower shall fail to own
directly at least a 100% ownership interest in each Material Subsidiary.

"Chase" means The Chase Manhattan Bank.

"Code" means the Internal Revenue Code of 1986, as amended, reformed or

otherwise modified from time to time.

"Collateral" is defined in the respective Security Documents.

"Commitment" means, as the context may require, a Lender's Facility A

Commitment, Facility B Commitment, or both thereof.

"Commitment Termination Date" means, as the context may require, the

Facility A Commitment Termination Date or the Facility B Commitment Termination
Date.

"Commitment Termination Event" means:

(a) the occurrence of any Default described in Section 9.1.8; or

(b) the occurrence and continuance of any other Event of Default and either:

(i) the declaration of the Loans to be due and payable pursuant to Section 9.3; or

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(ii) in the absence of such declaration in clause (i) above, the

giving of notice by the Agent, acting at the direction of the Required Lenders, to the Borrower that the Commitments have been terminated.

"Compliance Certificate" means a certificate signed by a Responsible

Officer of the Borrower substantially in the form of Exhibit F, demonstrating

compliance with the covenants contained in Sections 8.2.2(a), 8.2.4, 8.2.5,

8.2.6, 8.2.8, 8.2.13 and 8.2.16 and certifying that no Default or Event of

Default exists, or, if any Default or Event of Default exists, stating the nature and status thereof.

"Consolidated" or "consolidated" means, when used with reference to any

accounting term, the amount described by such accounting term, determined on a consolidated basis in accordance with GAAP, after elimination of intercompany items.

"Consolidated EBITDA" shall mean for any period of four consecutive

quarters, Consolidated Net Income (or consolidated net loss) of the Borrower and the Material Subsidiaries for such period, plus the sum, without duplication, of (a) gross interest expense, (b) depreciation and amortization expenses and charges, (c) all income taxes to any government or governmental instrumentality expensed on the Borrower and Material Subsidiaries' books (whether paid or accrued), (d) the cost to acquire additional customers to the extent such costs were deducted in computing Consolidated Net Income, and (e) all other non-cash expenses to the extent deducted in computing Consolidated Net Income as indicated on the income and expense statements of the Borrower and the Material Subsidiaries, minus all extraordinary or unusual gains, in each case determined on a consolidated basis for the Borrower and the Material Subsidiaries in accordance with GAAP, applied on a consistent basis. All of the foregoing categories shall be calculated (without duplication) over the four fiscal quarters next preceding the date of calculation thereof.

"Consolidated Net Income" means, for any period, the net income (or

deficit) of the Borrower and the Material Subsidiaries for such period (taken as a cumulative whole) including, without limitation, provisions for all taxes and reserves (including reserves for deferred income taxes) and all other proper deductions, all determined in accordance with GAAP on a consolidated basis, after eliminating all intercompany transactions, provided that there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Material Subsidiary or is merged into or consolidated with the Borrower or a Material Subsidiary, (b) the income (or deficit) of any Person (other than a Material Subsidiary) in which the Borrower or any Material Subsidiary has an ownership interest, except to the extent that any such income has been actually received by the Borrower or such Material Subsidiary in the form of dividends, or similar distributions, (c) the undistributed earnings of the Borrower and any Material Subsidiary to the extent that the declaration or payment of dividends or similar distributions by the Borrower and such Material Subsidiary is not at the time permitted by the terms of its charter of any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to the Borrower and such Material Subsidiary, (d) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of income accrued during such period, (e) any aggregate net after tax gain or net after tax loss during such period arising from the sale, exchange or other disposition of capital assets (such term to include

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all fixed assets, whether tangible or intangible, all Inventory sold in conjunction with the disposition of fixed assets, and all securities), (f) any write-up of any asset, (g) any net gain from the collection of the proceeds of life insurance policies, (h) any gain arising from the acquisition of any securities, or the extinguishment, under GAAP, of any Indebtedness, of the Borrower or any Material Subsidiary, (i) any after tax gain or loss during such period from any change in accounting, from any discontinued operations or the disposition thereof, from any extraordinary events or from any prior period adjustments, (j) any deferred credit representing the excess of equity in any Material Subsidiary at the date of acquisition over the cost of the investment in such Material Subsidiary, and (k) in the case of a successor to the Borrower by consolidation or merger or as a transferee of its assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets.

"Consolidated Total Assets" means, as of any date of determination, the

total assets of the Borrower and the Material Subsidiaries on a consolidated basis, as determined in accordance with GAAP.

"Contingent Liability" means any agreement, undertaking or arrangement by

which any Person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the indebtedness, obligation or any other liability of any other Person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the shares of any other Person. The amount of any Person's obligation under any Contingent Liability shall (subject to any limitation set forth therein) be deemed to be the outstanding principal amount of the debt, obligation or other liability guaranteed thereby.

"Continuation/Conversion Notice" means a notice of continuation or

conversion of LIBOR Loans or Prime Rate Loans, as applicable, and certificate duly executed by an Responsible Officer of the Borrower, substantially in the form of Exhibit D hereto.

"Customer List" means, at any time, the names and addresses of all

customers of the Borrower and the Material Subsidiaries at such time, together with all trade names and trademarks and all supporting documents, including but not limited to computer discs, programs, tapes, trial balances and carrying media.

"Default" means any event or occurrence which, with the giving of notice or

the lapse of time or both, would constitute an Event of Default.

"Depositary" means Bank of America N.A.

"Disclosure Schedule" means the Disclosure Schedule attached hereto as

Schedule 1.1, as it may be amended, supplemented or otherwise modified from time

to time by the Borrower with the written consent of the Agent and the Required Lenders.

"Disqualified Stock" means, with respect to any Person, any Capital Stock

of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is

exchangeable or exercisable), upon the happening of any event or otherwise (i) matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, (ii) is convertible into or exchangeable or exercisable for Indebtedness or Disqualified Stock, or (iii) is redeemable at the option of the holder thereof, in whole or in part, in each case on or prior to the first anniversary of the stated maturity of such Capital Stock.

"Dollar" and the sign "\$" mean lawful money of the United States.

"Effective Amount" means, with respect to any Loans on any date, the

aggregate outstanding principal amount thereof after giving effect to any Borrowings and prepayments or repayments of Loans occurring on such date. For purposes of Section 3.1 the Effective Amount shall be determined without giving

effect to any mandatory prepayments to be made under such Section 3.1.

"Effective Date" means the date on which all conditions precedent set forth

in Section 6.1, Section 6.2 and Section 11.8 are satisfied or waived by all

Lenders, which date shall occur on or before March 30, 2001 or such later date upon which the Borrower and the Lenders shall mutually agree.

"Eligible Accounts" means, as to any Person at a particular date, the total

outstanding balance of Accounts (as defined in the Uniform Commercial Code in effect in the State of New York) of such Person recorded on the books of such Person in accordance with GAAP after giving effect to all normal reserves (including, without limitation, bad debt reserves) in connection therewith (a) which are bona fide, valid and legally enforceable obligations of the account debtor in respect thereof and arise from the actual sale and delivery of goods or rendition and acceptance of services in the ordinary course of business to such account debtor (but, for clarification, do not include amounts in respect of which no invoice has been rendered to such account debtor), (b) which are not owed by an obligor which is an affiliate or Subsidiary of such Person, (c) which are not owed by an obligor which has taken any of the actions or suffered any of the events of the kind described in Section 9.1.8, (d) which are owed solely by

such Person free and clear of all liens or other rights or claims of any other Person (except in favor of the Agent for the ratable benefit of the Lenders), (e) with respect to which no more than sixty (60) days have elapsed since the date payment is due, and (f) in which the Agent has a perfected, first priority security interest.

"Eligible Inventory" means natural gas inventory of the Borrower or any

Material Subsidiary to the extent that such inventory:

(a) is valued on any date of determination based on the then current midpoint market price set forth in the "Gas Daily - Daily Price Survey", for the closest delivery point of natural gas of similar physical and chemical characteristics: (i) which is owned by the Borrower and in storage pursuant to a gas storage contract and as to which there is a firm transportation contract giving the Borrower the irrevocable unconditional right to cause such natural gas to be transported to the Borrower's customers pursuant to utility nominations and delivery schedules set forth in such contracts or (ii) as to which irrevocable unconditional rights to receive natural gas have been prepaid in full by the Borrower to a Person which has unconditional rights and is

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unconditionally obligated to the Borrower, at any time the Borrower shall elect pursuant to utility nomination and delivery schedules (set forth in a contract approved by the Agent) to deliver such natural gas to customers of the Borrower;

(b) is owned by the Borrower or such Material Subsidiary, is subject to the security interest in favor of the Agent for the benefit of the Lenders pursuant to the Security Agreements, which security interest is (to the extent required by the Agent) perfected as to such inventory, and is subject to no other than Lien whatsoever;

(c) is of customary quality and meets all standards applicable to natural gas, its use or sale imposed by any Governmental Authority having regulatory authority over such matters;

(d) is of a quality and type sold in the ordinary course of the business of the Borrower or such Material Subsidiary;

(e) is located within the United States (i) in a Federal Energy Regulatory Commission ("FERC") regulated pipeline system in or (ii) in commercial storage facilities;

(f) is stored in storage facilities of the Borrower or a Material Subsidiary, a utility controlled storage facility or in a pipeline system regulated by the FERC and if located in another facility leased by the Borrower or such Material Subsidiary, the lessor has delivered to the Agent a waiver, consent and agreement in form and substance satisfactory to the Agent;

(g) has not been delivered to a customer of the Borrower or any Material Subsidiary (regardless of whether such delivery is on a consignment basis); and

(h) is not determined by the Agent, on behalf of the Lenders, to be ineligible for any other reason, based upon credit, collateral or other considerations customarily taken into account by the Agent in making such determinations.

"Environmental Claim" means any written or oral notice, claim demand or

other communication (collectively, a "claim") for investigatory costs, cleanup costs, Government Authority response costs, damages to natural resources or other property, personal injuries, fines or penalties arising out of, based on or resulting from (a) the presence, or release into the environment, of any Hazardous Material at any location, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law. The term "Environmental Claim" shall include, without limitation, any claim by any Government Authority for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any applicable Environmental Law, and any claim by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence of Hazardous Materials or arising from alleged injury or threat of injury to health, public safety or the environment.

"Environmental Law" means any law, regulation, statute, ordinance, code,

rule, regulation, order or guideline (including consent decrees or administrative orders) relating to human health, public safety or the environment or to emissions, discharges, releases or

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threatened releases of Hazardous Materials into the environment (including, without limitation, ambient air, soil, surface water, ground water, wetlands, land or subsurface strata), or otherwise relating to the presence, existence, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

"ERISA" means the Employee Retirement Income Security Act of 1974, as

amended and regulations promulgated thereunder.

"ERISA Affiliate" means any trade or business (whether or not incorporated)

under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA Event" means (a) a Reportable Event with respect to a Pension Plan;

(b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations which is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which could constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan; or (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not

delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

"Event of Default" is defined in Section 9.1.

"Excess Sale Proceeds" is defined in Section 8.2.8(b).

"Facility A Borrowing Base" means, on any date of determination thereof, an amount equal to the sum of (a) 85% of the aggregate amount of Eligible Accounts of the Borrower and its Material Subsidiaries, plus (b) the lesser of (x) seven million dollars and (y) 85% of Eligible Inventory. The Facility A Borrowing Base (including, without limitation, the aforesaid amounts) on any date shall be determined by the Agent in accordance with the provisions of Section 2.1.1(c).

"Facility A Commitment" is defined in Section 2.1.1.

"Facility A Commitment Termination Date" means the earliest of:

- (a) the date 364 days after, but including, the Effective Date;
- (b) the date on which the Facility A Commitments are terminated in full or reduced to zero pursuant to Section 2.2; and

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- (c) the date on which any Commitment Termination Event occurs.

"Facility A Loan" is defined in Section 2.1.1(a).

"Facility A Note" is defined in Section 2.6(b).

"Facility A Percentage" means, relative to any Lender, the Facility A Percentage set forth on Schedule 2.1.1, as such percentage may be adjusted from time to time pursuant to Assignment and Acceptance Agreement(s) executed by such Lender and its Assignee Lender(s) and delivered pursuant to Section 11.11.1.

"Facility B Commitment" means, as to any Lender, the Facility B Commitment set forth opposite such Lender's name on Schedule 2.1.1 under the caption

"Facility B Commitment" as such amount must be reduced from time to time as provided herein.

"Facility B Commitment Termination Date" means the earliest of

- (a) the date 364 days after, but including, the Effective Date;
- (b) the date on which the Facility B Commitment is terminated in full or reduced to zero pursuant to Section 2.2; and

- (c) the date on which any Commitment Termination Event occurs.

"Facility B Loan" is defined in Section 2.1.2.

"Facility B Note" is defined in Section 2.6(c).

"Facility B Percentage" means, relative to any Lender, the Facility B

Percentage set forth on Schedule 2.1.1, as such percentage may be adjusted from

time to time pursuant to Assignment and Acceptance Agreement(s) executed by such
Lender and its Assignee Lender(s) and delivered pursuant to Section 11.11.1.

The Facility B Percentage of each Lender shall equal the Facility A Percentage
of such Lender if any Facility A Loan shall be outstanding at the time of
determination.

"Facility B Loan Conversion Date" means the earliest of

- (a) the date 364 days after, but including, the Effective Date ;
- (b) the date on which the Facility B Commitments are terminated in
full or reduced to zero pursuant to Section 2.2; and

- (c) the date on which any Commitment Termination Event occurs.

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"Fiscal Quarter" means, with respect to any Person, the three (3) month

period ending on March 31, June 30, September 30 and December 31.

"Fiscal Year" means with respect to Star Gas Partners, the Borrower and the

Material Subsidiaries, any period of twelve consecutive calendar months ending
on September 30 occurring during the referred to calendar year (e.g., the "2001
Fiscal Year" refers to a Fiscal Year ending on the September 30, 2001);
provided, however, that for years ended on or prior to December 31, 1999, Fiscal

Year for the Borrower and the Material Subsidiaries means calendar year."

"F.R.S. Board" means the Board of Governors of the Federal Reserve System

or any successor thereto.

"GAAP" is defined in Section 1.4.

"Government Authority" means any agency, authority, board, bureau,

commission, department, office or instrumentality of any nature whatsoever of
any governmental or quasigovernmental unit, whether federal, state, county,
district, city or other political subdivision, foreign or otherwise and whether
now or hereafter in existence, or any officer or official of any thereof.

"Guarantee Agreements" means (i) the Guarantee Agreement, dated as of the

date hereof among Star Gas Partners and the Agent substantially in the form of
Exhibit H-1 hereto, and (ii) the Guarantee Agreement, dated as of the date

hereof, among the Material Subsidiaries and the Agent substantially in the form
of Exhibit H-2 hereto.

"Hazardous Material" means:

- (a) any "hazardous substance", as defined by CERCLA;
- (b) any "hazardous waste", as defined by the Resource Conservation
and Recovery Act, as amended;
- (c) any "pollutant" pursuant to the Clean Water Act, as amended;
- (d) any petroleum product or related compound;
- (e) any polychlorinated biphenyls or friable asbestos;
- (f) any radioactive material or substance; or

(g) any pollutant or contaminant or hazardous, dangerous or toxic chemical, material, substance or waste within the meaning of any other Environmental Law, all as amended or hereafter amended.

"Indebtedness" of any Person means, without duplication:

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(a) any indebtedness for borrowed money which such Person has directly or indirectly created, incurred or assumed;

(b) any indebtedness, whether or not for borrowed money, with respect to which such Person has become directly or indirectly liable and which represents the deferred purchase price (or a portion thereof) or has been incurred to finance the purchase price (or a portion thereof) of any property or service or business acquired by such Person, whether, by purchase, consolidation, merger or otherwise;

(c) all obligations of such Person evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses;

(d) all indebtedness of such Person created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to property acquired by the Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property);

(e) all Capitalized Lease Liabilities;

(f) any indebtedness, whether or not for borrowed money, secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien in respect of property owned by such Person, whether or not such Person has assumed or become liable for the payment of such indebtedness, provided that the amount of such Indebtedness if not so assumed shall in no event be deemed to be greater than the fair market value from time to time (as determined in good faith, by such Person) of the property subject to such Lien;

(g) all liabilities of such Person in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(h) any indebtedness of the character referred to in clauses (a) -----
through (g) of this definition deemed to be extinguished under GAAP but for ---
which such Person remains legally liable but only to the extent of such legal liability; and

(i) any indebtedness of any other Person of the character referred to in clauses (a) through (h) of this definition with respect to which the -----

Person whose Indebtedness is being determined has become liable by way of a Contingent Liability.

"Indemnified Liabilities" is defined in Section 11.4.

"Indemnified Parties" is defined in Section 11.4.

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"Interest Period" means, relative to any LIBOR Loan, the period beginning -----
on (and including) the date on which such LIBOR Loan is made or continued as, or converted into, a LIBOR Loan pursuant to Section 2.3 or 2.4 and ending on (but -----

excluding) the day which numerically corresponds to such date one, two, three or six months thereafter (or, if such month has no numerically corresponding day, on the last Business Day of such month) or any shorter period if acceptable to all the Lenders, in each case as the Borrower may select in its relevant notice pursuant to Section 2.3 or 2.4; provided, however, that:

(a) the Borrower shall not be permitted to select Interest Periods to be in effect at any one time which have expiration dates occurring on more than two (2) different dates;

(b) Interest Periods commencing on the same date for Loans comprising part of the same Borrowing shall be of the same duration;

(c) if such Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next following Business Day (unless, if such Interest Period applied to LIBOR Loans, such next following Business Day is the first Business Day of a calendar month, in which case such Interest Period shall end on the Business Day next preceding such numerically corresponding day); and

(d) no Interest Period may end later than the date set forth in

clause (a) of the definition "Facility A Commitment Termination Date", in

the case of Interest Periods for Facility A Loans, or in the case of Interest Periods for Facility B Loans any date on which a principal payment is due if it would be necessary to repay Facility B Loans before the end of the Interest Period applicable thereto.

"Investment" means, relative to any Person, any direct or indirect purchase

or other acquisition by such Person of stock or other securities of any other Person, or any direct or indirect loan, advance or capital contribution by such Person to any other Person, and any other item, which in any such case; would be classified as an "investment" on a balance sheet of such Person prepared in accordance with GAAP, including, without limitation, any direct or indirect contribution by such Person of property or assets to a joint venture, partnership or other business entity in which such Person retains an interest, but excluding any Permitted Hedging Agreement investments in any company by which such company becomes a Material Subsidiary. For the purposes of Section

8.2.5, the amount involved in Investments made during any period shall be the

aggregate cost during such period to the Borrower and the Material Subsidiaries of all such Investments, determined in accordance with GAAP, but without regard to unrealized increases or decreases in value, or write-ups, write-downs or write-offs, of such investments and without regard to the existence of any undistributed earnings or accrued interest with respect thereto accrued after the respective dates on which such Investments were made, less any net return of capital realized during such period upon the sale, repayment or other liquidation of such Investment (determined in accordance with GAAP, but without regard to any amounts received as earnings (in the form of dividends not constituting a return of capital, interest or otherwise) on such Investment or as loans from any Person in whom such Investment has been made).

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"Lender" has the meaning set forth in the preamble hereto.

"LIBOR" means, for each Interest Period for each LIBOR Loan, the interest

per annum obtained by the Agent as offered quotations (rounded upwards, if necessary, to the nearest 1/100 of 1%) that appear on the Telerate Screen which displays an average British Bankers Association Interest Settlement Rate (such page number 3740 or 3750, as applicable) for deposits (on the date two (2) Business Days prior to the first day of such Interest Period) with a term equivalent to such period in Dollars, determined as of approximately 11:00 a.m., London time; provided that if such rate does not appear on such page or service or such service shall cease to be available, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) which the Agent has determined to be the offered rate on such other page or other service which displays an average British Bankers Association Interest Settlement Rate for

deposits on the date two (2) Business Days prior to the first day of such Interest Period) with a term equivalent to such period in Dollars, determined as of approximately 11:00 a.m., London time.

"LIBOR Loan" means any Loan bearing interest, at all times during an

Interest Period applicable to such Loan, at a fixed rate of interest determined by reference to the LIBOR (Reserve Adjusted).

"LIBOR (Reserve Adjusted)" means, relative to any Loan to be made,

continued or maintained as, or converted into, a LIBOR Loan for any Interest Period, a rate per annum (rounded upward, if necessary, to the nearest 1 / 100 of 1 %) determined pursuant to the following formula:

$$\frac{\text{LIBOR}}{\text{(Reserve Adjusted)}} = \frac{\text{LIBOR}}{1.00 - \text{LIBOR Reserve Percentage}}$$

The LIBOR (Reserve Adjusted) for any Interest Period for LIBOR Loans will be determined by the Agent on the basis of the LIBOR Reserve Percentage in effect on, and the applicable rates furnished to and received by the Agent from the Reference Lender, two (2) Business Days before the first day of such Interest Period.

"LIBOR Reserve Percentage" means, relative to any Interest Period for LIBOR

Loans, the reserve percentage (expressed as a decimal) equal to the maximum aggregate reserve requirements (including all basic, emergency, supplemental, marginal and other reserves and taking into account any transitional adjustments or other scheduled changes in reserve requirements) specified under regulations issued from time to time by the F.R.S. Board and then applicable to assets or liabilities consisting of and including "Eurocurrency Liabilities", as currently defined in Regulation D of the F.R.S. Board, having a term approximately equal or comparable to such Interest Period.

"Lien" means, as to any Person, any mortgage, lien (statutory or

otherwise), pledge, reservation, right of entry, encroachment, easement, right of way, restrictive covenant, license, charge, security interest or other encumbrance in or on, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title

retention agreement or capital lease with respect to, any property or asset owned or held by such Person, or the signing or filing of a financing statement with respect to any of the foregoing which names such Person as debtor, the signing of any security agreement with respect to any of the foregoing authorizing any other party as the secured party thereunder to file any financing statement or any other agreement to give or grant any of the foregoing. For the purposes of this Agreement, a Person shall be deemed to be the owner of any asset which it has placed in trust for the benefit of the holders of Indebtedness of such Person and such trust shall be deemed to be a Lien if such Person remains legally liable therefor, notwithstanding that such Indebtedness is or may be deemed to be extinguished under GAAP.

"Loan" means, as the context may require, a Facility A Loan or a Facility B

Loan.

"Loan Documents" means this Agreement, the Notes, the Guarantee Agreements,

the Security Documents, any pledge agreement, security agreement, guaranty, or mortgage or subordination agreement delivered to the Agent pursuant to this Agreement, as the same may be amended, supplemented, restated or otherwise modified from time to time.

"Managing General Partner" means Star Gas LLC, a Delaware limited liability

company.

"Material Adverse Effect" means, without limitation, a material adverse

effect on (i) the condition (financial or otherwise), business, prospects,
operations, assets or properties of Star Gas Partners and its Subsidiaries taken
as a whole, (ii) the condition (financial or otherwise), business, prospects,
operations, assets or properties of the Borrower and the Material Subsidiaries
(taken as a whole), (iii) any Obligor's ability to perform its obligations under
any Loan Document to which it is a party, (iv) the security interests (or the
value or priority thereof) granted under the Security Documents, or (v) the
validity of the Loan Documents.

"Material Subsidiary" means unless waived by the Agent all existing,

future, direct or indirect Subsidiaries of the Borrower.

"Multiemployer Plan" means a "multiemployer plan", within the meaning of

Section 4001(a) (3) of ERISA, to which the Borrower or any ERISA Affiliate makes,
is making, or is obligated to make contributions or, during the preceding three
(3) calendar years, has made, or been obligated to make, contributions.

"Note" means, as the context may require, either a Facility A Note or a

Facility B Note, or both.

"Obligations" means the obligations of the Borrower to the Agent and the

Lenders under this Agreement, the Notes and each other Loan Document.

"Obligor" means Star Gas Partners, the Borrower, the Material Subsidiaries

and any other Person (other than the Agent or any Lender) obligated under any
Loan Document.

"Other Facilities" is defined in Section 11.12.

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"Organization Document" means, relative to any Obligor, its partnership

agreement, certificate of incorporation, certificate of formation, its by-laws
or operating agreement and all shareholder agreements, voting trusts and similar
arrangements applicable to any of its authorized shares of Capital Stock or
other equity interests.

"Participant" is defined in Section 11.11.2.

"PBGC" means the Pension Benefit Guaranty Corporation or any Government

Authority succeeding to any of its principal functions under ERISA.

"Pension Plan" means a pension plan (as defined in Section 3(2) of ERISA)

subject to Title IV of ERISA (other than a Multiemployer Plan) which the
Borrower and/or any ERISA Affiliate sponsors, maintains, or to which it makes,
is making, or is obligated to make contributions, or in the case of multiple
employer plan (as described in Section 4064(a) of ERISA) has made contributions
at any time during the immediately preceding five (5) plan years.

"Percentage" means the Facility A Percentage or the Facility B Percentage,

or both, as applicable.

"Permitted Hedging Agreement" means natural gas or electricity hedging

agreements for the purpose of hedging (i) price fluctuations of inventory of the
Borrower and its Material Subsidiaries, and (ii) the Borrower's obligation to
deliver natural gas or electricity at capped or fixed prices (and not for
investment or speculative purposes).

"Person" means any natural person, corporation, partnership, firm,

association, trust, government, governmental agency or any other entity, whether acting in an individual, fiduciary or other capacity.

"Petro Credit Facility" means that certain Amended and Restated Credit

Agreement, dated as of December 8, 2000, by and among Petroleum Heat and Power Co., Inc., Bank of America N.A. and certain other financial institutions, as amended, modified or restated from time to time.

"Plan" means an employee benefit plan (as defined in Section 3(3) of

ERISA), subject to Part 4 of Title I (B) of ERISA which the Borrower sponsors or maintains or to which the Borrower makes, is making, or is obligated to make contributions and includes any Pension Plan.

"Post-Default Rate" means (a) in respect of any Loans a rate per annum

equal to: (i) if such Loans are Prime Rate Loans, 2% above the Alternate Prime Rate as in effect from time to time plus the Applicable Prime Rate Margin (but in no event less than the interest rate in effect on the due date), or (ii) if such Loans are LIBOR Loans, 2% above the rate of interest in effect thereon at the time of the Event of Default that resulted in the Post-Default Rate being instituted until the end of the then current Interest Period therefor and, thereafter, 2% above the Alternate Prime Rate as in effect from time to time plus the Applicable Prime Rate Margin (but in no event less than the interest rate in effect on the due date); and (b) in respect of other amounts payable

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by the Borrower hereunder (other than interest) not paid when due (whether at stated maturity, by acceleration or otherwise), a rate per annum during the period commencing on the due date until such other amounts are paid in full equal to 2% above the Prime Rate as in effect from time to time plus the Applicable Prime Rate Margin (but in no event less than the interest rate in effect on the due date).

"Prior Lien" means all Liens of whatever nature against the Borrower or any

of its Material Subsidiaries or any of their respective assets or properties existing on the date hereof before giving effect to the transactions contemplated by this Agreement.

"Prime Rate" means the rate per annum announced by the Reference Lender

from time to time as its Prime Rate in effect at its principal office. The Prime Rate is not necessarily intended to be the lowest rate of interest determined by the Reference Lender in connection with extensions of credit. Changes in the rate of interest on that portion of any Loans maintained as Prime Rate Loans will take effect simultaneously with each change in the Prime Rate. The Agent will give notice promptly to the Borrower and the Lenders of changes in the Prime Rate.

"Prime Rate Loans" means loans at such times as they are being made and/or

maintained at a rate of interest based on the Prime Rate.

"Project Contract" means each agreement of the Borrower and the Material

Subsidiaries listed on Exhibit O (as the same may be amended or supplemented

from time to time) hereto, together with each other agreement entered into by the Borrower or the Material Subsidiaries pursuant to which the Borrower or the Material Subsidiaries agrees to provide services and products anticipated by the Borrower in its reasonable judgement to provide revenues to the Borrower or the Material Subsidiaries in excess of \$200,000 over any 12-month period.

"Project Party" means each Person listed on Exhibit O hereto, who is a

party to the Project Contract listed thereon, and each other Person who is, in the future, party to a Project Contract.

"Property" means any right or interest in or to property whatsoever,

whether real, personal or mixed and whether tangible or intangible.

"Qualified Capital Stock" means Capital Stock not constituting Disqualified

Stock.

"Quarterly Payment Date" means the last day of each March, June, September,

and December or, if any such day is not a Business Day, the next succeeding
Business Day.

"Receipts Account" shall mean account no. 375-1508531 of the Borrower

maintained with the Depository.

"Reference Lender" means, so long as Chase is the Agent, Chase, and

otherwise "Reference Lender" means the Lender serving for the time being as a
successor Agent to Chase pursuant to Section 10.9.

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"Regulatory Change" means, relative to the Agent or any Lender, any change

after the date hereof in any (or the adoption after the date hereof of any new):

(a) United States Federal or state law or foreign law applicable to
the Agent or such Lender; or

(b) regulation, interpretation, directive, or request (whether or not
having the force of law) applicable to such Agent or such Lender or any
court or government authority charged with the interpretation or
administration of any law referred to in the immediately preceding clause

(a) or of any fiscal, monetary, or other authority having jurisdiction over

the Agent or such Lender.

"Release" means a "release", as such term is defined in CERCLA.

"Reportable Event" means, any of the events set forth in Section 4043(c) of

ERISA or the regulations thereunder, other than any such event for which the 30-
day notice requirement under ERISA has been waived in regulations issued by the
PBGC.

"Required Lenders" means, Lenders holding 100 % of the Commitments (or, if

the Commitments have been terminated, Lenders holding 100% of the outstanding
Obligations).

"Resource Conservation and Recovery Act" means the Resource Conservation

and Recovery Act, 42 U.S.C. Section 6901, et seq., as amended.

"Responsible Officer" means with respect to any Person, the President, any

Vice President, the Chief Financial Officer, the Treasurer and the Secretary of
such Person and any other officer of such Person who is responsible for
compliance with or performance of any obligation under or matter referred to in
this Agreement with respect to the Borrower, and, in any case, any employee of
the Borrower performing any of the above functions.

"Restricted Payment" means any payment or other distribution made after the

Effective Date in respect of stock in the Borrower, and the Material
Subsidiaries, except a distribution payable solely in additional stock of such
Person, and any payment, by the Borrower or a Material Subsidiary on account of
the redemption, retirement, purchase or other acquisition of stock or a
distribution by a Material Subsidiary to the Borrower.

"Securities Act" means the Securities Act of 1933, as amended from time to

time.

"Security" is defined in Section 2(1) of the Securities Act.

"Security Agreement" means (i) the Company Security Agreement dated as of

the date hereof, between the Borrower and the Agent, substantially in the form
of Exhibit J-1 hereto; and (ii) the Material Subsidiary Guarantor Security

Agreement dated as of the date hereof, among the Material Subsidiaries and the
Agent, substantially in the form of Exhibit J-2 hereto.

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"Security Agreements" means (i) the Security Agreement, and (ii) the

Accounts Security Deposit Agreement, dated as of the date hereof, between the
Borrower and the Agent, substantially in the form of Exhibit K hereto, and (iii)

the Securities Account Control Agreement, dated the date hereof, between the
Borrower, as securities intermediary and the Agent, substantially in the form of
Exhibit L hereto, and (iv) the Company Share Pledge Agreement, dated the date

hereof, among all of the shareholders of the Borrower and the Agent,
substantially in the form of Exhibit M hereto.

"Security Documents" means any of the documents securing the Notes,

including without limitation, the Security Agreements.

"Senior Debt" means the Obligations.

"Senior Interest Expense" shall mean the gross interest expense incurred by

the Borrower in connection with the Obligations, calculated in accordance with
GAAP applied on a consistent basis and calculated over the four fiscal quarters
next preceding the date of calculation thereof.

"Sevin Group" means Irik P. Sevin, Audrey L. Sevin and the estate of Irik

P. Sevin and Audrey L. Sevin, so long as the survivor has the power to vote
membership interest in the Managing General Partner, and any testamentary trust,
all beneficiaries of which are members of the immediate family of Irik P. Sevin
or Audrey L. Sevin, and all trustees which are members of the immediate family
of Irik P. Sevin or Audrey L. Sevin and, under the terms of the trust, have
the power to vote membership interests in the Managing General Partner.

"Star Gas Partners" means Star Gas Partners, L.P., a Delaware limited

partnership.

"Star Propane" means Star Gas Propane, L.P., a Delaware limited

partnership.

"Stated Maturity Date" means, with respect to the Facility A Loans the date

that is 364 days after, but including, the Effective Date, and, with respect to
the Facility B Loans the date that is eighteen (18) months after, but including,
the Effective Date.

"Subordinated Indebtedness" shall mean Indebtedness of the Borrower to an

Affiliate of the Borrower subordinated to the Senior Debt upon terms and
conditions substantially as are set forth in the Subordination Agreement.

"Subordination Agreement" shall mean a Subordination Agreement in the form

of Exhibit P hereto.

"Subsidiary" means, with respect to any Person, any corporation, limited liability company, business trust, association, partnership, joint venture or other business entity at least a majority (by number of votes) of the stock of any class or classes (or equivalent interest) of which is at the time owned by such Person or by one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person, if the holders of the stock of such class or classes (or equivalent interests) (a) are ordinarily, in the absence of contingencies, entitled to vote for the election of a majority of the directors (or Persons performing similar functions) of

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such business entity, even though the right so to vote has been suspended by the happening of such a contingency, or (b) are at the time entitled, as such holders, to vote for the election of the majority of the directors (or Persons performing similar functions) of such business entity, whether or not the right so to vote exists by reason of the happening of a contingency. Unless the context otherwise requires, any reference to a Subsidiary shall mean a Subsidiary of the Borrower. Star Propane shall be deemed to be a Subsidiary of Star Gas Partners so long as Star Gas Partners owns a majority of the limited partnership interests in Star Propane and the Managing General Partner is the sole general partner of Star Propane.

"Synthetic Lease" means each arrangement, however described, under which the obligor: (a) accounts for its interest in the property covered thereby under GAAP as if the obligor were the lessee of a lease which is not a capital lease; and (b) accounts for its interest in the property covered thereby for Federal income tax purposes as if the obligor were the owner.

"Synthetic Lease Interest Component" means, with respect to any Person for any period, the portion of rent paid or payable (without duplication) for such period under Synthetic Leases of such Person that would be treated as interest in accordance with Financial Accounting Standards Board Statement No. 13 if such Synthetic Leases were treated as capital leases under GAAP.

"Synthetic Lease Obligation" means, as to any Person with respect to any Synthetic Lease at any time of determination, the amount of the liability of such Person in respect of such Synthetic Lease that would (if such lease was required to be classified and accounted for as a capital lease on a balance sheet of such Person in accordance with GAAP) be required to be capitalized on the balance sheet of such Person at such time.

"Taxes" is defined in Section 5.6.

"type" means, relative to any Loan, the portion thereof, if any, being maintained as a Prime Rate Loan or a LIBOR Loan.

"Unfunded Pension Liability" means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"United States" or "U.S." means the United States of America, its fifty States and the District of Columbia.

"Wholly-Owned Subsidiary" means any corporation in which (other than directors' qualifying shares required by law) 100% of the Capital Stock of each class having ordinary voting power, and 100% of the Capital Stock of every other class, in each case, at the time as of which any determination is being made, is owned, beneficially and of record, by the Borrower, or by one or more of the other Wholly-Owned Subsidiaries of the Borrower, or any of them.

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SECTION 1.2 Use of Defined Terms. Unless otherwise defined or the context

otherwise requires, terms for which meanings are provided in this Agreement shall have such meanings when used in the Disclosure Schedule and in each Note, Borrowing Request, Continuation/Conversion Notice, Loan Document, notice and other communication delivered from time to time in connection with this Agreement or any other Loan Document.

SECTION 1.3 Other Interpretive Provisions.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) The words "hereof", "herein", "hereunder" and similar words refer to this Agreement as a whole and not to any particular provision of this Agreement; and subsection, Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) (i) The term "documents" includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(ii) The term "including" is not limiting and means "including without limitation."

(iii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(d) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting the statute or regulation.

(e) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

(f) This Agreement and other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and shall each be performed in accordance with their terms.

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(g) Unless otherwise expressly provided herein, financial calculations applicable to the Borrower shall be made on a consolidated basis among the Borrower and the Material Subsidiaries.

SECTION 1.4 Accounting and Financial Determinations. Unless otherwise

specified, all accounting terms used herein or in any other Loan Document shall be interpreted, all accounting determinations and computations hereunder or thereunder (including under Section 8.2.4) shall be made, and all financial

statements required to be delivered hereunder or thereunder shall be prepared in accordance with, those generally accepted accounting principles in effect in the United States of America from time to time ("GAAP"). Notwithstanding the

foregoing, if the Borrower, the Required Lenders or the Agent determines that a change in GAAP from that in effect on the date hereof, has altered the treatment of certain financial data to its detriment under this Agreement, such party may seek of the others a renegotiation of any financial covenant affected thereby. If the Borrower, the Required Lenders and Agent cannot agree on renegotiated covenants, then, for the purposes of this Agreement, GAAP will refer to generally accepted accounting principles on the date just prior to the date on which the change that gave rise to the renegotiation occurred.

ARTICLE II
COMMITMENTS, BORROWING PROCEDURES AND NOTES

SECTION 2.1 Commitments. On the terms and subject to the conditions of

this Agreement (including Article VI), each Lender severally agrees to make

Loans pursuant to the Commitments described in this Section 2.1.

SECTION 2.1.1 Facility A Commitment.

(a) On the terms and subject to the conditions of this Agreement
(including, without limitation, Section 2.1.3), from time to time on any

Business Day occurring prior to the Facility A Commitment Termination Date,
each Lender will make loans (relative to such Lender, its "Facility A

Loans") to the Borrower in an aggregate principal amount not to exceed at

anytime outstanding the lesser of (a) the amount set forth opposite such
Lender's name on Schedule 2.1.1 under the caption "Facility A Commitment"

(such amount as the same may be reduced hereunder or as reduced or
increased as a result of one or more assignments, under Section 11.11.1,

such Lender's "Facility A Commitment"), and (b) such Lender's pro rata

portion of the Facility A Borrowing Base. On the terms and subject to the
conditions hereof, the Borrower may from time to time borrow, prepay and
reborrow Facility A Loans.

(b) The Borrower shall deliver a Borrowing Base Certificate to the
Agent prior to the Effective Date to permit the Agent to determine the
Facility A Borrowing Base to be in effect on the Effective Date and,
thereafter, shall deliver Borrowing Base Certificates and such other
materials to the Agent in accordance with the provisions of Section

8.1.1(j). Each such Borrowing Base Certificate shall certify the Facility

A Borrowing Base in effect on the last day of the applicable reporting
period. Promptly

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following its receipt of each Borrowing Base Certificate, the Agent shall
confirm the then current Facility A Borrowing Base using the information
previously provided to the Agent by the Borrower and shall notify the
Borrower and each Lender of the Facility A Borrowing Base so determined.
Each determination of the Facility A Borrowing Base by the Agent shall
remain in effect until notice of a redetermined Facility A Borrowing Base
shall have been given by the Agent in accordance with the provisions of
this Section 2.1.1(b); provided, however, if the Borrower fails to deliver

a Borrowing Base Certificate, the Borrower will be unable to borrow
Facility A Loans until such time that a Borrowing Base Certificate is
delivered.

SECTION 2.1.2 Facility B Commitment. On the terms and subject to the

conditions of this Agreement (including without limitation Section 2.1.3),

from time to time on any Business Day occurring prior to the Facility B
Loan Conversion Date, each Lender will make loans (relative to such
Lender, its "Facility B Loans") to the Borrower in an aggregate principal

amount not to exceed at any time outstanding the amount set forth opposite
such Lender's name on Schedule 2.1.1 under the caption "Facility B

Commitment" (such amount as the same may be reduced hereunder or as reduced
or increased as a result of one or more assignments under Section 11.11.1,

such Lender's "Facility B Commitment"). On the terms and subject to the

conditions hereof, the Borrower may from time to time borrow, prepay and
reborrow Facility B Loans prior to the Facility B Loan Conversion Date.

SECTION 2.1.3 Restrictions on Loans. None of the Lenders shall be

permitted or required to:

(a) make any Facility A Loan if, after giving effect thereto, the
Effective Amount of all Facility A Loans, would exceed the lesser of (x)
the combined Facility A Commitments and (y) the Facility A Borrowing Base;
or

(b) make any Facility A Loan or Facility B Loan, if after giving
effect thereto, Section 8.1.14(b) would be breached.

SECTION 2.2 Reduction and Termination of Commitments. The Commitments

are subject to reduction and termination from time to time pursuant to this
Section 2.2.

SECTION 2.2.1 Optional Subject to Section 5.4. The Borrower may,

from time to time on any Business Day occurring after the Effective Date,
voluntarily reduce the unused amount of any Commitment; provided, however,
that all such reductions shall require at least three (3) Business Days'
prior notice to the Agent and be permanent, and any partial reduction of
any Commitment shall be in an integral multiple of \$1,000,000.

SECTION 2.2.2 Mandatory. The applicable Commitment shall be

reduced by an amount equal to any amount required as a mandatory prepayment
of the Facility A Loans or Facility B Loans as applicable pursuant to
Section 3.1.1, 3.1.3(a), 3.1.3(d) or 3.1.3(g) (whether or not any Loans

shall then be outstanding under the applicable Commitment).

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SECTION 2.2.3 Termination.

(a) Upon the occurrence of any event described in the definition of
Facility A Commitment Termination Date, the Facility A Commitment shall be
reduced to zero and shall terminate automatically and without further
action.

(b) Upon the occurrence of any event described in the definition of
Facility B Commitment Termination Date, the Facility B Commitment shall be
reduced to zero and shall terminate automatically and without further
action.

SECTION 2.3 Borrowing Procedure. By delivering a Borrowing Request to the
Agent on or before 11:00 a.m., New York City time, on a Business Day, the
Borrower may from time to time irrevocably request, on not less than three (3)
nor more than five (5) Business Days' notice in the case of LIBOR Loans, and on
the same day or no more than five (5) Business Days' notice in the case of Prime
Rate Loans, that a Borrowing be made in a minimum amount of \$100,000 in the case
of LIBOR Loans, and in a minimum amount of \$50,000 in the case of Prime Rate
Loans, and in both instances in any integral multiple of \$50,000 in excess
thereof, or in the unused amount of the applicable Commitment. On the terms and
subject to the conditions of this Agreement, each Borrowing shall be comprised
of the type of Loans, and shall be made on the Business Day, specified in such
Borrowing Request. Each Borrowing Request must be signed by a Responsible
Officer of the Borrower. Upon receipt of any Borrowing Request, the Agent shall
promptly notify the Lenders of such Borrowing Request. On or before 1:00 p.m.,
New York City time, on such Business Day each Lender shall deposit with the
Agent same day funds in an amount equal to such Lender's Percentage of the
requested Borrowing. Such deposit will be made to an account which the Agent
shall specify from time to time by notice to the Lenders. To the extent funds
are received from the Lenders, the Agent shall make such funds available to the

Borrower by wire transfer to the accounts specified in the applicable Borrowing Request. No Lender's obligation to make any Loan shall be affected by any other Lender's failure to make any Loan.

SECTION 2.4 Continuation and Conversion Elections. By delivering a

Continuation/Conversion Notice to the Agent on or before 11:00 a.m., New York City time, on a Business Day, the Borrower may from time to time irrevocably elect, on not less than three (3) nor more than five (5) Business Days' notice that all, or any portion in a minimum amount of \$100,000, in the case of LIBOR Loans, and in a minimum amount of \$50,000 in the case of Prime Rate Loans, and in both instances any integral multiple of \$50,000 in excess thereof, of any Loans be, in the case of Prime Rate Loans, converted into LIBOR Loans or, in the case of LIBOR Loans, be converted into a Prime Rate Loan or a LIBOR Loan or continued as a LIBOR Loan (in the absence of delivery of a Continuation/Conversion Notice with respect to any LIBOR Loan at least three (3) Business Days before the last day of the then current Interest Period with respect thereto, such LIBOR Loan shall, on such last day, automatically convert to a Prime Rate Loan); provided, however, that (i) each such conversion or continuation shall be pro rated among the applicable outstanding Loans of all Lenders, and (ii) no portion of the outstanding principal amount of any Loans may be continued as, or be converted into, LIBOR Loans when any Default or Event of Default has occurred and is continuing.

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SECTION 2.5 Funding. Each Lender may, if it so elects, fulfill its

obligation to make, continue or convert LIBOR Loans hereunder by causing one of its foreign branches or Affiliates (or an international banking facility created by such Lender) to make or maintain such LIBOR Loan; provided, however, that such LIBOR Loan shall nonetheless be deemed to have been made and to be held by such Lender, and the obligation of the Borrower to repay such LIBOR Loan shall nevertheless be to such Lender for the account of such foreign branch, Affiliate or international banking facility. In addition, the Borrower hereby consents and agrees that, for purposes of any determination to be made for purposes of Sections 5.1, 5.2, 5.3 or 5.4, it shall be conclusively assumed that each Lender

elects to fund all LIBOR Loans by purchasing, as the case may be, Dollar certificates of deposit in the U.S. or Dollar deposits in its Applicable Lending Office.

SECTION 2.6 Loan Accounts/Notes.

(a) The Loans made by each Lender shall be evidenced by one or more loan accounts or records maintained by such Lender in the ordinary course of business. The loan accounts or records maintained by the Agent and each Lender shall be conclusive absent manifest error of the amount of the Loans made by the Lenders to the Borrower and the interest and payments thereon. Any failure so to record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Loans. In case of a discrepancy between the entries in the Agent's books and any Lender's books, the Agent's books shall be conclusive absent manifest error.

(b) Upon the request of any Lender made through the Agent, the Facility A Loans made by such Lender shall be evidenced by a single promissory note of the Borrower in substantially the form of Exhibit A-1

hereto (each, a "Facility A Note" and collectively, the "Facility A

Notes"), instead of loan accounts. Each Facility A Note shall be dated the

Effective Date, shall be payable to the order of such Lender in a principal amount equal to such Lender's Facility A Commitment as originally in effect, and shall otherwise be duly completed. The Notes shall be payable as provided in Article III.

(c) Upon the request of any Lender made through the Agent, the Facility B Loans made by such Lender shall be evidenced by a single promissory note of the Borrower in substantially the form of Exhibit A-2

hereto (each, a "Facility B Note" and collectively, the "Facility B Notes"), instead of loan accounts. Each Facility B Note shall be dated the Effective Date, shall be payable to the order of such Lender in a principal amount equal to such Lender's Facility B Commitment as originally in effect, and shall otherwise be duly completed. The Notes shall be payable as provided in Article III.

(d) Each Lender shall enter on a schedule attached to its Notes a notation with respect to each Loan made hereunder of: (i) the date and principal amount thereof, (ii) each payment and prepayment of principal thereof, (iii) whether the interest rate is initially to be determined in accordance with Section 3.2.1(a) or Section 3.2.1(b), and (iv) the Interest Period, if applicable. Such notations shall be conclusive and binding on

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the Borrower absent manifest error; provided, however, that the failure of any Lender to make a notation on the schedule to its Note as aforesaid shall not limit or otherwise affect the obligation of the Borrower to repay the Loans in accordance with their respective terms as set forth herein.

ARTICLE III
REPAYMENTS, PREPAYMENTS, INTEREST AND FEES

SECTION 3.1 Repayment and Prepayments.

SECTION 3.1.1 Repayment

(a) Facility A Loans. The Borrower shall pay to the Agent, for the account of each Lender, on the Facility A Commitment Termination Date the aggregate principal amount of Facility A Loans outstanding on such date, together with all accrued and unpaid interest thereon.

(b) Facility B Loans. The Borrower shall pay to the Agent, for the account of each Lender, the principal of the Facility B Loans made by such Lender outstanding at the close of business on the Facility B Loan Conversion Date (together with all accrued and unpaid interest thereon) in a single payment on the date eighteen (18) months after the Effective Date.

SECTION 3.1.2 Voluntary Prepayments. The Borrower may, from time to time on any Business Day, make a voluntary prepayment, in whole or in part, of the outstanding principal amount of any Loans; provided, however, that:

(a) any such prepayment shall be made pro rata among Loans of the same type and, if applicable, having the same Interest Period, of all Lenders;

(b) all such voluntary prepayments of LIBOR Loans shall require at least three (3) but no more than five (5) Business Days' prior written notice to the Agent and all such voluntary prepayments of Prime Rate Loans shall require prior written notice to the Agent at least by 1:00 p.m., New York City time, at least one (1) Business Day prior to such repayment but no more than five (5) Business Days prior to such repayment; and

(c) all such voluntary prepayments of LIBOR Loans or Prime Rate Loans shall be made in a minimum amount of \$100,000 and any integral multiple of \$50,000 in excess thereof, or in the whole outstanding principal amount of such Loans;

Each prepayment of any Loans made pursuant to this Section shall be without premium or penalty, except as required by Section 5.4.

SECTION 3.1.3 Mandatory Prepayments.

(a) The Borrower shall, on each date when any reduction in the applicable Commitment shall become effective, including pursuant to Section 2.2, make a mandatory prepayment of all applicable Loans equal to the excess, if any, of the aggregate principal amount of all applicable Loans over the applicable Commitment.

(b) If at any time the Effective Amount of the Facility A Loans exceeds the lesser of (x) the combined Facility A Commitments then in effect and (y) the Facility A Borrowing Base, the Borrower shall immediately prepay such Facility A Loan in an aggregate principal amount equal to such excess. Amounts prepaid pursuant to this Section may be reborrowed; provided that the aggregate Facility A Commitment is not exceeded thereby.

(c) If at any time the Effective Amount of the Facility B Loans exceeds the combined Facility B Loan Commitments then in effect, the Borrower shall immediately prepay such Facility B Loan in an aggregate principal amount equal to such excess, together with commitment fees accrued to the date of such payment.

(d) In the event any Asset Disposition results in Excess Sale Proceeds which are (i) not reinvested within ninety (90) days of such disposition in replacement assets or not deposited with the Agent within ninety (90) days of such disposition to be reinvested in such replacement assets, or (ii) deposited with the Agent within ninety (90) days of such disposition but which are not reinvested within one-hundred eighty (180) days of such disposition all as provided Section 8.2.8(b), such Excess Sale Proceeds shall be applied first to the prepayment of the Facility B Loans in inverse order of maturity and, second to prepayment of the Facility A Loans. In the instance that Facility A Loans are so prepaid, the Facility A Commitment shall be reduced permanently by the amount of such prepayment.

(e) The Borrower shall, immediately upon any acceleration of the Stated Maturity Date of any Loans pursuant to Section 9.2 or Section 9.3, repay all such Loans.

(f) The Borrower shall prepay amounts in accordance with Section 8.1.11.

(g) In the event any Casualty Event affecting any property of the Borrower or any of the Material Subsidiaries which results in insurance, condemnation award or other compensation in excess of \$250,000 ("Casualty Proceeds") which Casualty Proceeds are (i) not reinvested within ninety (90) days of receipt of such Casualty Proceeds in replacement assets shall be applied to the prepayment of the Senior Debt in accordance with the procedures set forth in the foregoing clause (d) for Excess Proceeds.

Except as otherwise provided above, mandatory prepayments shall be applied first to the Facility B Loans, then the Facility A Loans. Subsequent to the Facility B Loan Conversion Date, each voluntary prepayment of Facility B Loans made pursuant to Section 3.1.2 and each mandatory prepayment of Facility B Loans made pursuant to Section 3.1.3 shall be applied, to the extent of such prepayment, to the repayments of the Facility B Loans installments in inverse order of maturity. Each prepayment of any Loans made pursuant to this Section shall be without

premium or penalty, except as may be required by Section 5.4. No voluntary

prepayment of principal of any Facility A Loan or Facility B Loan prior to the applicable Commitment Termination Date, shall cause a reduction in the Facility A Commitment or Facility B Commitment, as applicable.

SECTION 3.2 Interest Provisions. Interest on the outstanding principal

amount of Loans shall accrue and be payable in accordance with this Section 3.2.

SECTION 3.2.1 Rates. Pursuant to an appropriately delivered

Borrowing Request or Continuation/Conversion Notice, the Borrower may elect that Loans comprising a Borrowing accrue interest at a rate per annum:

(a) on that portion maintained from time to time as a Prime Rate Loan, equal to the sum of the Prime Rate from time to time in effect plus the Applicable Prime Rate Margin; and

(b) on that portion maintained as a LIBOR Loan, during each Interest Period applicable thereto, equal to the sum of the LIBOR (Reserve Adjusted) for such Interest Period plus the Applicable LIBOR Margin.

All LIBOR Loans shall bear interest from and including the first day of the applicable Interest Period to (but not including) the last day of such Interest Period at the rate determined as applicable to such LIBOR Loan.

SECTION 3.2.2 Post-Default Rate. Notwithstanding Section 3.2.1,

whenever an Event of Default has occurred and is continuing, the Borrower shall pay interest on any Loan, and on any other amount payable by the Borrower hereunder (to the extent permitted by law) for the period commencing on the occurrence of such Event of Default until such Event of Default has been cured or waived as acknowledged in writing by the Agent at the applicable Post-Default Rate.

SECTION 3.2.3 Payment Dates. Interest accrued on each Loan shall

be payable, without duplication:

(a) on the Stated Maturity Date applicable to such Loan;

(b) with respect to any prepayment of a Loan in connection with a reduction in the applicable Commitment, on the date of any such prepayment;

(c) with respect to Base Rate Loans, on each Quarterly Payment Date occurring after the date of the initial Borrowing hereunder;

(d) with respect to LIBOR Loans, on the last day of each applicable Interest Period (and, if such Interest Period shall exceed three months, on the three month anniversary of the first day of such Interest Period); and

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(e) on that portion of any Loans the Stated Maturity Date of which is accelerated pursuant to Section 9.2 or Section 9.3, immediately upon such

acceleration.

Interest accruing on the Loans or other monetary Obligations arising under this Agreement or any other Loan Document during the continuance of any Event of Default shall be payable upon demand.

SECTION 3.3 Fees. The Borrower agrees to pay the fees set forth in this

Section 3.3. All such fees shall be non-refundable.

SECTION 3.3.1 Commitment Fee. The Borrower shall pay to the Agent

for the account of each Lender a commitment fee in an amount equal to 0.75% times the daily actual unused amount of (a) such Lender's Facility A

Commitment and (b) such Lender's Facility B Commitment from the date hereof

until the Facility B Loan Conversion Date. Accrued commitment fees shall be payable in arrears on each Quarterly Payment Date and on the date on which the Commitments terminate as provided herein, commencing on the first of such dates to occur after the date hereof.

SECTION 3.3.2 Arrangement and Agency Fees. The Borrower agrees to

pay to Chase those fees specified in the letter agreement dated March 30, 2001, between the Borrower and Chase at the times specified in such letter agreement.

ARTICLE IV
INTENTIONALLY OMITTED NUMBERING RESERVED

ARTICLE V
CERTAIN LIBOR AND OTHER PROVISIONS

SECTION 5.1 LIBOR Lending Unlawful. If any Lender shall determine (which

determination shall, upon notice thereof to the Borrower, the Agent and the Lenders, be conclusive and binding on the Borrower) that after the Effective Date the introduction of, or any change in, or in the interpretation of, any law makes it unlawful, or any central bank or other government authority asserts that it is unlawful, for such Lender to make, continue or maintain any Loan as, or to convert any Loan into, a LIBOR Loan of a certain type, the obligations of such Lender to make, continue, maintain or convert any such Loans shall, upon such determination, forthwith be suspended until such Lender shall notify the Agent that the circumstances causing such suspension no longer exist, and all LIBOR Loans of such type shall automatically convert into Prime Rate Loans at the end of the then current Interest Periods with respect thereto or sooner, if required by such law or assertion.

SECTION 5.2 Deposits Unavailable. If the Agent shall have determined that:

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(a) Dollar deposits in the relevant amount and for the relevant Interest Period are not available to the Reference Lender in the London interbank market; or

(b) by reason of circumstances affecting the London interbank market, adequate means do not exist for ascertaining the interest rate applicable hereunder to LIBOR Loans of such type;

then, upon notice from the Agent to the Borrower and the Lenders, the obligations of all Lenders under Section 2.3 and Section 2.4 to make or continue

any Loans as, or to convert any Loans into, LIBOR Loans of such type shall forthwith be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

SECTION 5.3 Increased LIBOR Loan Costs, etc. The Borrower agrees to

reimburse each Lender for any increase in the cost to such Lender of, or any reduction in the amount of any sum receivable by such Lender in respect of, making, continuing or maintaining (or of its obligation to make, continue or maintain) any Loans as, or of converting (or of its obligation to convert) any Loans into, LIBOR Loans, in any case from time to time by reason of:

(a) to the extent not included in the calculation of the LIBOR (Reserve Adjusted), any reserve, special deposit, or similar requirement against assets of, deposits with or for the account of, or credit extended by such Lender, under or pursuant to any change in any law, treaty, rule, regulation (including any F.R.S. Board regulation), or requirement from that in effect on the Effective Date, or as the result of any Regulatory Change; or

(b) any Regulatory Change which shall subject such Lender to any tax (other than taxes on net income including franchise taxes based on income, and franchises), levy, impost, charge, fee, duty, deduction, or withholding or any kind whatsoever or change the taxation of any Loan made or maintained as a LIBOR Loan and the interest thereon (other than any change

which affects, and to the extent that it affects, the taxation of net income including franchise taxes based on income and franchises).

Such Lender shall promptly and in no event later than ninety (90) days after its knowledge of the occurrence of any such event notify the Agent and the Borrower in writing of the occurrence of any such event, such notice to state, in reasonable detail, the reasons therefor and the additional amount required fully to compensate such Lender for such increased cost or reduced amount; provided, however, no Lender may make any demand for any such amounts accrued under this Section 5.3 for any period commencing more than ninety (90) days prior to the

receipt by the Borrower of such notice or, should such cost have accrued retroactively, within ninety (90) days of the determination by such Lender of such cost. Such additional amounts shall be payable by the Borrower directly to such Lender within five (5) days of its receipt of such notice, and such notice shall, in the absence of manifest error, be conclusive and binding on the Borrower.

SECTION 5.4 Funding Losses. In the event any Lender shall incur any loss or

expense (including any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to make, continue or maintain any portion of the

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principal amount of any Loan as, or to convert any portion of the principal amount of any Loan into, a LIBOR Loan) as a result of:

(a) any conversion or repayment or prepayment of the principal amount of any LIBOR Loans on a date other than the scheduled last day of the Interest Period applicable thereto, whether pursuant to Section 3.1 or

otherwise;

(b) any Loans not being made as LIBOR Loans in accordance with the Borrowing Request therefor; or

(c) any Loans not being continued as, or converted into, LIBOR Loans in accordance with the Continuation/Conversion Notice therefor;

then, upon the written notice of such Lender to the Borrower (with a copy to the Agent), the Borrower shall, within five (5) days of its receipt thereof, pay directly to such Lender such amount as will (in the reasonable determination of such Lender) reimburse such Lender for such loss or expense. Such written notice (which shall include calculations in reasonable detail) shall, in the absence of manifest error, be conclusive and binding on the Borrower.

SECTION 5.5 Increased Capital Costs. If after the Effective Date any

change in, or the introduction, adoption, effectiveness, interpretation, reinterpretation or phase-in of, any law or regulation, directive, guideline, decision or request (whether or not having the force of law) of any court, central bank, regulator or other government authority affects or would affect the amount of capital required or expected to be maintained by any Lender or any Person controlling such Lender, and such Lender determines (in its sole and absolute discretion) that the rate of return on its or such controlling Person's capital as a consequence of its Commitments or the Loans made by such Lender is reduced to a level below that which such Lender or such controlling Person could have achieved but for the occurrence of any such circumstance, then, in any such case upon notice from time to time by such Lender to the Borrower (with copies to the Agent), the Borrower shall within five (5) days of its receipt thereof pay directly to such Lender additional amounts sufficient to compensate such Lender or such controlling Person for such reduction in rate of return. Such Lender shall promptly and in no event later than ninety (90) days after its knowledge of any such event notify the Agent and the Borrower of the occurrence of any such event; provided, however, no Lender may make any demand for any such amounts accrued under this Section 5.5 for any period commencing more than

ninety (90) days prior to the receipt by the Borrower of any such notice or, should such cost have accrued retroactively, within ninety (90) days of the determination by such Lender of such cost. A statement of such Lender as to any such additional amount or amounts (including calculations thereof in reasonable detail) shall, in the absence of manifest error, be conclusive and binding on

the Borrower. In determining such amount, such Lender may use any reasonable method of averaging and attribution that it (in its sole and absolute discretion) shall deem applicable.

SECTION 5.6 Taxes. Without duplication of any payments made under any

other provisions of this Article V, all payments by the Borrower of principal

of, and interest on, the Loans and all other amounts payable hereunder shall be made free and clear of and without deduction for any present or future income, excise, stamp or franchise taxes and other taxes, fees, duties, withholdings or other charges of any nature whatsoever imposed by any taxing authority,

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but excluding franchise taxes and taxes imposed on or measured by any Lender's net income (including franchise taxes based upon income) or receipts (such non-excluded items being called "Taxes"). In the event that any withholding or

deduction from any payment to be made by the Borrower hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then the Borrower will:

(a) pay directly to the relevant authority the full amount required to be so withheld or deducted;

(b) promptly forward to the Agent an official receipt or other documentation satisfactory to the Agent evidencing such payment to such authority; and

(c) pay to the Agent for the account of the Agent and the Lenders such additional amount or amounts as is necessary to ensure that the net amount actually received by the Agent and each Lender will equal the full amount such Lender or the Agent would have received had no such withholding or deduction been required; provided that the Agent or each Lender shall promptly and in no event later than ninety (90) days after its knowledge that any amount is payable under this clause (c) notify the Agent and the

Borrower of the same;

provided, however, no Lender or the Agent may make any demand for any such amounts accrued under this Section 5.6 for any period commencing more than

ninety (90) days prior to the receipt by the Borrower of any such notice or, should such cost have accrued retroactively, within ninety (90) days of the determination by such Lender or the Agent of such cost.

Moreover, if any Taxes are directly asserted against the Agent or any Lender with respect to any payment received by the Agent or such Lender hereunder, the Agent or such Lender may pay such Taxes and the Borrower will pay on demand such additional amounts (including any penalties, interest or expenses) as is necessary in order that the net amount received by such person after the payment of such Taxes (including any Taxes on such additional amount) shall equal the amount such person would have received had not such Taxes been asserted.

If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Agent, for the account of the respective Lenders and the Agent, the required receipts or other required documentary evidence, the Borrower shall indemnify the Lenders and the Agent for any incremental Taxes, interest or penalties that may become payable by any Lender as a result of any such failure.

For purposes of this Section 5.6, a distribution hereunder by the Agent or any

Lender to or for the account of any Lender or the Agent shall be deemed a payment by the Borrower.

Each Lender that is organized under the laws of a jurisdiction other than the United States shall, prior to the due date of any payments under the Notes, (i) execute and deliver to the Borrower and the Agent, on or about the first scheduled payment date in each Fiscal Year, one or more (as the Borrower or the Agent may reasonably request) United States Internal Revenue Service Forms 4224 or Forms 1001 or such other forms or documents (or successor forms or

documents), appropriately completed, as may be applicable to establish the extent, if any, to which a payment to such Lender is exempt from withholding or deduction of Taxes, and (ii) comply with the requirements of Section 10.10.

SECTION 5.7 Payments, Computations, etc. Unless otherwise expressly

provided, all payments by the Borrower pursuant to this Agreement, the Notes or any other Loan Document shall be made in Dollars, in immediately available funds by the Borrower to the Agent for the pro rata account of the Lenders entitled to receive such payment. All such payments required to be made to the Agent shall be made, without setoff, counterclaim, recoupment or other deduction, not later than 11:00 a.m., New York City time, on the date due, in immediately available funds, to such account as the Agent shall specify from time to time by notice to the Borrower. Funds received after that time shall be deemed to have been received by the Agent on the next succeeding Business Day. The Agent shall promptly remit in same day funds to each Lender its share, if any, of such payments received by the Agent for the account of such Lender. All interest (other than interest computed at the Prime Rate) and fees shall be computed on the basis of the actual number of days (including the first day but excluding the last day) occurring during the period for which such interest or fee is payable over a year comprised of three-hundred sixty (360) days. Interest computed at the Prime Rate shall be computed on the basis of its actual number of days (including the first day but excluding the last day) occurring during the period for which such interest is payable over a year comprised of 365 or 366 days, as the case may be. Whenever any payment day is not a Business Day, such payment shall (except as otherwise required by clause (c) of the definition

of the term "Interest Period" with respect to LIBOR Loans) be made on the next

succeeding Business Day and such extension of time shall be included in computing interest and fees, if any, in connection with such payment.

SECTION 5.8 Sharing of Payments. If any Lender shall obtain any payment

or other recovery (whether voluntary, involuntary, by application of setoff or otherwise) on account of any Loan (other than pursuant to the terms of Section

5.3, 5.4 or 5.5 in excess of its pro rata share of payments then or therewith
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obtained by all Lenders, such Lender shall purchase from the other Lenders such participations in Loans made by them as shall be necessary to cause such purchasing Lender to share the excess payment or other recovery ratably with each of them; provided, however, that if all or any portion of the excess payment or other recovery is thereafter recovered from such purchasing Lender, the purchase shall be rescinded and each Lender which has sold a participation to the purchasing Lender shall repay to the purchasing Lender the purchase price to the ratable extent of such recovery together with an amount equal to such selling Lender's ratable share (according to the proportion of (a) the amount of such selling Lender's required repayment to the purchasing Lender to (b) the

total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section may, to the fullest extent permitted by law, exercise all its rights of payment (including pursuant to Section 5.9) with respect to such participation as fully as if such Lender were

the direct creditor of the Borrower in the amount of such participation. If under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a setoff to which this Section applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner

consistent with the rights of the Lenders entitled under this Section to share in the benefits of any recovery on such secured claim.

SECTION 5.9 Setoff. Each Lender shall, upon the occurrence of any Default

or any other Event of Default, have the right to appropriate and apply to the payment of the Obligations (whether or not then due), and (as security for such Obligations) the Borrower hereby grants to each Lender a continuing security interest in, any and all balances, credits, deposits, accounts or moneys of the Borrower then or thereafter maintained with such Lender; provided, however, that any such appropriation and application shall be subject to the provisions of Section 5.8. Each Lender agrees promptly to notify the Borrower and the Agent

after any such setoff and application made by such Lender; provided, however, that the failure to give such notice shall not affect the validity of such setoff and application. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff under applicable law or otherwise) which such Lender may have.

SECTION 5.10 Recourse. The Obligations of the Borrower to the Agent, and

the Lenders are secured and rank pari passu with all other Senior Debt. All of the Collateral of the Borrower and the Material Subsidiaries will be pledged to secure the Obligations and all other Senior Debt. In the event that the Borrower obtains or creates any Material Subsidiaries (a) each such Material Subsidiary must issue a guarantee of the Obligations in the form of Exhibit H-2

and each such guarantee will be in favor of the Agent for the benefit of the Lenders and secured by a pledge of all of the accounts receivable, inventory, cash, Customer Lists and stock of such Material Subsidiary, and (b) the Borrower shall cause the Security Agreements to be amended to add such Material Subsidiary as an Obligor thereunder and shall deliver, or cause such Material Subsidiary to deliver, such other agreements, documents, instruments and opinions in connection therewith as the Agent may request.

SECTION 5.11 Replacement of Lenders. In the event any Lender shall

provide notice to the Agent pursuant to Section 5.3, 5.5 or 5.6 hereunder, the

Borrower shall be permitted to replace such Lender, provided, however, that such Lender's replacement shall agree to all the obligations and conditions relating to an Assignee Lender contained in Section 11.11.1 hereto. Any such replacement

shall be subject to the Agent's consent which consent shall not be unreasonably withheld.

ARTICLE VI
CONDITIONS TO EFFECTIVENESS AND TO BORROWING

SECTION 6.1 Conditions to Effectiveness. The effectiveness of this

Agreement shall be subject to the prior or concurrent satisfaction of each of the conditions precedent set forth in this Section 6.1.

SECTION 6.1.1 Credit Agreement and Loan Documents. This Agreement

and the other Loan Documents shall have been duly executed and delivered by each party thereto.

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SECTION 6.1.2 Resolutions; Incumbency. The Agent shall have received

each of the following documents:

(a) Copies of the resolutions of the board of directors of each of the Managing General Partner, the Borrower and the Material Subsidiaries and partnership authorizations of Star Gas Partners authorizing the transactions contemplated hereby, certified as of the Effective Date by the Secretary or an Assistant Secretary of each of the Managing General Partner, the Borrower and the Material Subsidiaries; and

(b) A certificate of the Secretary or Assistant Secretary of each of the Borrower and the Material Subsidiaries certifying the names and true signatures of the officers of each of the Borrower and the Material Subsidiaries authorized to execute, deliver and perform, as applicable, on

behalf of each of the Borrower and the Material Subsidiaries, this Agreement and all other Loan Documents to be delivered by each of the Borrower and the Material Subsidiaries hereunder (upon which certificate the Agent and each Lender may conclusively rely until they shall have received a further certificate of a Responsible Officer canceling or amending such prior certificate).

(c) A certificate of the Secretary or Assistant Secretary of the Managing General Partner certifying the names and the signatures of the officers of the Managing General Partner authorized to execute, deliver and perform, as applicable, on behalf of the Managing General Partner and Star Gas Partners, the Loan Documents to be delivered by Star Gas Partners and the Managing General Partner (upon which certificate the Agent and each Lender may conclusively rely until they shall have received a further certificate of a Responsible Officer canceling or amending such prior certificate).

SECTION 6.1.3 Organization Documents; Good Standing. The Agent shall

have received each of the following documents:

(a) the articles or certificate of incorporation and the bylaws or other organizational documents of each of the Managing General Partner, the Borrower and the Material Subsidiaries, and the certificate of limited partnership and the partnership agreement of Star Gas Partners, in each case as in effect on the Effective Date, certified by the Secretary or Assistant Secretary of the relevant entity as of the Effective Date; and

(b) a good standing and tax good standing certificate for each of Star Gas Partners, the Borrower and the Material Subsidiaries from the Secretary of State (or similar, applicable Government Authority) of its state of incorporation or organization, as applicable, and each other state designated by the Agent where such entity conducts significant business, in each case as of a recent date.

SECTION 6.1.4 Closing Certificate. A certificate signed by a

Responsible Officer of each of Star Gas Partners and the Borrower, dated as of the Effective Date, certifying:

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(a) the representations and warranties contained in Article VII are

true and correct on and as of such date, as though made on and as of such date;

(b) since December 31, 2000, there has been no material adverse change in the condition (financial or otherwise), operations, business assets, liabilities (actual or contingent) or prospects taken as a whole of the Borrower and its Material Subsidiaries from that set forth in the financial statements as of December 31, 2000 for the period ending on that date (which financial statements shall be attached);

(c) since December 31, 2000, there has been no material adverse change in the condition (financial or otherwise), operations, business assets, liabilities (actual or contingent) or prospects taken as a whole of Star Gas Partners and its subsidiaries taken as a whole from that set forth in the financial statements as of December 31, 2000 (which financial statements shall be attached);

(d) There shall not have occurred since December 31, 2000 a material adverse change in the condition (financial or otherwise), operations, business, assets, liabilities (actual or contingent) or prospects of regarding Star Gas Partners, the Borrower and the Material Subsidiaries taken as a whole; and

(e) the financial statements delivered to the Lenders and Agent on and prior the date of this Agreement are true and correct.

SECTION 6.1.5 Security Agreements; Prior Liens Removed; Prior

Indebtedness Paid. The Agent shall have received duly executed

counterparts of the Security Agreements, dated as of the date hereof, duly executed by the Borrower, Star Gas Partners, and the Material Subsidiaries, as the case may be, together with:

(a) copies of properly executed Uniform Commercial Code financing statements (Form UCC-1), naming (i) the Borrower as the debtor and the Agent as the secured party, and (ii) each of the Material Subsidiaries as the debtor and the Agent as the secured party;

(b) executed copies of proper Uniform Commercial Code Form UCC-3 termination statements, if any, necessary to release all Liens and other rights of any Person in the Collateral;

(c) copies of Uniform Commercial Code Requests for Information or Copies (Form UCC-11), or a similar search report, dated a date reasonably near to the date of the initial Borrowing, listing all effective financing statements which name any of the Borrower, and the Material Subsidiaries (under its present name and any previous names) as the debtor and which are filed in the jurisdictions in which filings were made pursuant to clause

(a) above, together with copies of such financing statements (none of which

shall cover any collateral described in the Security Agreements);

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(d) letters of instruction to each of the depository banks in respect of banking accounts of the Borrower and each Material Subsidiary at such depository banks in form and substance satisfactory to the Agent; and

(e) each Prior Lien shall have been removed on or before the Effective Date and all Indebtedness of the Borrower (except for Indebtedness hereunder and the Subordinated Indebtedness) shall have been paid and discharged in full, and no Person shall have any interest whatsoever in, or be a creditor of, the Borrower except the existing Shareholders of the Borrower as holders of common and preferred equity in the Borrower, and the Agent shall have received evidence satisfactory to it to such effect.

SECTION 6.1.6 Permits. The Agent shall have received a duly executed

certificate of a Responsible Officer of the Borrower certifying that there are no permits, licenses or regulatory approvals required for the execution, delivery and performance of the Loan Documents.

SECTION 6.1.7 RESERVED

SECTION 6.1.8 Opinion of Counsel. The Agent shall have received

opinions, dated the Effective Date and addressed to the Agent and all Lenders, from Phillips Nizer Benjamin Krim & Ballon, special counsel to the Managing General Partner, Star Gas Partners, the Borrower and the Material Subsidiaries substantially in the form of Exhibit G hereto and opinions of

counsel to the Borrower and its Material Subsidiaries covering such matters of law of the State of Florida, New York, New Jersey, Maryland, Pennsylvania and the District of Columbia as shall be reasonably requested by the Agent or any Lender.

SECTION 6.1.9 Closing Fees, Expenses, etc. The Agent shall have

received evidence satisfactory to it of payment for its own account, or for the account of each Lender, as the case may be, all fees, costs and expenses due and payable pursuant to Section 3.3 and, if then invoiced,

Section 11.3.

SECTION 6.1.10 Insurance. Insurance complying with the Loan Documents

shall be in full force and effect and the Agent shall have received a certificate to that effect from independent insurance brokers or consultants as shall be satisfactory to the Agent and the Required Lenders.

SECTION 6.1.11 Solvency Certificate. The Authorized Officer of each

of the Borrower and the Guarantors shall have delivered to the Agent a
solvency certificate dated the Effective Date, substantially in the form of
Exhibit I hereto.

SECTION 6.1.12 Borrowing Base Certificate. The Agent shall have

received a Borrowing Base Certificate.

SECTION 6.1.13 RESERVED

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SECTION 6.1.14 Material Contracts. The Agent and the Lenders shall

have received true and complete copies of all Project Contracts and each
other material agreement, entered into as of April 6, 2000, between the
Borrower, each Material Subsidiary and their respective suppliers and the
purchasers from them of services. Each such Project Contract shall be in
full force and effect without default thereunder and the Agent shall have
received a certificate of a Responsible Officer of the Borrower to such
effect.

SECTION 6.1.15 Consent of Petro Lenders. The Agent shall have

received evidence satisfactory to it of the consent of the lenders under
the Petro Credit Facility to the issuance by Star Gas Partners of its
Guarantee Agreement.

SECTION 6.1.16 Other Documents. The Agent and each Lender shall have

received such other approvals, opinions, documents or materials as the
Agent or such Lender may reasonably request.

SECTION 6.2 All Borrowings. The obligation of each Lender to fund any

Loan on the occasion of any Borrowing (including the initial Borrowing) shall be
subject to the satisfaction of each of the conditions precedent set forth in
this Section 6.2.

SECTION 6.2.1 Compliance with Warranties, No Default, etc. Both

before and after giving effect to any Borrowing (but, if any Default of the
nature referred to in Section 9.1.4 shall have occurred with respect to any

other Indebtedness, without giving effect to the application, directly or
indirectly, of the proceeds thereof) the following statements shall be true
and correct:

(a) the representations and warranties set forth in Article VII and

in the Security Agreements shall be true and correct with the same effect
as if then made (unless stated to relate solely to an earlier date, in
which case such representations and warranties shall be true and correct as
of such earlier date);

(b) no Default or Event of Default shall have then occurred and be
continuing;

(c) the Borrower shall not have made any distribution or payment to
shareholders of the Borrower or any payment in respect of Indebtedness of
the Borrower in violation of the provisions of Section 8.2.6 hereof; and

(d) no event or circumstance shall have occurred which could have a
Material Adverse Effect.

SECTION 6.2.2 Borrowing Request. The Agent shall have received a

Borrowing Request, for such Borrowing. Each delivery of a Borrowing

Request and the acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty by Star Gas Partners, the Borrower and the Material Subsidiaries that on the date of such Borrowing (both immediately before and after giving effect to such Borrowing and the application of the proceeds thereof) each of the statements made in Section 6.2.1 is true and correct.

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SECTION 6.2.3 Lien Searches. With respect to the initial Borrowing

only, satisfactory results of lien searches against the Borrower in the locations set forth on Schedule 6.2.3.

SECTION 6.2.4 Satisfactory Legal Form. All documents executed or

submitted pursuant hereto by or on behalf of the Borrower, any other Obligor or any Subsidiary shall be satisfactory in form and substance to the Agent and its counsel; the Agent and its counsel shall have received all information, approvals, opinions, documents or instruments as the Agent or its counsel may reasonably request.

ARTICLE VII
REPRESENTATIONS AND WARRANTIES

In order to induce the Lenders and the Agent to enter into this Agreement and to make Loans hereunder, the Borrower represents and warrants unto the Agent and each Lender as set forth in this Article VII.

SECTION 7.1 Organization etc.

(a) Each of the Managing General Partner, the Borrower and its Material Subsidiaries is a corporation (or a limited liability company in the case of the Managing General Partner) duly organized, validly existing and in good standing under the laws of its state of organization and has all requisite power and authority to own and operate its properties, to conduct its business as conducted on the Effective Date, to enter into this Agreement, the Notes and the other Loan Documents to which it is a party, and to carry out the terms of this Agreement, the Notes and such other Loan Documents.

(b) Star Gas Partners is a limited partnership duly organized, validly existing and in good standing under the laws of its state of its organization and has all requisite partnership power and authority to own and operate its properties, to conduct its business as conducted on the Effective Date, and to execute, deliver and carry out the terms of the Loan Documents to which it is a party.

(c) Item 7.1 of the Disclosure Schedule accurately and completely

lists, as to each of Star Gas Partners, the Borrower and each Material Subsidiary: (i) the state of incorporation or organization of each such entity, and the type of legal entity that each of them is, (ii) as to each of them that is a corporation, the classes and number of authorized and outstanding shares of Capital Stock of each such corporation, and the owners of such outstanding shares of Capital Stock, (iii) as to each of them that is a legal entity other than a corporation (but not a natural person), the type and amount of equity interests authorized and outstanding of each such entity, and the owners of such equity interests, and (iv) the business in which each of such entities is engaged. All of the foregoing shares or other equity interests that are issued and outstanding have been duly and validly issued and are fully paid and non-assessable, and are owned by the Persons referred to in

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Item 7.1 of the Disclosure Schedule, free and clear of any Lien except as

otherwise provided for herein. Except as set forth on Item 7.1 of the

Disclosure Schedule, there are no outstanding warrants, options, contracts or commitments of any kind entitling any Person to purchase or otherwise acquire any shares of Capital Stock or other equity interests of the Borrower or any Material Subsidiary nor are there outstanding any securities that are convertible into or exchangeable for any shares of Capital Stock or other equity interests of the Borrower or any Material Subsidiary.

SECTION 7.2 Material Subsidiaries. The Material Subsidiaries of the

Borrower are listed on Schedule 7.2 hereto, and none of the Borrower or any of

its Material Subsidiaries existing on the date of this Agreement has made any Investments in any other Person (other than Investments of the types permitted in Section 8.2.5).

SECTION 7.3 Qualification. Each of Star Gas Partners, the Borrower and

its Material Subsidiaries is duly qualified or registered and is in good standing as a foreign corporation or partnership for the transaction of business, in the jurisdictions set forth in Item 7.3 of the Disclosure Schedule

which are the only jurisdictions, on the date hereof, in which the nature of their respective activities or the character of the properties they own, lease or use makes such qualification or registration necessary and, in the case of Star Gas Partners only, in which the failure so to qualify or to be so registered could be reasonably expected to have a Material Adverse Effect.

SECTION 7.4 Enforceability. Each of Star Gas Partners, the Borrower and

the Material Subsidiaries has taken all necessary partnership or corporate action to authorize the execution, delivery and performance by it of this Agreement, the Notes and each other Loan Document to which is a party. Each of Star Gas Partners, the Borrower and the Material Subsidiaries has duly executed and delivered each of this Agreement, the Notes and the other Loan Documents to which it is a party, and each of them constitutes its legal, valid and binding obligation enforceable in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and similar laws of general application relating to or affecting the rights and remedies of creditors and by general equitable principles, regardless of whether such enforceability is considered in a proceeding in equity or at law; provided, however, that such laws shall not materially interfere with the practical realization of the Security Documents or the Liens created thereby, except for (i) possible delay, (ii) situations that may arise under Chapter 11 of the Bankruptcy Code, and (iii) equitable orders of a bankruptcy court.

SECTION 7.5 Due Authorization; Non-contravention; etc. The execution,

delivery and performance by each of Star Gas Partners, the Borrower and the Material Subsidiaries of this Agreement, the Notes and each other Loan Document required to be executed by it hereunder are within Star Gas Partner's, the Borrower's and such Material Subsidiary's powers, have been duly authorized by all necessary action, and do not:

(a) contravene Star Gas Partners', the Borrower's or any Material Subsidiary's Organization Documents;

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(b) contravene any contractual restriction, law or governmental regulation or court decree or order binding on or affecting Star Gas Partners, the Borrower or any Material Subsidiary; or

(c) result in, or require the creation or imposition of, any Lien on any of Star Gas Partners', the Borrower's or such Material Subsidiary's properties, except as contemplated hereby.

SECTION 7.6 Government Approvals; Regulations, etc. No authorization or

approval or other action, by, and no notice to or filing with, any government

authority or regulatory body or other Person (that has not been obtained) is required for the due execution, delivery or performance by Star Gas Partners, the Borrower or any Material Subsidiary of this Agreement, the Notes or any other Loan Document to which it is a party. All such required authorizations and approvals have been obtained and such required notices and filings have been made.

SECTION 7.7 Business; Financial Statements.

(a) The audited consolidated financial statements of the Borrower and its Subsidiaries dated for their fiscal year ending in 2000, together with the related statements of income or operations, shareholders' equity and cash flows for the fiscal periods ended on those respective dates:

(i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein;

(ii) fairly present in accordance with GAAP the financial condition of the Borrower and its Subsidiaries as of the date thereof and results of operations for the period covered thereby; and

(iii) show all material indebtedness and other liabilities, direct or contingent of the Borrower and its Subsidiaries required to be disclosed in accordance with GAAP as of the date thereof including liabilities for taxes, material commitment and Contingent Liabilities.

(b) The audited consolidated financial statements of Star Gas Partners and its Subsidiaries for its fiscal years ending during 1998, 1999 and 2000, in each case together with the related consolidated statements of income or operations, partners' (or shareholders) capital and cash flow for the fiscal periods ended on those respective dates:

(i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein;

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(ii) fairly present in accordance with GAAP the financial condition of Star Gas Partners and its Subsidiaries as of the date thereof and results of operations for the period covered thereby; and

(iii) show all material indebtedness and other liabilities, direct or contingent, of such Person and its consolidated Subsidiaries required to be disclosed, including liabilities for taxes, material commitments and Contingent Liabilities in accordance with GAAP as of the date thereof.

SECTION 7.8 No Material Adverse Change. Since the date of the most recent

financial statements described in Section 7.7 or, for any determination after

the delivery of the first financial statements pursuant to Section 8.1.1(b),

since the date of such financial statements (if such financial statements shall be satisfactory to the Required Lenders), there has been no material adverse change in the condition (financial or otherwise), business, prospects, operations, assets or properties of (a) the Borrower and the Material Subsidiaries (taken as a whole), or (b) Star Gas Partners and its Subsidiaries (taken as a whole).

SECTION 7.9 Litigation; Labor Controversies, etc. There is no pending or,

to the knowledge of Star Gas Partners, the Borrower, or any of its Material Subsidiaries, threatened litigation, action, proceeding, or labor controversy affecting Star Gas Partners, the Borrower or any of their Subsidiaries, or any of their respective properties, businesses, assets or revenues, (a) which has, or could have, a Material Adverse Effect, (b) which could affect the legality, validity or enforceability of this Agreement, the Notes or any other Loan Document, or (c) which could affect the transaction contemplated hereby or the ability of Star Gas Partners, the Borrower or any of its Material Subsidiary to perform their respective obligations under the Loan Documents.

SECTION 7.10 Ownership of Properties; Project Contracts; Liens.

(a) Star Gas Partners, the Borrower and each of the Material Subsidiaries have (i) title to all of their respective assets constituting real property owned in fee simple, (ii) good and valid leasehold interests in their respective assets constituting leased real property, pursuant to which they enjoy undisturbed possession thereof, except for defects in, or lack of recorded title and exceptions to, leasehold interests which could not, in the aggregate, be reasonably expected to have a Material Adverse Effect, and (iii) sufficient title to the portion of their respective assets constituting personal property (including patents, trademarks, trade names, service marks, copyrights and other intellectual property rights) reasonably necessary for the use and operation of such personal property as it has been used in the past and as it is proposed to be used, in each case subject to no Liens except as permitted pursuant to Section 8.2.3.

(b) Each Prior Lien has been removed.

(c) Each Project Contract is in full force and effect without default thereunder .

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(d) The Liens that, simultaneously with the execution and delivery of this Agreement and the consummation of the initial Loans, have been created and granted by the Security Documents and upon filing will constitute valid perfected first Liens on the properties and assets covered by the Security Documents; provided, however, that Liens on the Project Contracts shall be created and granted only to the maximum extent permitted by such documents.

SECTION 7.11 Taxes. Star Gas Partners, the Borrower and each Material

Subsidiary, and any predecessor entity thereto, have filed all tax returns and reports required by law to have been filed by them and have paid all taxes and governmental charges thereby shown to be owing, except (a) any such taxes or charges which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books, and (b) in the case only of Star Gas Partners, where the failure to do so could not have a Material Adverse Effect.

SECTION 7.12 ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law. Each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service and, to the best knowledge of the Borrower, nothing has occurred which would cause the loss of such qualification. The Borrower and each ERISA Affiliate has made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of Borrower, threatened claims, actions or lawsuits, or action by any Government Authority, with respect to any Plan which has resulted in or could reasonably be expected to have a Material Adverse Effect on the condition (financial or otherwise), business, operations, assets or properties of Star Gas Partners, the Borrower and the Subsidiaries (taken as a whole). There has been no prohibited transaction or violation of the fiduciary responsibility rules, or failure to be able to accurately value Plan assets with respect to any Plan which has resulted in or could reasonably be expected to have a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or could reasonably be expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Borrower nor any ERISA Affiliate has incurred, or could reasonably be expected to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably could be expected to incur, any

liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, could result in such liability under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Borrower nor any ERISA Affiliate has engaged

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in a transaction that could reasonably be expected to be subject to Section 4069 or 4212(c) of ERISA.

(d) From this date hereafter, each year the Borrower shall have no underfunded Pension Plans.

SECTION 7.13 Environmental Warranties.

(a) All facilities and property owned, leased, used, occupied or controlled (in whole or in part) by Star Gas Partners, the Borrower or any Material Subsidiary have been, and continue to be, owned, leased, used, occupied or controlled by Star Gas Partners, the Borrower or such Material Subsidiary in compliance with all Environmental Laws except where the failure of any of the foregoing to be done could not reasonably be expected to have a Material Adverse Effect.

(b) There have been no past, and there are no pending or threatened

(i) Environmental Claims received by Star Gas Partners, the Borrower or any Material Subsidiary with respect to any alleged violation of any Environmental Law, or

(ii) complaints, notices or inquiries to Star Gas Partners, the Borrower or any Material Subsidiary regarding potential liability under any Environmental Law;

which in either the case of clauses (i) or (ii) above, could be reasonably

expected to have a Material Adverse Effect on Star Gas Partners, the Borrower and the Subsidiaries (taken as a whole).

(c) To the knowledge of each of Star Gas Partners, the Borrower and the Material Subsidiaries there have been no Releases of Hazardous Materials at, on or under any property now or previously owned or leased by Star Gas Partners, the Borrower or any Material Subsidiary that, singly or in the aggregate, have, or could reasonably be expected to have, a Material Adverse Effect.

(d) Star Gas Partners, the Borrower and each Material Subsidiary have been issued and are in material compliance with all permits, certificates, approvals, licenses and other authorizations relating to environmental matters and necessary or desirable for their businesses, the absence of or non compliance with which could reasonably be expected to have a Material Adverse Effect, and no order has been issued, no Environmental Claim has been made, no penalty has been assessed and, to the knowledge of the Borrower or any Material Subsidiary, no investigation or review has occurred or is pending or threatened by any Person with respect to any alleged failure by Star Gas Partners, the Borrower or any Material Subsidiary to have any permit, certificate, approval, license or other governmental authorization required under applicable Environmental Laws in connection with the conduct of the business or operations of any

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of them, except where the failure of any of the foregoing to be done could not reasonably be expected individually or in the aggregate to have a Material Adverse Effect.

(e) No property now or previously owned or leased by the Borrower or any Material Subsidiary is listed or to the knowledge of Borrower is proposed for listing (with respect to owned property only) on the National Priorities List pursuant to CERCLA, on the CERCLIS or on any similar state list of sites requiring investigation or clean-up where the circumstances giving rise to such listing or proposed listing or the effect of such listing or proposed listing has, or could reasonably be expected to have, a

Material Adverse Effect.

(f) To the knowledge of each of Star Gas Partners, the Borrower and the Material Subsidiaries there are no underground storage tanks, active or abandoned, including petroleum storage tanks, on or under any property now leased, used, occupied or controlled (in whole or in part) by Star Gas Partners, the Borrower or any Material Subsidiary.

(g) To the knowledge of each of Star Gas Partners, the Borrower and each Material Subsidiary, none of Star Gas Partners, the Borrower or any Material Subsidiary has directly transported or directly arranged for the transportation of any Hazardous Material to any location, including locations which are listed or proposed for listing on the National Priorities List pursuant to CERCLA, on the CERCLIS or on any similar state list or which is the subject of federal, state or local enforcement actions or other investigations.

(h) To the knowledge of each of Star Gas Partners, the Borrower and each Material Subsidiary there are no polychlorinated biphenyls or friable asbestos present at any property now or previously owned, leased, used, occupied or controlled (in whole or in part) by Star Gas Partners, the Borrower or any Material Subsidiary that, singly or in the aggregate, have, or could reasonably be expected to have, a Material Adverse Effect.

SECTION 7.14 Regulations U and X and Use of Proceeds.

(a) The Borrower is not engaged in the business of extending credit for the purpose of buying or carrying margin stock, and no proceeds of any Loans will be used for a purpose which violates, or would be inconsistent with, F.R.S. Board Regulation U or X. Terms for which meanings are provided in F.R.S. Board Regulation U or X or any regulations substituted therefor, as from time to time in effect, are used in this Section with such meanings.

(b) The Borrower shall (i) use the proceeds of the Facility A Loans, solely for working capital purposes, and (ii) use the proceeds of the Facility B Loans, solely for purposes of financing that portion of the purchase price for acquisitions of customer accounts from direct marketers which does not exceed \$40 per customer and to finance capital expenditures relating to the Borrower's Business or future acquired businesses of the Borrower.

SECTION 7.15 Accuracy of Information. All factual information heretofore

or contemporaneously furnished by or on behalf of Star Gas Partners, the Borrower in writing to the Agent or any Lender for purposes of or in connection with this Agreement or any transaction contemplated hereby which were furnished to the Agent and all other such factual information hereafter furnished by or on behalf of Star Gas Partners, the Borrower or any of its Material Subsidiaries in writing to the Agent or any Lender does not contain any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading. There is no fact known to either of Star Gas Partners or the Borrower which has or in the future would (so far as either of Star Gas Partners or the Borrower can now foresee) have a Material Adverse Effect which has not been set forth or referred to in this Agreement or the other factual information furnished by Star Gas Partners or the Borrower in writing.

SECTION 7.16 Solvency. The Borrower, both before and after giving effect

to any Borrowing hereunder (including the initial Borrowings), (i) is not "insolvent" (as such term is defined in (S) 101(31)(A) of the Bankruptcy Code), (ii) is able to pay its debts and other liabilities, contingent obligations and commitments as they mature, and (iii) does not have unreasonably small capital for the business in which it is engaged or for any business or transaction in which it is about to engage.

SECTION 7.17 Compliance with Agreements and Laws. None of Star Gas

Partners, the Borrower or any of their Subsidiaries is in default under any agreement by which it is bound or in violation of any statute, law or

governmental rule or regulation or court or arbitrator's judgment, decree or order, in any such case, which either individually or in the aggregate, could have a Material Adverse Effect.

SECTION 7.18 Investment Company Act; Other Regulations. None of Star Gas

Partners, the Borrower or any Material Subsidiary is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended. None of Star Gas Partners, the Borrower or any Material Subsidiary is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, any state public utilities code, or any other federal or state statute or regulation limiting its ability to incur Indebtedness.

ARTICLE VIII
COVENANTS

SECTION 8.1 Affirmative Covenants. The Borrower agrees with the Agent and

each Lender that, until all Commitments have terminated and all Obligations have been paid and performed in full, the Borrower will perform the obligations set forth in this Section 8.1.

SECTION 8.1.1 Financial Information, Reports, Notices, etc. The

Borrower will furnish, or will cause to be furnished, to each Lender and the Agent copies of the following financial statements, reports, notices and information:

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(a) (i) as soon as practicable, but in any event within forty-five (45) days after the end of each of the first three quarterly fiscal periods in each Fiscal Year of the Borrower, consolidated balance sheets of the Borrower and the Material Subsidiaries as at the end of such period and the related consolidated (and, as to statements of income and cash flows, if applicable and to the extent that such are being prepared, consolidating) statements of income, surplus or partners' capital, cash flows and stockholders' equity of the Borrower and the Material Subsidiaries for such period, all in reasonable detail and certified by an authorized financial officer of the Borrower as presenting fairly, in all material respects, the information contained therein (subject to changes resulting from normal year-end adjustments), in accordance with GAAP applied on a basis consistent with prior fiscal periods;

(ii) as soon as practicable, but in any event within forty-five (45) days after the end of each of the first three quarterly fiscal periods in each Fiscal Year of Star Gas Partners, the report on Form 10-Q submitted by Star Gas Partners to the Securities Exchange Commission in respect of such quarterly period;

(b) (i) as soon as practicable but in any event within one hundred five (105) days after the end of each Fiscal Year of the Borrower, consolidated balance sheets of the Borrower and the Material Subsidiaries as at the end of such year and the related consolidated (and, as to statements of income and cash flows, if applicable and to the extent that such are being prepared, consolidating) statements of income, cash flows and stockholders' equity of the Borrower and the Material Subsidiaries for such Fiscal Year, setting forth in each case in comparative form the consolidated and, where applicable and to the extent that such are being prepared, consolidating figures for the previous Fiscal Year, all in reasonable detail, and accompanied by a report thereon of KPMG LLP or other independent public accountants of recognized national standing selected by the Borrower, which report shall (1) contain no limitation on the scope of the audit and no material qualification or exception and (2) state that such consolidated financial statements present fairly in all material respects the financial position of the Borrower and the Material Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with GAAP applied on a basis consistent with prior years and that the audit by such accountants in connection with such consolidated financial statements has been made in accordance with GAAP;

(ii) as soon as practicable but in any event within ninety (90) days after the end of each Fiscal Year of Star Gas Partners, consolidated (and to the extent that such are being prepared, consolidating) balance sheets of Star Gas Partners and its Subsidiaries as at the end of such year and the related consolidated (and, as to statements of income and cash flows, if applicable and to the extent that such are being prepared, consolidating) statements of income, partners' capital and cash flows of Star Gas Partners and its Subsidiaries for such Fiscal Year of Star Gas Partners, setting forth in each case in comparative form the consolidated and, where applicable and to the extent that such are being prepared, consolidating figures for the previous Fiscal Year of Star Gas Partners, all in reasonable detail,

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and accompanied by a report thereon of KPMG LLP or other independent public accountants of recognized national standing selected by Star Gas Partners, which report shall (1) contain no limitation on the scope of the audit and no material qualification or exception and (2) state that such consolidated financial statements present fairly in all material respects the financial position of Star Gas Partners and its Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with GAAP applied on a basis consistent with prior years and that the audit by such accountants in connection with such consolidated financial statements has been made in accordance with GAAP;

(iii) as soon as practicable, but in any event not later than June 30, 2001 for Fiscal Year 2001, and thereafter, not later than the beginning of each Fiscal Year of the Borrower, a copy of the annual budget of the Borrower and each Material Subsidiary for such beginning fiscal year of such Person, in each case in detail satisfactory to the Agent and containing information sufficient to verify monthly operation and maintenance expenses;

(c) as soon as available and in any event within forty-five (45) days after the end of each of the first three (3) Fiscal Quarters of the Borrower and within ninety (90) days after the end of each Fiscal Year of the Borrower, a Compliance Certificate with respect to the period covered by the financial statements referred to in Section 8.1.1(a) and 8.1.1(b)

above together with an enumeration of the aggregate number of customers of the Borrower and its Subsidiaries existing as at the end of such Fiscal Quarters, and the number of customers acquired through use of the proceeds of Facility B Loans during such Fiscal Quarter, in each case with supporting calculations and such other supporting detail as the Agent and the Required Lenders may require;

(d) promptly upon receipt thereof, copies of all reports, management letters and other detailed information (if any) prepared with respect to Star Gas Partners, the Borrower or any Material Subsidiary by any independent public accountant in connection with each annual or interim audit of such Person;

(e) as soon as possible and in any event within three (3) Business Days after knowledge by a Responsible Officer of the occurrence of each Default or Event of Default, a statement of the chief financial officer of the Borrower setting forth details of such Default or Event of Default and the action which the Borrower has taken and propose to take with respect thereto;

(f) as soon as possible and in any event within three (3) Business Days after knowledge by a Responsible Officer of (x) the occurrence of any material adverse development with respect to any litigation, action, proceeding, or labor controversy described in Section 7.9 or (y) the

commencement of any labor controversy, litigation, action, proceeding of the type described in Section 7.9, notice thereof and copies of all

documentation relating thereto;

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(g) within five (5) Business Days after the sending or filing thereof, all reports, registration statements and prospectuses which Star Gas Partners, the Borrower or any of its Subsidiaries files with the Securities and Exchange Commission or any national securities exchange;

(h) as soon as possible and in any event within ten (10) days after knowledge by a Responsible Officer of the occurrence of any of the following events affecting the Borrower or any ERISA Affiliate, deliver to the Agent and each Lender a copy of any notice with respect to such event that is filed with the Government Authority and any notice delivered by a Government Authority to the Borrower or any ERISA Affiliate with respect to such event:

(i) an ERISA Event;

(ii) any Unfunded Pension Liability of any Pension Plan;

(iii) the adoption of, or the commencement of contributions to, any Plan subject to Section 412 of the Code by the Borrower or any ERISA Affiliate;

(iv) the adoption of any amendment to a Plan subject to Section 412 of the Code, if such amendment could result in a material increase in contributions or Unfunded Pension Liability; or

(v) any Pension Plan's having incurred an "accumulated funding deficiency" (as defined in Section 412 of the Code), or receiving notice from the PBGC, Internal Revenue Service or any governmental agency that it is the subject of an audit, review or any other governmental action;

in addition, the Borrower shall instruct the actuaries for all Pension Plans to deliver to the Agent a copy of each Pension Plan's Actuarial Valuation and each Pension Plan's Schedule B to Form 5500 at the earliest time that such is delivered to the Borrower or any ERISA Affiliate;

(i) within sixty (60) Business Days after each Fiscal Quarter end, a certificate setting forth the net proceeds from Asset Dispositions, the application of such proceeds as permitted under Section 8.2.8, and the mandatory prepayments made as required by Section 3.1.3;

(j) on the twenty fifth (25/th/) day of each month (or if such day shall not be a Business Day, the next preceding Business Day) and promptly after any day on which the Agent requests, a Borrowing Base Certificate showing the Facility A Borrowing Base as of the last day of the most recently ended calendar month or such other date as reasonably requested by the Agent, as the case may be, in each case certified as complete and correct by the chief financial officer of the Borrower together with supporting documents reasonably acceptable to the Agent; provided however, that for the first three (3) months after the Effective Date, such Borrowing Base Certificates shall be due thirty (30) days after the last day of the most recently ended calendar month;

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(k) within ten (10) days of knowledge by a Responsible Officer thereof, notice of any litigation, proceeding, investigation or dispute which may exist at any time between Star Gas Partners, the Borrower or any Material Subsidiary and any governmental regulatory body which might interfere with the normal business operations of Star Gas Partners, the Borrower or any Material Subsidiary, such other information respecting the condition or operations, financial or otherwise, of Star Gas Partners, the Borrower or any Subsidiary as any Lender through the Agent may from time to time reasonably request;

(l) within ten (10) days of knowledge by a Responsible Officer thereof and to the extent not otherwise covered in clauses (a) - (k) above, notice of any event or circumstance that could have a Material Adverse Effect, including without limitation an event or circumstance which leads the Borrower to believe it will not meet the financial covenants set forth

in Section 8.2.4 on a pro forma basis;

(m) within ten (10) days of the occurrence thereof, a notice of the occurrence of any default by Star Gas Partners or any of its Subsidiaries under any agreement the breach of which could have a Material Adverse Effect to which such Person is a party, setting forth in reasonable detail the circumstances of such default; and

(n) not later than ten (10) Business Days after the occurrence thereof, notice of any change, amendment, waiver or entering into of any Project Contract.

SECTION 8.1.2 Maintenance of Properties. The Borrower will, and will

cause each of its Material Subsidiaries to, maintain, preserve, protect and keep its properties in good repair, working order and condition, and make necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times unless the Borrower determines in good faith that the continued maintenance of any of its or its Subsidiaries' properties is no longer economically desirable.

SECTION 8.1.3 Insurance. In addition to insurance requirements set

forth in the Security Documents, the Borrower shall maintain, and shall cause each of the Material Subsidiaries to maintain, with financially sound and reputable independent insurers, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons; including workers' compensation insurance, public liability and property and casualty insurance which amount shall not be reduced by the Borrower or any Material Subsidiary in the absence of thirty (30) days' prior notice to the Agent. All such insurance shall name the Agent as loss payee/mortgagee and as additional insured, for the benefit of the Lenders, as their interests may appear. All casualty insurance maintained by the Borrower and the Material Subsidiaries shall name the Agent as loss payee and all liability insurance shall name the Agent as additional insured for the benefit of the Borrower, as their interests may appear. Upon request of the Agent or any Lender, the Borrower shall furnish the Agent, with sufficient copies for each Lender, at

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reasonable intervals (but not more than once per calendar year) a certificate of a Responsible Officer of the Borrower (and, if requested by the Agent, any insurance broker of the Borrower) setting forth the nature and extent of all insurance maintained by the Borrower and the Material Subsidiaries in accordance with this Section or any Security Documents (and which, in the case of a certificate of a broker, were placed through such broker).

SECTION 8.1.4 Payment of Obligations. The Borrower shall, and shall

cause each of its Material Subsidiaries to, pay and discharge as the same shall become due and payable (except to the extent the failure to so pay and discharge could not reasonably be expected to have a Material Adverse Effect), all their respective obligations and liabilities, including:

(a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Borrower or such Material Subsidiary;

(b) all lawful claims which, if unpaid, would by law become a Lien upon its property; and

(c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

SECTION 8.1.5 Compliance with Laws. The Borrower shall, and shall

cause each of its Material Subsidiaries to comply, in all material respects with all Requirements of Law of any Government Authority having jurisdiction over it or its business (including the Federal Fair Labor Standards Act), except such as may be contested in good faith or as to which a bona fide dispute may exist.

SECTION 8.1.6 Books and Records. Star Gas Partners and the Borrower

will, and will cause each of the Material Subsidiaries to, keep books and records which accurately reflect all of its business affairs and transactions.

SECTION 8.1.7 Inspection. The Borrower shall permit the

representatives of each Lender and the Agent, at the expense of the Borrower at any time when a Default or Event of Default has occurred and is in existence, and otherwise representatives of any Lender or the Agent with prior written notice at the expense of such Lender or the Agent, to visit and inspect during normal business hours any of the properties of the Borrower or any Material Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants all at such reasonable times and intervals and as often as may be reasonably requested. The Borrower hereby authorizes the Borrower's and the Material Subsidiaries' independent accountants, and shall upon such request deliver a letter to the

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Borrower's and the Material Subsidiaries' independent public accountants authorizing them, to reply to and comply with the provisions of this Section 8.1.7.

SECTION 8.1.8 Environmental Covenant. The Borrower will, and will

cause each of the Material Subsidiaries to:

(a) use and operate all of its facilities and properties in compliance with all Environmental Laws, keep all necessary permits, approvals, certificates, licenses and other authorizations relating to environmental matters in effect and remain in compliance therewith, and handle all Hazardous Materials in compliance with all applicable Environmental Laws except where non-compliance could not singly or in the aggregate be reasonably expected to have a Material Adverse Effect;

(b) immediately notify the Agent and provide copies upon receipt of all written claims, complaints, notices or inquiries relating to the condition of its facilities and properties or compliance with Environmental Laws other than those claims, complaints, notices or inquiries which singly or in the aggregate could not have a Material Adverse Effect, and shall promptly cure and have dismissed with prejudice to the satisfaction of the Agent any such actions and proceedings relating to compliance with Environmental Laws except to the extent being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books; and

(c) provide such information and certifications which the Agent may reasonably request from time to time to evidence compliance with this Section 8.1.8.

SECTION 8.1.9 Compliance with ERISA. The Borrower shall, and shall

cause each of its ERISA Affiliates to: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (b) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (c) make all required contributions to any Plan subject to Section 412 of the Code.

SECTION 8.1.10 Collateral.

(a) All of the Collateral will be pledged to secure the Senior Debt.

(b) In the event that the Borrower obtains or creates any Material Subsidiary (after the date hereof), the Borrower shall (i) cause each such Material Subsidiary to issue a guarantee of the Obligations and each such guarantee will be in favor of the Agent and secured by a pledge of all of the accounts receivable, inventory, cash, Customer Lists and stock of such Material Subsidiary, and (ii) cause the Security Agreements to be amended to add such Material Subsidiary as an Obligor thereunder and shall deliver, or cause such Material Subsidiary to deliver, such other agreements, documents, instruments and opinions in connection therewith as the Agent may request.

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(c) The Borrower shall, and shall cause each Material Subsidiary to, use commercially reasonable efforts to cause each Project Contract entered into after the date hereof to become subject to the grant of liens set out in of the Security Agreements.

(d) All of the funds received by the Borrower and the Material Subsidiaries under the Contracts (as defined in the Security Agreements) shall be deposited into the Receipts Account for application in accordance with the Security Agreements.

SECTION 8.1.11 Update of Project Contracts. The Borrower shall

deliver to the Agent and the Lenders, not later than June 30, 2001, an updated Exhibit O indicating all Project Contracts in effect as of the date

of delivery of such updated Exhibit O. Each Project Contract shall be in

full force and effect without default thereunder and the Borrower shall deliver to the Agent a certificate of a Responsible Officer of the Borrower to such effect.

SECTION 8.1.12 Agreements Regarding Receipts Account . The Borrower

shall, not later than June 30, 2001 execute and deliver (i) an amendment to this Agreement, (ii) an amendment and restatement of the Accounts Security Deposit Agreement and (iii) an amendment and restatement of the Securities Account Control Agreement, in each case in form and substance satisfactory to the Agent, pursuant to which the Receipts Account shall be established with Chase, and Chase shall become (a) the Depositary under the Accounts Security Deposit Agreement and (b) the Securities Intermediary under the Securities Account Control Agreement, together with such other documents, certificates or other instruments the Agent determines are necessary to effectuate the foregoing.

SECTION 8.1.13 Preservation of Corporate Existence. The Borrower

shall, and shall cause each of its Material Subsidiaries to:

(a) preserve and maintain in full force and effect its corporate or partnership existence (as applicable) and good standing under the laws of its state or jurisdiction of organization or incorporation, except to the extent permitted by Section 8.2.7;

(b) preserve and maintain in full force and effect all governmental rights, privileges, qualifications, permits, licenses and franchises necessary or desirable in the normal conduct of its business except in connection with transactions permitted by Section 8.2.7 and sale of assets

permitted by Section 8.2.8 or where the lapse could not reasonably be

expected to have a Material Adverse Effect;

(c) use reasonable efforts, in the ordinary course of business, to preserve its business organization and goodwill; and

(d) preserve or renew all of its registered patents, trademarks,

trade names and service marks, the non-preservation of which could have a Material Adverse Effect.

SECTION 8.1.14 Use of Proceeds.

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(a) The Borrower shall not, and shall not suffer or permit any Subsidiary to, use any portion of the Loan proceeds, directly or indirectly for the purpose of buying or carrying margin stock or any purpose which violates, or would be inconsistent with F.R.S. Board Regulation U or X. Terms for which meanings are provided in F.R.S. Board Regulation U or X or any regulations substituted therefor, as from time to time in effect, are used in this Section with such meanings;

(b) The proceeds of the Loans shall be used for the purposes set forth in Section 7.14.

SECTION 8.1.15 Update of Customer Lists. The Borrower shall, and

shall cause its Material Subsidiaries to, provide to the Agent and the Lenders on such dates as the Agent reasonably may request one or more computer information (or such other medium as may be acceptable to the Agent) containing each Customer List owned by the Borrower or any of the Material Subsidiaries and within fifteen (15) days of such request the Borrower and the Agent agree that each Lender shall be permitted to review such information (or other medium) during the reasonable business hours of the Agent; provided that the Agent and the Lenders shall not disclose such information unless an Event of Default has occurred and is continuing; provided, however, that prior to an Event of Default, the Agent and the Lenders may disclose such information only to (a) their respective attorneys, auditors, employees, consultants or other agents, and (b) to any Government Authority to the extent required by such Government Authority.

SECTION 8.1.16 Further Assurances.

(a) The Borrower shall ensure that all written information, exhibits and reports furnished to the Agent or the Lenders by the Borrower do not and will not contain any untrue statement of a material fact and do not and will not omit to state any material fact or any fact necessary to make the statements contained therein not misleading in light of the circumstances in which made, and will promptly disclose to the Agent and the Lenders and correct any defect or error that may be discovered therein or in any Loan Document or in the execution, acknowledgment or recordation thereof.

(b) Promptly upon request by the Agent or the Required Lenders, the Borrower shall (and shall cause any of its Subsidiaries to) do, execute, acknowledge, deliver, record, re-record, file, re-file, register and re-register, any and all such further acts, deeds, conveyances, security agreements, mortgages, assignments, estoppel certificates, financing statements and continuations thereof, termination statements, notices of assignment, transfers, certificates, assurances and other instruments the Agent or such Lenders, as the case may be, may reasonably require from time to time in order (i) to carry out more effectively the purposes of this Agreement or any other Loan Document, (ii) to subject to the Liens created by any of the Security Documents any of the properties, rights or interests covered by any of the Security Documents, (iii) to perfect and maintain the validity, effectiveness and priority of any of the Security Documents and the Liens intended to be created thereby, and (iv) to better assure,

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convey, grant, assign, transfer, preserve, protect and confirm to the Agent and Lenders the rights granted or now or hereafter intended to be granted to the Agent and the Lenders under any Loan Document or under any other document executed in connection therewith.

SECTION 8.2 Negative Covenants. The Borrower agrees with the Agent and

each Lender that, until all Commitments have terminated and all Obligations have

been paid and performed in full, the Borrower will perform the obligations set forth in this Section 8.2.

SECTION 8.2.1 Business Activities. The Borrower will not, nor will

it permit any of the Material Subsidiaries to, engage in any line of business, if, as a result, the general nature of the business in which the Borrower and the Material Subsidiaries taken as a whole are engaged in would be substantially different from the nature of the business in which the Borrower and the Material Subsidiaries are engaged in as of the Effective Date.

SECTION 8.2.2 Indebtedness.

(a) The Borrower will not, nor will it permit any of the Material Subsidiaries to, create, incur, assume or suffer to exist or otherwise become or be liable in respect of any Indebtedness, other than, (i) Indebtedness evidenced by the Obligations; (ii) and Subordinated Indebtedness to persons having an equity ownership interest in the Borrower and which is subordinated on terms and conditions satisfactory to the Agent; and (iii) Indebtedness incurred in connection with Section 8.2.3(e).

(b) Star Gas Partners will not create, incur, assume or suffer to exist or otherwise become liable in respect of any Indebtedness except Indebtedness evidenced by the Obligations and its Guaranty dated the date hereof, and other Indebtedness permitted by Section 8.2.2(b) of the Petro Credit Facility.

SECTION 8.2.3 Liens. The Borrower shall not, nor shall it permit any

of the Material Subsidiaries to, create, incur, assume or suffer to exist any Lien upon any of its property, revenues or assets, whether now owned or hereafter acquired, except the Liens referred to below:

(a) Liens in the Collateral created in favor of the Agent for the benefit of the Agent and the Lenders;

(b) Liens for taxes, assessments or other governmental charges or levies not at the time delinquent or thereafter payable without penalty or being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;

(c) Liens of carriers, warehousemen, mechanics, materialmen and landlords incurred in the ordinary course of business for sums not overdue and being diligently

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contested in good-faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books;

(d) Liens incurred in the ordinary course of business in connection with workmen's compensation, unemployment insurance or other forms of governmental insurance or benefits, or to secure performance of tenders, statutory obligations, leases and contracts (other than for borrowed money) entered into in the ordinary course of business or to secure obligations on surety or appeal bonds;

(e) the purchase money security interests on any property acquired or held by the Borrower or Material Subsidiaries in the ordinary course of business, securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property; provided that (i) any such Lien attaches to such property concurrently with or within twenty (20) days after the acquisition thereof, (ii) such Lien attaches solely to the property so acquired in such transaction, (iii) the principal amount of the debt secured thereby does not exceed 100% of the cost of such property and (iv) the principal amount of the Indebtedness secured by any and all such purchase money security interests shall not at any time exceed \$100,000;

(f) leases or subleases granted to others, zoning restrictions,

easements, licenses, reservations, rights-of-way, restrictions on the use of property or irregularities of title and other similar changes, encumbrances and Liens which do not materially impair the use thereof by the Borrower or any of the Material Subsidiaries; and

(g) Liens (other than any Lien imposed by ERISA and other than on the Collateral) consisting of pledges or deposits required in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation;

provided, however, that the Borrower shall not purchase any real estate without the prior written consent of the Lenders.

SECTION 8.2.4 Financial Covenants. The Borrower shall at all times:

(a) maintain Consolidated EBITDA of not less than \$2,000,000;

(b) not permit the ratio of Consolidated EBITDA to Senior Interest Expense to be less than 1.25:1.00.

SECTION 8.2.5 Investments. Subject to Section 8.2.6, none of the

Borrower or any of the Material Subsidiaries shall make or suffer to exist, any Investment in any Person, including without limitation, any shareholder of the Borrower or any Subsidiary except in accordance with Section 4 of the Accounts Security Deposit Agreement referred to in the definition of Security Agreements, and which are one of the following:

(a) Investments in:

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(i) obligations issued or guaranteed by the United States of America or any agency thereof maturing or being due or payable in full not more than 1 year after the Borrower's acquisition thereof;

(ii) certificates of deposit, bankers acceptances and other "money market instruments" issued by any Lender or a bank having capital and surplus in an aggregate amount of not less than \$500,000,000 and a rating of at least A- by Standard & Poor's Corporation or A3 by Moodys Investors Service or equivalent rating by another nationally recognized credit rating agency maturing or being due or payable in full not more than 1 year after the Borrower's acquisition thereof;

(iii) open market commercial paper having a rating of at least A-1 by Standard & Poor's Corporation or Prime-1 by Moody's Investors Service maturing or being due or payable in full not more than 270 days after the Borrower's acquisition thereof;

(iv) collateralized repurchase agreements entered into with any bank or trust company organized under the laws of the United States of America or any State thereof and having capital and surplus in an aggregate amount of not less than \$100,000,000 relating to United States of America government obligations maturing or being due or payable in full not more than 90 days after the Borrower's acquisition thereof; and

(v) tax exempt short term securities having a rating of at least A-1 by Standard & Poor's Corporation or Prime-1 by Moody's Investors Service and tax exempt long-term securities having a rating of at least A by Standard & Poor's Corporation or A2 by Moodys Investors Service in each case maturing or being due or payable in full not more than 180 days after the Borrower's acquisition thereof; and

(b) Investments by the Borrower in any Material Subsidiary and by any Material Subsidiary in the Borrower or another Material Subsidiary as in effect on the date hereof.

SECTION 8.2.6 Restricted Payments, etc .

(a) Except as permitted by subparagraph (b) below, the Borrower will

not, and will not permit any of the Material Subsidiaries to make or authorize any Restricted Payment or any payment in respect of Subordinated Indebtedness.

(b) The Borrower and any of the Material Subsidiaries may make or authorize a Restricted Payment if such Restricted Payment is payable within sixty (60) days of its declaration and no Default or Event of Default exists on the day of such distribution or would exist after making such declaration or distribution.

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SECTION 8.2.7 Consolidation, Merger, etc. The Borrower shall not,

and shall not suffer or permit any Material Subsidiary to, merge, consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except:

(a) any Material Subsidiary may merge with the Borrower, provided that the Borrower shall be the continuing or surviving corporation, or with any one or more Subsidiaries, provided that if any transaction shall be between a Subsidiary and a Wholly-Owned Subsidiary, the Wholly-Owned Subsidiary shall be the continuing or surviving corporation; and

(b) any Material Subsidiary may sell or otherwise transfer all or substantially all of its assets (upon voluntary liquidation or otherwise), to the Borrower or another Wholly-Owned Material Subsidiary.

SECTION 8.2.8 Asset Dispositions, etc. Except in connection with a

transaction permitted under Section 8.2.7, none of the Borrower or any of

the Material Subsidiaries may sell or dispose of any portion of its property (excepting abandonment, sale of inventory or other dispositions in the ordinary course of business), or sell equity interests in any Material Subsidiary to any third party (all of the foregoing, are herein called "Asset Dispositions"), unless:

(a) immediately before and after giving effect to such transaction, no Default or Event of Default shall exist or be continuing;

(b) one of the following two conditions shall be satisfied:

(i) the aggregate net after tax proceeds from such Asset Disposition do not exceed 5% of the Consolidated Total Assets of the Borrower during such Fiscal Year; or

(ii) in the event that such net after tax proceeds from such Asset Disposition exceed 5% of such Consolidated Total Assets ("Excess

Sale Proceeds"), the Borrower shall within ninety (90) days of the

date of the disposal of the assets giving rise to such proceeds, cause an amount equal to such Excess Sale Proceeds to be applied (x) to the acquisition of assets in replacement of the assets so disposed of or of assets which may be productively used in the United States in the conduct of the Borrower's or any Material Subsidiary's business (and such newly acquired assets shall become part of the Collateral and shall be subjected to the Lien of the Security Documents), or may be deemed by the Borrower to have been applied to fund the purchase of such replacement assets purchased not earlier than 30 days prior to such Asset Disposition or (y) to the extent not applied pursuant to the immediately preceding clause (x) , for deposit with the Agent no

later than ninety (90) days of after such disposition to be reinvested in assets described in clause (x) and to the extent such Excess Sale

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Proceeds are not reinvested as described above within one-hundred eighty (180) days of such disposition to the prepayment of the Obligations pursuant to Section 3.1; and

(c) 100% of the consideration received is in cash or marketable securities or notes secured by a letter of credit issued by a financial institution acceptable to the Lenders.

SECTION 8.2.9 RESERVED.

SECTION 8.2.10 Transactions with Affiliates. The Borrower will not,

and will not permit any Material Subsidiary to, directly or indirectly, engage in any transaction with any Affiliate, including, without limitation, the purchase, sale or exchange of assets or the rendering of any service, to the Borrower's or such Material Subsidiary's business except upon fair and reasonable terms that are no less favorable to the Borrower or such Material Subsidiary, as the case may be, than those which might be obtained in an arm's-length transaction at the time such transaction is agreed upon from Persons which are not such an Affiliate.

SECTION 8.2.11 Negative Pledges, Restrictive Agreements, etc. The

Borrower will not, and will not permit any of the Material Subsidiaries to, enter into any agreement (excluding this Agreement, any other Loan Document and any agreement governing any Indebtedness permitted herein) prohibiting the creation or assumption of any Lien upon its properties, revenues or assets, whether now owned or hereafter acquired, or the ability of the Borrower or any other Obligor to amend or otherwise modify this Agreement or any other Loan Document.

SECTION 8.2.12 RESERVED

SECTION 8.2.13 Operating Leases. The aggregate obligations of the

Borrower and the Material Subsidiaries for the payment of rent for any property under lease or agreement to lease for any Fiscal Year shall not exceed \$100,000.

SECTION 8.2.14 Prepayments. None of the Borrower or any Material

Subsidiary shall make any voluntary or optional prepayment of any Indebtedness for borrowed money incurred or permitted to exist under the terms of this Agreement other than (i) the Indebtedness hereunder, and (ii) Subordinated Indebtedness repaid out of funds otherwise available for distribution to the shareholders of the Borrower in full compliance with the provisions of this Agreement.

SECTION 8.2.15 Organization Documents. Star Gas Partners and the

Borrower will not, and will not permit any Material Subsidiary, to alter any Organization Document of such entity in any manner which could have a Material Adverse Effect.

SECTION 8.2.16 Capital Expenditures. The Borrower will not, nor will

it permit any of the Material Subsidiaries to, make at any time Capital Expenditures in

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respect of any line of business other than the Business which, in the aggregate over the term of this Agreement, exceed 10% of the consolidated tangible assets of the Borrower and the Material Subsidiaries as determined in accordance with GAAP at such time.

SECTION 8.2.17 Contingent Liabilities. The Borrower shall not, and

shall not suffer or permit any Material Subsidiary to, create, incur, assume or suffer to exist any Contingent Liabilities except endorsements for collection or deposit in the ordinary course of business or guarantees

of Indebtedness incurred by the Borrower or a Material Subsidiary in accordance with the provisions of this Agreement.

SECTION 8.2.18 ERISA. The Borrower shall not, and shall not suffer or

permit any of its ERISA Affiliates to: (a) engage in a prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted, or otherwise act or fail to make a contribution if such action or failure to act could result in liability of the Borrower and/or ERISA Affiliate with respect to any Pension Plan; (b) engage in a transaction that could be subject to Section 4069 or 4212(c) of ERISA; or (c) permit to exist any "accumulated funding deficiency" (as defined in Section 412 of the Code) with respect to any Pension Plan.

SECTION 8.2.19 Accounting Changes. The Borrower shall not, and shall

not suffer or permit any Material Subsidiary to, make any significant change in accounting treatment or reporting practices, except as required by GAAP, or change the Fiscal Year of the Borrower or of any Material Subsidiary.

SECTION 8.2.20 Bank Accounts. None of the Borrower or any of the

Material Subsidiaries shall have any bank accounts other than those bank accounts subject to the Security Agreements; provided that the Borrower and its Material Subsidiaries may continue to have the bank accounts in existence on the date hereof for sixty (60) days from the date hereof and may draw funds from such bank accounts for a period of twenty (20) days from the date hereof; provided, however, no receivables or other funds of the Borrower shall be deposited into any other account after the date hereof.

ARTICLE IX
EVENTS OF DEFAULT

SECTION 9.1 Listing of Events of Default. Each of the following events or

occurrences described in this Section 9.1 shall constitute an "Event of

Default".

SECTION 9.1.1 Non-Payment of Obligations. The Borrower shall default

in the payment or prepayment when due of any principal or interest of any Loan, or the payment of any fee or other Obligation.

SECTION 9.1.2 Breach of Warranty. Any material representation or

warranty of the Borrower or any other Obligor made or deemed to be made hereunder or in any other Loan Document executed by it or any other writing or certificate furnished by or on

behalf of the Borrower or any other Obligor to the Agent or any Lender for the purposes of or in connection with this Agreement or any such other Loan Document (including any certificates delivered pursuant to Article VI) is or shall be

incorrect when made in any material respect.

SECTION 9.1.3 Non-Performance of Other Covenants and Obligations.

(a) Any Obligor shall default in the due performance and observance of any term, covenant or agreement contained in any of Sections 8.1.5, 8.1.10 or

8.1.14 or in Section 8.2; or

(b) any Obligor shall default in the due performance and observance of any other Obligation or agreement contained herein or in any other Loan Document, and such default shall continue unremedied for a period of fifteen (15) days

after actual knowledge thereof by a Responsible Officer.

SECTION 9.1.4 Default on Other Indebtedness. Star Gas Partners, any of its

Subsidiaries, the Borrower or any Material Subsidiary shall default (after notice and the expiration of any applicable grace period) in the payment of any amount of principal, premium or interest on any Indebtedness (other than the Notes) (including, without limitation, Indebtedness under the Petro Credit Facility), or any event shall occur or condition shall exist in respect of any Indebtedness of Star Gas Partners, the Borrower or any of their Subsidiaries (other than the Notes) and the effect of such event or condition is to cause (or to permit the holders of such Indebtedness to cause) such Indebtedness to become due before its stated maturity, in each case, if the outstanding principal balance of such Indebtedness is in excess of \$2,000,000 in the aggregate.

SECTION 9.1.5 Judgments. Any judgment or order for the payment of money in

excess of \$1,000,000, net of insurance coverage, shall be rendered against Star Gas Partners the Borrower or any of their Subsidiaries and:

(a) such judgment or order is non appealable, has not been stayed pending appeal, or all rights to appeal such judgment have expired or been exhausted; and

(b) such judgment or order shall remain undischarged for a period of sixty (60) consecutive days after the date due.

SECTION 9.1.6 ERISA. (a) An ERISA Event shall occur with respect to a

Pension Plan or Multiemployer Plan which has resulted or could result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$500,000; or (b) there shall exist an Unfunded Pension Liability among all Pension Plans of Star Gas Partners and its Affiliates at any time in excess of \$7,000,000; or (c) with respect to any Pension Plan, the Borrower or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any contribution required or needed in order to avoid (i) an "accumulated funding deficiency" (as defined in Section 412 of the Code), or (ii) adverse PBGC action;

or (d) \$500,000 is not contributed each year among the underfunded Pension Plans related to Star Gas Partners and its Affiliates. For purposes of clause (d), the

\$500,000 amount shall be in addition to contributions necessary to satisfy Section 412 of the Code for such year.

SECTION 9.1.7 Change in Control. Any Change in Control shall occur except

as is permitted by Section 8.2.7.

SECTION 9.1.8 Bankruptcy, Insolvency, etc. Any of the following events

shall occur:

(a) filing by or on the behalf of the Managing General Partner, Star Gas Partners, the Borrower, or any of their Subsidiaries of a voluntary petition or an answer seeking reorganization, arrangement, readjustment of its debts or for any other relief under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar act or law, state or federal, now or hereafter existing ("Bankruptcy Law"), or any

action by the Managing General Partner, Star Gas Partners, the Borrower or any of their Subsidiaries for, or consent or acquiescence to, the appointment of a receiver, trustee or other custodian of the Managing General Partner, Star Gas Partners, the Borrower or any of their Subsidiaries, or of all or a substantial part of its property; or the making by the Managing General Partner, Star Gas Partners, the Borrower or any of their Subsidiaries of any assignment for the benefit of creditors; or the admission by the Managing General Partner, Star Gas Partners, the Borrower or any of their Subsidiaries in writing of its inability to pay its debts as they become due; or

(b) filing of any involuntary petition against the Managing General Partner, Star Gas Partners, the Borrower or any of their Subsidiaries in bankruptcy or seeking reorganization, arrangement, readjustment or its debts or for any other relief under any Bankruptcy Law and an order for relief by a court having jurisdiction in the premises shall have been issued or entered therein; or any other similar relief shall be granted under any applicable Federal or state law; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver, liquidator, sequestrator, trustee or other officer having similar powers over the Managing General Partner, Star Gas Partners, the Borrower or any of their Subsidiaries or over all or a part of its property shall have been entered; or the involuntary appointment of an interim receiver, trustee or other custodian of the Managing General Partner, Star Gas Partners, the Borrower or any of their Subsidiaries or of all or a substantial part of its property; or the issuance of a warrant of attachment, execution or similar process against any substantial part of the property of the Managing General Partner, Star Gas Partners, the Borrower or any of their Subsidiaries and continuance of any such event for sixty (60) consecutive days unless dismissed, bonded to the satisfaction of the court having jurisdiction in the premises or discharged; or

(c) taking any action authorizing, or in furtherance of, any of the foregoing by Star Gas Partners, the Borrower or any Material Subsidiary.

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SECTION 9.1.9 Impairment of Security, etc. Any of the Security Documents

or documents guaranteeing the Notes shall cease in any material respect to be in full force and effect or shall be declared to be null and void in whole or in a material part by the final judgment (which is non-appealable or has not been stayed pending appeal or as to which all rights to appeal have expired or have been exhausted) of a court or other governmental or regulatory authority having jurisdiction or the validity or enforceability thereof shall be contested by or on behalf of the Borrower or any Material Subsidiary or the Borrower or any Material Subsidiary shall renounce any of the same or deny that it has any or further liability thereunder or any security interest purported to be created by any Security Document shall cease to be, or shall be asserted by the Borrower or any Material Subsidiary not to be, a valid, perfected, first priority (except as expressly otherwise provided in this Agreement or such Security Document) security interest in the collateral covered thereby.

SECTION 9.1.10 Split-Up. Any order, judgment or decree is entered in any

proceeding against the Borrower decreeing a split-up of the Borrower which requires the divestiture of assets representing a substantial part, or the divestiture of the stock of any Material Subsidiary whose assets represent a substantial part, of the consolidated assets of the Borrower and its Material Subsidiaries (determined in accordance with GAAP) or which requires the divestiture of assets, or stock of any of their Material Subsidiaries, which shall have contributed a substantial part of the Consolidated Net Income of the Borrower and its Material Subsidiaries for any of the three Fiscal Years then most recently ended, and such order, judgment or decree shall not be dismissed or execution thereon stayed pending appeal or review within sixty (60) days after entry thereof, or in the event of such a stay, such order, judgment or decree shall not be dismissed within sixty (60) days after such stay expires.

SECTION 9.1.11 Guarantor Defaults. Any of Star Gas Partners or any

Material Subsidiary fails in any material respect to perform or observe any term, covenant or agreement in its Guarantee Agreement; or any Guarantee Agreement is for any reason partially (including with respect to future advances) or wholly revoked or invalidated, or otherwise ceases to be in full force and effect, or any of Star Gas Partners or any Material Subsidiary or any other Person contests in any manner the validity or enforceability thereof or denies that it has any further liability or obligation thereunder.

SECTION 9.2 Action if Bankruptcy. If any Event of Default described in

Section 9.1.8 shall occur, the Commitments shall automatically terminate and the

outstanding principal amount of all outstanding Loans, and all other Obligations shall automatically be and become immediately due and payable, without

presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower.

SECTION 9.3 Action if Other Event of Default.

(a) If any Event of Default (other than any Event of Default described in Section 9.1.8) shall occur for any reason, whether voluntary

or involuntary, and be continuing, the Agent, upon the direction of the Required Lenders, shall by notice to the Borrower:

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(i) declare the commitment of each Lender to make Loans to be terminated, whereupon such commitments and obligation shall be terminated;

(ii) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable (including, without limitation, amounts due under Section 5.4), without presentment, demand, protest or other

notice of any kind, all of which are hereby expressly waived by the Borrower; and

(iii) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents or applicable law.

(b) The affirmative vote of Lenders holding at least 66-2/3% of the outstanding principal amount of the Obligations may rescind or annul the acceleration at any time; provided, that, all Events of Default have been cured or waived at such time.

(c) The rights provided for in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity, or under any other instrument, document or agreement now existing or hereafter arising.

ARTICLE X
THE AGENT

SECTION 10.1 Appointment and Authorization. Each Lender hereby

irrevocably (subject to Section 10.9) appoints, designates and authorizes the

Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Agent.

SECTION 10.2 Delegation of Duties. The Agent may execute any of its

duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

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SECTION 10.3 Liability of Agent. None of the Agent-Related Persons shall

(a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (b) be responsible in any manner to any of the Lenders for any recital, statement, representation or warranty made by Star Gas Partners, the Borrower or any Subsidiary or Affiliate of the Borrower, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or any other Loan Document, or for the value or title to any Collateral or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of the Borrower or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of the Borrower or any of the Borrower's Subsidiaries or Affiliates.

SECTION 10.4 Reliance by Agent.

(a) The Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, facsimile or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders and such request and any action taken or failure to act pursuant thereto shall be binding upon all of the Lenders; and

(b) For purposes of determining compliance with the conditions specified in Section 6.1, each Lender that has executed this Agreement

shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter either sent by the Agent to such Lender for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to the Lender.

SECTION 10.5 Notice of Default. The Agent shall not be deemed to have

knowledge or notice of the occurrence of any Default or Event of Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to the Agent for the account of the Lenders, unless the Agent shall have received written notice from a Lender or the Borrower

referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". The Agent will notify the Lenders, and the Borrower of its receipt of any such notice. The Agent shall take such action with respect to such Default or Event of Default as may be requested by the Required Lenders in accordance with Article IX; provided,

however, that unless and until the Agent has received any such request, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable or in the best interest of the Lenders.

SECTION 10.6 Credit Decision. Each Lender acknowledges that none of the

Agent-Related Persons has made any representation or warranty to it, and that no act by the Agent hereinafter taken, including any review of the affairs of Star Gas Partners, the Borrower and its Subsidiaries, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender. Each Lender represents to the Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrower and its Subsidiaries, and all applicable bank regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Borrower hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly herein required to be furnished to the Lenders by the Agent, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of the Borrower which may come into the possession of any of the Agent-Related Persons.

SECTION 10.7 Indemnification of Agent. Whether or not the transactions

contemplated hereby are consummated, the Lenders shall indemnify upon demand the Agent-Related Persons (to the extent not reimbursed by or on behalf of the Borrower and without limiting the obligation of the Borrower to do so), pro rata, from and against any and all Indemnified Liabilities; provided, however, that no Lender shall be liable for the payment to the Agent-Related Persons of any portion of such Indemnified Liabilities resulting solely from such Person's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender shall reimburse the Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including attorney costs) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that the Agent is not reimbursed for such expenses by or on behalf of the Borrower. The undertaking in this Section shall survive the payment of all Obligations hereunder and the resignation or replacement of the Agent.

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SECTION 10.8 Agent in Individual Capacity. Chase and each other Lender

that may become the Agent and their respective Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with the Borrower and its Subsidiaries and Affiliates as though Chase (or such other Lender) were not the Agent or a Lender hereunder and without notice to or consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, Chase (or such other Lender) or their respective Affiliates may receive information regarding the Borrower or its Affiliates (including information that may be subject to confidentiality obligations in favor of the Borrower or such Subsidiary) and acknowledge that the Agent shall be under no obligation to provide such information to them. With respect to its Loans, Chase (or other Lender) shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent.

SECTION 10.9 Successor Agent. The Agent may, and at the request of the

Required Lenders shall, resign as Agent upon thirty (30) days' notice to the Lenders. If the Agent resigns under this Agreement, the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders. If no successor agent is appointed prior to the effective date of the resignation of the Agent, the Agent may appoint, after consulting with the Lenders and the

Borrower, a successor agent from among the Lenders. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Agent and the term "Agent" shall mean such successor agent and the retiring Agent's appointment, powers and duties as Agent shall be terminated. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article X and Sections 11.4 and 11.5 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor agent has accepted appointment as Agent by the date which is thirty (30) days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above. Any successor agent shall have a market capitalization equal to or greater than \$500,000,000.

SECTION 10.10 Withholding Tax.

(a) If any Lender is a "foreign corporation, partnership or trust" within the meaning of the Code and such Lender claims exemption from, or a reduction of, U.S. withholding tax under Sections 1441 or 1442 of the Code, such Lender agrees with and in favor of the Agent and the Borrower, to deliver to the Agent (with a copy to the Borrower):

(i) if such Lender claims an exemption from, or a reduction of, withholding tax under a United States tax treaty, properly completed IRS Forms 1001 and W-8 (or any successor forms) before the payment of any interest in the first calendar year and before the payment of any interest, in each third succeeding calendar year during which interest may be paid under this Agreement;

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(ii) if such Lender claims that interest paid under this Agreement is exempt from United States withholding tax because it is effectively connected with a United States trade or business of such Lender, two properly completed and executed copies of IRS Form 4224 (or any successor form) before the payment of any interest is due in the first taxable year of such Lender and in each succeeding taxable year of such Lender during which interest may be paid under this Agreement, and IRS Form W-9 (or any successor form); and

(iii) such other form or forms as may be required under the Code or other laws of the United States as a condition to exemption from, or reduction of, United States withholding tax.

Such Lender agrees to promptly notify the Agent and the Borrower of any change in circumstances which would modify or render invalid any claimed exemption or reduction.

(b) If any Lender claims exemption from, or reduction of, withholding tax under a United States tax treaty by providing IRS Form 1001 and such Lender sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Borrower to such Lender, such Lender agrees to notify the Agent of the percentage amount in which it is no longer the beneficial owner of Obligations of the Borrower to such Lender. To the extent of such percentage amount, the Agent will treat such Lender's IRS Form 1001 as no longer valid.

(c) If any Lender claiming exemption from United States withholding tax by filing IRS Form 4224 with the Agent sells, assigns, grants a participation in, or otherwise transfers all or part of the Obligations of the Borrower to such Lender, such Lender agrees to undertake sole responsibility for complying with the withholding tax requirements imposed by Sections 1441 and 1442 of the Code.

(d) If any Lender is entitled to a reduction in the applicable withholding tax, the Agent may withhold from any interest payment to such Lender an amount equivalent to the applicable withholding tax after taking into account such reduction. If the forms or other documentation required by subsection (a) of this Section are not delivered to the Agent, then the Agent may withhold from any interest payment to such Under not providing

such forms or other documentation an amount equivalent to the applicable withholding tax.

(e) If the Internal Revenue Service or any other Government Authority of the United States or other jurisdiction asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify the Agent of a change in circumstances which rendered the exemption from, or reduction of, withholding tax ineffective, or for any other reason) such Lender shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax or otherwise, including penalties and interest, and including any taxes imposed by any jurisdiction on the amounts payable to the Agent under this Section, together with all costs and expenses (including attorney costs). The obligation of the Lenders under this

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subsection shall survive the payment of all Obligations and the resignation or replacement of the Agent.

SECTION 10.11 Collateral Matters.

(a) The Agent is authorized on behalf of all the Lenders, without the necessity of any notice to or further consent from the Lenders, from time to time to take any action with respect to any Collateral or the Security Documents which may be necessary to perfect and maintain perfected the security interest in and Liens upon the Collateral granted pursuant to the Security Documents.

(b) The Lenders irrevocably authorize the Agent, at its option and in its discretion, to authorize the release of any Lien granted for the benefit of the Agent and the Lenders upon any Collateral (i) upon termination of the Commitments and payment in full of all Loans and all other Obligations known to the Agent and payable under this Agreement or any other Loan Document; (ii) constituting property sold or to be sold or disposed of as part of or in connection with any disposition permitted hereunder; (iii) constituting property leased to the Borrower or any Material Subsidiary under a lease which has expired or been terminated in a transaction permitted under this Agreement or is about to expire and which has not been, and is not intended by the Borrower or such Material Subsidiary to be, renewed or extended; (iv) consisting of an instrument evidencing Indebtedness or other debt instrument, if the indebtedness evidenced thereby has been paid in full; or (v) if approved, authorized or ratified in writing by the Required Lenders or all the Lenders, as the case may be, as provided in Section 11.1. Upon request by the Agent at any

time, the Lenders will confirm in writing the Agent's authority to authorize the release of particular types or items of Collateral pursuant to this Section 10. 11 (b).

(c) Each Lender agrees with and in favor of each other (which agreement shall not be for the benefit of the Borrower or any Subsidiary) that the Borrower's and the other Obligors' obligations to such Lender under this Agreement and the other Loan Documents are not and shall not be secured by any Lien on real property collateral now or hereafter granted to such Lender.

ARTICLE XI
MISCELLANEOUS PROVISIONS

SECTION 11.1 Waivers, Amendments, etc. The provisions of this Agreement

and of each other Loan Document may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by the Borrower and the Required Lenders; provided, however, that no such amendment, modification or waiver which would:

(a) modify any requirement hereunder that any particular action be taken by all the Lenders or by the Required Lenders shall be effective unless consented to by each Lender;

(b) modify this Section 11.1, change the definition of "Required Lenders", increase any Commitment or the Percentage of any Lender other than pursuant to Section 11.11.1, reduce any fees described in Article III, release any substantial portion of collateral security, except as otherwise specifically provided in any Loan Document, extend the Commitment Termination Date or Stated Maturity Dates or change the interest provisions contained in Section 3.2 shall be made without the consent of each Lender and each holder of a Note;

(c) extend the due date for, or reduce the amount of, any scheduled repayment or prepayment of principal of or interest on any Loan (or reduce the principal amount of or rate of interest on any Loan) shall be made without the consent of the holder of that Note evidencing such Loan; or

(d) affect adversely the interests, rights or obligations of the Agent shall be made without consent of the Agent.

No failure or delay on the part of the Agent, any Lender, or the holder of any Note in exercising any power or right under this Agreement or any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such power or right preclude any other or further exercise thereof or the exercise of any other power or right. No notice to or demand on the Borrower in any case shall entitle it to any notice or demand in similar or other circumstances. No waiver or approval by the Agent, any Lender or the holder of any Note under this Agreement or any other Loan Document shall, except as may be otherwise stated in such waiver or approval, be applicable to subsequent transactions. No waiver or approval hereunder shall require any similar or dissimilar waiver or approval thereafter to be granted hereunder.

SECTION 11.2 Notices. All notices and other communications provided to

any party hereto under this Agreement or any other Loan Document shall be in writing or facsimile and addressed, delivered or transmitted to such party at its address or by facsimile number set forth below its signature hereto or, with respect to Persons that become Lenders after the date hereof, set forth in an Assignment and Acceptance Agreement or at such other address or facsimile number as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with postage prepaid or if properly addressed and sent by pre-paid courier service, shall be deemed given when received; any notice, if transmitted by facsimile, shall be deemed given when transmitted.

SECTION 11.3 Payment of Costs and Expenses. The Borrower agrees to pay

on demand all expenses of the Agent (including the fees and out-of-pocket expenses of counsel to the Agent and of local counsel, if any, who may be retained by counsel to the Agent) in connection with:

(a) the negotiation, preparation, execution, delivery, syndication and administration of this Agreement and of each other Loan Document, including schedules and exhibits, and any amendments, waivers, consents, supplements or other modifications to this Agreement or any other Loan Document as may from time to time hereafter be required, whether or not the transactions contemplated hereby are consummated;

(b) the filing, recording, refiling or re-recording of the Security Agreements and/or any Uniform Commercial Code financing statements relating thereto and all amendments, supplements and modifications to any thereof and any and all other documents or instruments of further assurance required to be filed or recorded or refiled or re-recorded by the terms hereof or of the Security Agreements; and

(c) the preparation and review of the form of any document or instrument relevant to this Agreement or any other Loan Document.

The Borrower agrees to pay to the Agent customary fees in connection with any amendment or waiver in respect of the Loan Documents in accordance with the then current market as determined by the Agent.

The Borrower further agrees to pay, and to save the Agent and each Lender harmless from all liability for, any stamp or other taxes which may be payable in connection with the execution or delivery of this Agreement, the borrowings hereunder, or the issuance of the Notes or any other Loan Documents. The Borrower also agrees to reimburse the Agent and each Lender upon demand for all reasonable out-of-pocket expenses (including reasonable attorneys' fees and legal expenses) incurred by the Agent or such Lender in connection with (x) the negotiation of any restructuring or "work-out" whether or not consummated, of any Obligations and (y) the enforcement of any Obligations.

SECTION 11.4 Indemnification. In consideration of the execution and

delivery of this Agreement by each Lender and the extension of the Commitments, the Borrower hereby indemnifies, exonerates and holds the Agent and each Lender and each of their respective officers, directors, employees and agents (collectively, the "Indemnified Parties") free and harmless from and against any

and all actions, causes of action, suits, losses, costs, liabilities and damages, and expenses incurred in connection therewith (irrespective of whether any such Indemnified Party is a party to the action for which indemnification hereunder is sought), including reasonable attorneys' fees and disbursements (collectively, the "Indemnified Liabilities"), incurred by the Indemnified

Parties or any of them as a result of, or arising out of, or relating to:

(a) any transaction financed or to be financed in whole or in part, directly or indirectly, with the proceeds of any Loan;

(b) the entering into and performance of this Agreement and any other Loan Document by any of the Indemnified Parties;

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(c) any investigation, litigation or proceeding related to any acquisition or proposed acquisition by the Borrower or any Subsidiaries of all or any portion of the stock or assets of any Person, whether or not the Agent or such Lender is party thereto;

(d) any Environmental Claim or other matter relating to the protection of the environment or the Release by the Borrower or any Subsidiary of any Hazardous Material; or

(e) the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission, discharging or releases from, any real property owned or operated by the Borrower or any Subsidiary of any Hazardous Material (including any losses, liabilities, damages, injuries, costs, expenses or claims asserted or arising under any Environmental Law), regardless of whether caused by, or within the control of, the Borrower or such Subsidiary,

except for any such Indemnified Liabilities arising for the account of a particular Indemnified Party by reason of the relevant Indemnified Party's gross negligence or willful misconduct. If and to the extent that the foregoing undertaking may be unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law.

SECTION 11.5 Survival. The obligations of the Borrower under Section 5.3,

5.4, 5.5, 5.6, 11.3 and 11.4, and the obligations of the Lenders under Section
--- --- --- --- ---
10.1, shall in each case survive until the applicable statute of limitations has

run on the bringing of any action thereon any termination of this Agreement, the payment in full of all Obligations and the termination of all Commitments. The representations and warranties made by each Obligor in this Agreement and in

each other Loan Document shall survive the execution and delivery of this Agreement and each such other Loan Document.

SECTION 11.6 Severability. Any provision of this Agreement or any other

Loan Document which is prohibited or unenforceable in any jurisdiction shall, as to such provision and such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement or such Loan Document or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 11.7 Headings. The various headings of this Agreement and of each

other Loan Document are inserted for convenience only and shall not affect the meaning or interpretation of this Agreement or such other Loan Document or any provisions hereof or thereof.

SECTION 11.8 Execution in Counterparts, Effectiveness, etc. This Agreement

may be executed by the parties hereto in several counterparts, all of which shall constitute together but one and the same agreement. This Agreement shall become effective when counterparts hereof executed on behalf of the Borrower, the Agent and each Lender (or notice thereof satisfactory to the Agent) shall have been received by the Agent and notice thereof shall have

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been given by the Agent to the Borrower and each Lender and satisfaction of the conditions set forth in Section 6.1.

SECTION 11.9 Governing Law; Entire Agreement. THIS AGREEMENT, THE NOTES AND

EACH OTHER LOAN DOCUMENT SHALL EACH BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK. On the Effective Date, this Agreement, the Notes, the Security Agreements and the other Loan Documents shall constitute the entire understanding among the parties hereto with respect to the subject matter hereof and supersede any prior agreements, written or oral, with respect thereto.

SECTION 11.10 Successors and Assigns. This Agreement shall be binding upon

and shall inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that:

(a) the Borrower may not assign or transfer its rights or obligations hereunder without the prior written consent of the Agent and all Lenders (and any attempted or purported assignment or transfer in contravention of the foregoing shall be null and void); and

(b) the rights of sale, assignment and transfer of the Lenders are subject to Section 11.11.

SECTION 11.11 Sale and Transfer of Loans and Notes; Participations in its

Loans and Notes. Each Lender may assign or sell participations in, its Loans

and Commitments to one or more other Persons in accordance with this Section 11.11.

SECTION 11.11.1 Assignments. Any Lender:

(a) with the written consents of the Borrower and the Agent (which consents shall not be unreasonably delayed or withheld and which consent, in the case of the Borrower, shall be deemed to have been given in the absence of a written notice delivered by the Borrower to the Agent, on or before the fifth (5th) Business Day after receipt by the Borrower of such Lender's request for consent, stating, in reasonable detail, the reasons why the Borrower proposes to withhold such consent) may at any time assign and delegate to one or more commercial banks or other financial institutions; provided that such consent of the Borrower shall not be

required at any time a Default has occurred and is continuing;

(b) with notice to the Borrower and the Agent, but without the consent of the Borrower or the Agent, may assign and delegate to any of its Affiliates or to any other Lender; and

(c) notwithstanding the foregoing, any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a

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Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto;

(each Person described in either of the foregoing clauses as being the Person to whom such assignment and delegation is to be made, being hereinafter referred to as an "Assignee Lender"), all or any fraction of such Lender's total Loans and

Commitments which assignment shall be a pro rata portion of the assigning Lender's Facility A Loans, Facility A Commitment, Facility B Commitment and Facility B Loans in a minimum aggregate amount of \$2,000,000; provided, however, that any such Assignee Lender will comply, if applicable, with the provisions contained in Section 10.10 and the last sentence of Section 5.6 and provided,

further, however, that the Borrower, each other Obligor and the Agent shall be entitled to continue to deal solely and directly with such Lender in connection with the interests so assigned and delegated to an Assignee Lender until:

(d) written notice of such assignment and delegation, together with payment instructions, addresses (of credit and administrative contacts) and related information with respect to such Assignee Lender, shall have been given to the Borrower and the Agent by such Lender and such Assignee Lender;

(e) such Assignee Lender shall have executed and delivered to the Borrower and the Agent an Assignment and Acceptance Agreement, accepted by the Agent; and

(f) the processing fees described below shall have been paid.

From and after the date that the Agent accepts such Assignment and Acceptance Agreement, (x) the Assignee Lender thereunder shall be deemed automatically to have become a party hereto and to the extent that rights and obligations hereunder have been assigned and delegated to such Assignee Lender in connection with such Assignment and Acceptance Agreement, shall have the rights and obligations of a Lender hereunder and under the other Loan Documents, and (y) the assignor Lender, to the extent that rights and obligations hereunder have been assigned and delegated by it in connection with such Assignment and Acceptance Agreement, shall be released from its obligations hereunder and under the other Loan Documents. Such Assignee Lender must also pay a processing fee to the Agent upon delivery of any Assignment and Acceptance Agreement in the amount of \$3,500; provided, however, with respect to assignments made by a Lender to any of its Affiliates such processing fee shall be \$2,000. Any attempted assignment and delegation not made in accordance with this Section

11.11.1 shall be null and void.

SECTION 11.11.2 Participations. Any Lender may at any time sell to one or

more commercial banks or other Persons (each of such commercial banks and other Persons being herein called a "Participant") participating interests in any of

the Loans, Commitments, or other interests of such Lender hereunder, provided, however, that:

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(a) no participation contemplated in this Section 11.11 shall relieve

such Lender from its Commitments or its other obligations hereunder or under any other Loan Document;

(b) such Lender shall remain solely responsible for the performance of its Commitments and such other obligations;

(c) the Borrower, each other Obligor and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and each of the other Loan Documents;

(d) no Participant, unless such Participant is an Affiliate of such Lender, or is itself a Lender, shall be entitled to require such Lender to take or refrain from taking any action hereunder or under any other Loan Document, except that such Lender may agree with any Participant that such Lender will not, without such Participant's consent, take any actions of the type described in clauses (b) or (c) of Section 11.1; and

(e) the Borrower shall not be required to pay any amount under Sections 5.3, 5.4, 5.5 or 5.6 that is greater than the amount which it would have been required to pay had no participating interest been sold.

The Borrower acknowledges and agrees that, subject to the preceding sentence, a Participant, for purposes of Sections 5.3, 5.4, 5.5, 5.6, 5.8, 5.9, 11.3 and 11.4, shall be considered a Lender.

SECTION 11.12 Other Transactions. Nothing contained herein shall preclude

the Agent, or any Lender from engaging in any transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Borrower or any of the Borrower's Affiliates in which the Borrower or such Affiliate is not restricted hereby from engaging with any other Person. The Lenders hereby acknowledge that Chase is involved in other financings with Affiliates of Star Gas Partners, the Borrower and the Material Subsidiaries (the "Other

Facilities") and that Chase's decisions with respect to its exercise of rights

and remedies with respect to the Other Facilities will be made independently and as if not involved in the credit facilities provided hereunder.

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SECTION 11.13 Forum Selection and Consent to Jurisdiction. ANY LITIGATION

BASED ON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF THE AGENT, THE LENDERS OR THE BORROWER SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF NEW YORK OR IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF NEW YORK, PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT THE AGENT'S OPTION, IN THE COURTS OF AND JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. EACH OF STAR GAS PARTNERS AND BORROWER HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF NEW YORK FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH LITIGATION. EACH OF STAR GAS PARTNERS AND THE BORROWER FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF NEW YORK. THE BORROWER HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

SECTION 11.14 Waiver of Jury Trial. EACH OF THE AGENT, THE LENDERS AND THE

BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF THE AGENT, THE LENDERS OR THE BORROWER THE BORROWER ACKNOWLEDGES AND AGREES THAT IT HAS RECEIVED FULL AND SUFFICIENT CONSIDERATION FOR THIS PROVISION (AND EACH OTHER PROVISION OF EACH OTHER LOAN DOCUMENT TO WHICH IT IS A PARTY) AND THAT THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE AGENT AND THE LENDERS ENTERING INTO THIS AGREEMENT AND EACH SUCH OTHER LOAN DOCUMENT.

[SIGNATURE PAGE ON NEXT PAGE]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the day and year first above written.

TOTAL GAS & ELECTRIC, INC.

By:

Name: George Leibowitz
Title: Treasurer

Address: 2101 N. Andrews Avenue
Suite 104
Ft. Lauderdale, Florida 33311

Facsimile No.: (954) 564-7042

Attention: Treasurer

Copies to:

Richard F. Ambury
Star Gas Partners, LLC
2187 Atlantic Street
Stamford, CT 06902

With copies to:

Alan Shapiro, Esq.
Phillips Nizer Benjamin Krim & Ballon LLP
666 Fifth Avenue
New York, New York 10103

Acknowledged and Agreed:

STAR GAS PARTNERS, L.P.

By: Star Gas LLC, its General Partner

By:

Name: George Leibowitz
Title: Chief Financial Officer

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THE CHASE MANHATTAN BANK,
as Agent

By: _____

Name: William A. DeMilt, Jr.
Title: Vice President

Address: 395 North Service Road

Melville, NY 11747

Facsimile No.: (631) 755-5184

Lending Office Base Rate Loans and
LIBOR Loans:

395 North Service Road
Melville, NY 11747
Attention: William A. DeMilt, Jr.
Facsimile No.: (631) 755-5187

Address for Notices:

395 North Service Road
Melville, NY 11747
Attention: William A. DeMilt, Jr.
Facsimile No.: (631) 755-5187

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BANK OF AMERICA N.A.

By:

Name: Paul Squires
Title: Managing Director

Address: 333 Clay Street, Suite 4550
Mail Code TX5-383-45-02
Houston, Texas 77002

Facsimile No.: (713) 651-4808

Lending Office Base Rate Loans and LIBOR
Loans:

Bank of America Plaza
901 Main Street
Dallas, TX 75202-3714
Attention: Ronald Cosgrove
Mail Code TX1-492-14-12
Facsimile No.: (214) 290-9439

Address for Notices:

Bank of America Plaza
901 Main Street
Dallas, TX 75202-3714
Attention: Ronald Cosgrove
Mail Code TX1-492-14-12
Facsimile No.: (214) 290-9439

With a Copy to:

Pamela K. Rodgers
Bank of America NT & SA
333 Clay Street, Suite 4550
Mail Code TX5-383-45-02
Houston, Texas 77002
Facsimile No.: (713) 651-4904

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Schedules and Exhibits Omitted

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EXHIBIT 27

STAR GAS PARTNERS, L.P.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM STAR GAS PARTNERS, L.P. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2001 AND CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE INTERIM PERIOD OCTOBER 1, 2000 THROUGH MARCH 31, 2001 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER	1,000
NAME	STAR GAS PARTNERS, L.P.
CIK	0001002590
PERIOD START	OCT-01-2000
PERIOD TYPE	6-MOS
FISCAL-YEAR-END	SEPT-30-2001
PERIOD-END	MAR-31-2001
CASH	16,908
SECURITIES	0
RECEIVABLES	205,490
ALLOWANCES	5,648
INVENTORY	26,001
CURRENT-ASSETS	261,088
PP&E	247,891
DEPRECIATION	45,729
TOTAL-ASSETS	804,439
CURRENT LIABILITIES	207,030
BONDS	335,198
PREFERRED-MANDATORY	0
PREFERRED	0
COMMON	257,795
OTHER-SE	0
TOTAL LIABILITY-AND-EQUITY	804,439
SALES	730,314
TOTAL-REVENUES	793,951
CGS	475,915
TOTAL-COSTS	549,272
OTHER-EXPENSE	141,851
LOSS-PROVISION	3,747
INTEREST EXPENSE	17,120
INCOME-PRETAX	81,961
INCOME-TAX	1,639
INCOME-CONTINUING	80,322
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	1,466
NET INCOME	81,788
EPS-PRIMARY	3.83
EPS-DILUTED	3.81