

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2001

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 33-98490  
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STAR GAS PARTNERS, L.P.  
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(Exact name of registrant as specified in its charter)

Delaware ----- (State or other jurisdiction of incorporation or organization)	06-1437793 ----- (I.R.S. Employer Identification No.)
2187 Atlantic Street, Stamford, Connecticut ----- (Address of principal executive office)	06902 ----- (Zip Code)
(203) 328-7300 ----- (Registrant's telephone number, including area code)	

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

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

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

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

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

The aggregate market value of Star Gas Partners, L.P. Common Units held by non-affiliates of Star Gas Partners, L.P. on December 18, 2001 was approximately \$448,100,000. As of December 18, 2001 the number of Star Gas Partners, L.P. shares outstanding for each class of common stock was:

23,393,946	Common Units
3,019,653	Senior Subordinated Units
345,364	Junior Subordinated Units
325,729	General Partner Units

Documents Incorporated by Reference: None

STAR GAS PARTNERS, L.P.  
2001 FORM 10-K ANNUAL REPORT  
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PART I  
ITEM 1. BUSINESS

Structure

Star Gas Partners, L.P. ("Star Gas" or the "Partnership") is a diversified home energy distributor and services provider, specializing in heating oil, propane, natural gas and electricity. Star Gas is a master limited partnership, which at September 30, 2001 had 23.4 million common limited partner units (NYSE: "SGU" representing a 87.4% limited partner interest in Star Gas Partners) and 2.7 million senior subordinated units (NYSE: "SGH" representing a 10.1% limited partner interest in Star Gas Partners) outstanding. Additional Partnership interests include 0.3 million junior subordinated units (representing a 1.3% limited partner interest) and 0.3 million general partner units (representing a 1.2% general partner interest).

Operationally the Partnership is organized as follows:

- . Star Gas Propane, L.P., ("Star Gas Propane" or the "propane segment") is a wholly owned subsidiary of Star Gas. Star Gas Propane markets and distributes propane gas and related products to approximately 280,000 customers in the Midwest, Northeast, Florida and Georgia.
- . Petro Holdings, Inc. ("Petro" or the "heating oil segment"), is the nation's largest distributor of home heating oil and serves approximately 530,000 customers in the Northeast and Mid-Atlantic. Petro is an indirect wholly owned subsidiary of Star Gas Propane, L.P.
- . 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 New York, New Jersey, Florida, Maryland and the District of Columbia and serves approximately 50,000 residential customers. TG&E is currently an 80% owned subsidiary of Star Gas Partners.
- . Star Gas Partners ("Partners" or the "Public Master Limited Partnership") includes the office of the Chief Executive Officer and in addition has the responsibility for maintaining investor relations and investor reporting for the Partnership.

Seasonality

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

Propane

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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. Customers are served from 112 branch locations and 54 satellite storage facilities in the Midwest, Northeast, Florida and Georgia. In addition to its retail business, the segment serves wholesale customers from its underground cavern and storage facilities in Seymour,

Indiana. Based on sales dollars, approximately 90% of propane sales were to retail customers and approximately 10% were to wholesale customers. Retail sales have historically had a greater profit margin, more stable customer base and less price sensitivity as compared to the wholesale business.

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

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Propane is extracted from natural gas at processing plants or separated from crude oil during the refining process. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution. When the pressure is released or the temperature is increased, propane is usable as a flammable gas. Propane is colorless and odorless; an odorant is added to allow its detection. Propane is clean-burning, producing negligible amounts of pollutants when consumed. According to the American Petroleum Institute, the domestic retail market for propane is approximately 9.4 billion gallons annually. As of 1997, propane accounted for approximately 3.5% of household energy consumption in the United States.

#### Home Heating Oil

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Home heating oil customers are served from 35 branch locations in the Northeast and Mid-Atlantic regions, from which the heating oil segment installs and repairs heating equipment 24 hours a day, seven days a week, 52 weeks a year, generally within four hours of request. These services are an integral part of its basic heating oil business, and are designed to maximize customer satisfaction and loyalty. In 2001, the heating oil segment's sales were comprised of approximately 79% from sales of home heating oil; 15% from the installation and repair of heating and air conditioning equipment; and 6% from the sale of other petroleum products, including diesel fuel and gasoline, to commercial customers.

Home heating oil is a primary source of home heat in the Northeast. The region accounts for approximately two-thirds of the demand for home heating oil in the United States. During 1997, approximately 6.9 million homes, or approximately 36% of all homes in the Northeast, were heated by oil. In recent years, demand for home heating oil has been affected by conservation efforts and conversions to natural gas. In addition, as the number of new homes that use oil heat has not been significant, there has been virtually no increase in the customer base due to housing starts. As a result, according to the most recent available data, residential heating oil consumption in the Northeast has declined from approximately 5.3 billion gallons in 1982 to 4.6 billion gallons in 1993.

#### Natural Gas and Electricity

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The Partnership is an independent reseller of natural gas and electricity to households and small commercial customers in deregulated markets, through its 80% controlling interest in TG&E. In the markets in which TG&E operates, natural gas and electricity are available from wholesalers. Substantially all of TG&E's natural gas purchases were from major wholesalers in fiscal 2001. Natural gas is transported to the local utility, through purchased or assigned capacity on pipelines. All of TG&E's electricity in fiscal 2001 was purchased from a major New York State wholesaler which delivers the electricity to the local utility company. The utility then delivers the gas and electricity to TG&E customers using their distribution system. The utility and TG&E coordinate delivery and billing, and also compete to sell natural gas and electricity to the ultimate consumer. Generally, TG&E pays the local utility a service charge to provide certain customer related costs like billing. Customers pay a separate delivery charge to the utility for bringing the natural gas or electricity from the customer's chosen supplier. In all but two of the markets in which TG&E operates, TG&E and local utility charges are itemized on one customer energy bill generated by the utility. For the remaining markets, TG&E bills its customers directly.

## Industry Characteristics

The retail propane and home heating oil industries are both mature, with total demand expected to remain relatively flat or to decline slightly. The Partnership believes that these industries are relatively stable and predictable due to the largely non-discretionary nature of propane and home heating oil use. Accordingly, the demand for propane and home heating oil has historically been relatively unaffected by general economic conditions but has been a function of weather conditions. It is common practice in both the propane and home heating oil distribution industries to price products to customers based on a per gallon margin over wholesale costs. As a result, distributors generally seek to maintain their margins by passing costs through to customers, thus insulating themselves from the volatility in wholesale heating oil and propane prices. However, during periods of sharp price fluctuations in supply costs, distributors may be unable or unwilling to pass entire cost increases or decreases through to customers. In these cases, significant increases or decreases in per gallon margins may result. In addition, the timing of cost pass-throughs can significantly affect margins. The propane and home heating oil distribution industries are highly fragmented, characterized by a large number of relatively small, independently owned and operated local distributors. Each year a significant number of these local distributors have sought to sell their business for reasons that include retirement and estate planning. In addition, the propane and heating oil distribution industries are becoming more complex due to increasing environmental regulations and escalating capital requirements needed to acquire advanced, customer oriented technologies. Primarily as a result of these factors, both industries are undergoing consolidation, and the propane segment and the heating oil segment have been active consolidators in each of their markets.

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

## Business Strategy

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

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

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

## Recent Acquisitions

In August 2001, the Partnership completed the purchase of Meenan Oil Co., Inc., believed to be the third largest home heating oil dealer in the United States for \$131.8 million. During 2001, the Partnership also purchased twelve other heating oil dealers for \$52.0 million. In addition, the Partnership also acquired nine retail propane dealers for \$60.8 million.

Propane

Operations

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Retail propane operations are located in the following states:

Connecticut	Illinois	Kentucky	Ohio (continued)	Florida
Stamford	Scales Mound	Dry Ridge	Kenton	Bronson
Hartford		Glencoe	Lancaster	Chiefland
	Indiana	Prospect	Lewisburg	Crystal River
Maine	Batesville	Shelbyville	Lynchburg	High Springs
Fairfield	Bedford		Macon	Melbourne
Fryeburg	Bluffton	Michigan	Maumee	New Smyrna Beach
Wells	College Corner	Big Rapids	Mt. Orab	Old Town
Windham	Columbia City	Charlotte	Mt. Vernon	Silver Spring
	Decatur	Chassell	North Star	
Massachusetts	Ferdinand	Coleman	Ripley	
Belchertown	Germfask	Hillsdale	Sabina	GEORGIA
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Rochdale	Greencastle	Kalamazoo	Waverly	Blakely
Westfield	Jeffersonville	Marquete	West Union	
Swansea	Lawrence	Munising		
	Linton	Owosso	West Virginia	
New Hampshire	Madison	Somerset Center	(from Ironton, OH)	
(from Fryeburg, ME)	New Salisbury	Vassar		
	N. Manchester		Wisconsin	
New Jersey	N. Webster	Minnesota	Block River Falls	
Maple Shade	Orland	Minnesota City	Blair	
Tuckahoe	Portland		Caledonia	
	Remington	Ohio	Chetek	
New York	Richmond	Bowling Green	Eau Claire	
Addison	Rushville	Cincinnati	LaCrosse	
Poughkeepsie	Seymour	Columbiana	Mauston	
Washingtonville	Shirley	Columbus	Minocqua	
Bridgehampton	Steffen	Defiance	Mondoui	
	Sulphur Springs	Deshler	Owen	
Pennsylvania	Versailles	Dover	Prairie Du Chien	
Hazleton	Warren	Hebron	Richland Centre	
Wellsboro	Waterloo	Ironton	Shell Lake	
Wind Gap	Winamac	Jamestown	Tomah	
Rhode Island				
Davisville				

In addition to selling propane, the segment also sells, installs and services equipment related to propane distribution, including heating and cooking appliances. At several Midwest locations bottled water is sold and water conditioning equipment is either sold or leased. Typical branch locations consist of an office, an appliance showroom and a warehouse and service facility, with one or more 12,000 to 30,000 gallon bulk storage tanks. Satellite facilities typically contain only storage tanks. The distribution of propane at the retail level for the most part involves large numbers of small deliveries averaging 100 to 150 gallons to each customer. Retail deliveries of propane are usually made to customers by means of the propane segment's fleet of bobtail and rack trucks.

Currently the propane segment has 550 bobtail and rack trucks. Propane is pumped from a bobtail truck, which generally holds 2,000 to 3,000 gallons, into a stationary storage tank at the customer's premises. The capacity of these tanks ranges from approximately 24 gallons to approximately 1,000 gallons. The propane segment also delivers propane to retail customers in portable cylinders, which typically are picked up and replenished at distribution locations, then returned to the retail customer. To a limited extent, the propane segment also delivers propane to certain end-users of propane in larger trucks known as transports. These trucks have an average capacity of approximately 9,000 gallons. End-users receiving transport deliveries include industrial customers, large-scale heating accounts, such as local gas utilities that use propane as a supplemental fuel to meet peak demand requirements, and large agricultural accounts that use propane for crop drying and space heating.

## Customers -----

During 2001, the propane segment grew its residential customer base by less than 0.5% through internal marketing. In addition, the propane segment completed nine acquisitions with approximately 63,000 customers with annual volumes of 34.7 million gallons. Approximately 65% of the propane segment's retail sales are made to residential customers and 35% of retail sales are made to commercial and agricultural customers. Sales to residential customers in 2001 accounted for approximately 71% of propane gross profit on propane sales, reflecting the higher-margin nature of this segment of the market. In excess of 95% of the retail propane customers lease their tanks from the propane segment. In most states, due to fire safety regulations, a leased tank may only be refilled by the propane distributor that owns that tank. The inconvenience associated with switching tanks greatly reduces a propane customer's tendency to change distributors. Over half of the propane segment's residential customers receive their propane supply under an automatic delivery system. The amount delivered is based on weather and historical consumption patterns. Thus, the automatic delivery system eliminates the customer's need to make an affirmative purchase decision. The propane segment provides emergency service 24 hours a day, seven days a week, 52 weeks a year.

## Competition -----

The propane industry is highly competitive; however, long-standing customer relationships are typical of the retail propane industry. The ability to compete effectively within the propane industry depends on the reliability of service, responsiveness to customers and the ability to maintain competitive prices. The propane segment believes that its superior service capabilities and customer responsiveness differentiates it from many of its competitors. Branch operations offer emergency service 24 hours a day, seven days a week, 52 weeks a year. Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large full-service multi-state propane marketers, smaller local independent marketers and farm cooperatives. Based on industry publications, the Partnership believes that the ten largest multi-state marketers, including its propane segment, account for approximately 35% of the total retail sales of propane in the United States, and that no single marketer has a greater than 10% share of the total retail market in the United States. Most of the propane segment's branches compete with five or more marketers or distributors. The principal factors influencing competition among propane marketers are price and service. Each retail distribution outlet operates in its own competitive environment. While retail marketers locate in close proximity to customers to lower the cost of providing delivery and service, the typical retail distribution outlet has an effective marketing radius of approximately 35 miles.

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

## Home Heating Oil

## Operations -----

The Partnership's heating oil segment serves approximately 530,000 customers in the Northeast and Mid-Atlantic states. In addition to selling home heating oil, the heating oil segment installs and repairs heating and air conditioning equipment. To a limited extent, it also markets other petroleum products. During the twelve months ended September 30, 2001, the total sales in the heating oil segment were comprised of approximately 79% from sales of home heating oil; 15% from the installation and repair of heating equipment; and 6% from the sale of other petroleum products. The heating oil segment provides home heating equipment repair service 24 hours a day, seven days a week, 52 weeks a year, generally within four hours of a request. It also regularly provides various service incentives to obtain and retain customers. The heating oil segment is consolidating its operations under one brand name, which it is building by employing an upgraded, professionally trained and managed sales force, together with a professionally developed marketing campaign, including radio and print advertising media. The heating oil segment has a nationwide toll free telephone number, 1-800-OIL-HEAT, which it believes helps build customer awareness and brand identity.

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

As part of the implementation of this operational restructuring program, in April 1996 the heating oil segment opened a regional customer service center on Long Island, New York. This state-of-the-art facility currently conducts all activities that interface with its approximately 125,000 Long Island and New York City home heating oil customers, including sales, customer service, credit and accounting. Since the establishment of this customer service center, eight full-function branches were consolidated into four strategically located delivery and service depots to serve the heating oil segment's customers more efficiently. Furthermore, in keeping with the focus of its operating strategy, the heating oil segment has continued to reorganize select branch and corporate responsibilities in order to eliminate redundant functions and regionalize responsibilities where they can best serve customers and the home heating oil business.

Customers  
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The heating oil segment currently markets in the following states:

New York	Massachusetts	New Jersey
Bronx, Queens and Kings Counties	Boston (Metropolitan)	Camden
Dutchess County	Northeastern Massachusetts	Lakewood
Staten Island	(Centered in Lawrence)	Newark (Metropolitan)
Eastern Long Island	Worcester	North Brunswick
Western Long Island		Rockaway
Westchester/Putnam Counties		Trenton
Orange County		
Connecticut	Pennsylvania	Rhode Island
Bridgeport--New Haven	Allentown	Providence
Litchfield County	Berks County	Newport
Fairfield County	(Centered in Reading)	
	Bucks County	Maryland/Virginia/D.C.
	(Centered in Southampton)	Arlington
	Lebanon County	Baltimore
	(Centered in Palmyra)	Washington, D.C. (Metropolitan)
	Philadelphia	

During the twelve months ended September 30, 2001, approximately 86% of the heating oil segment's heating oil sales were made to homeowners, with the



remainder to industrial, commercial and institutional customers. In 2001, the heating oil segment experienced net attrition of 0.7%, representing gains of approximately 13.1% and losses of 13.8%. Net account growth for the heating oil segment for fiscal 2000 was 1.3%. Attrition of existing customers had averaged approximately 5% per year over the five years through 1999. Gross customer losses are the result of various factors, including customer relocation, price, natural gas conversions and credit problems. Customer gains are a result of marketing and service programs and other incentives. While the heating oil segment often loses customers when they move from their homes, it is able to retain a majority of these homes by obtaining the purchaser as a customer. Approximately 90% of the heating oil customers receive their home heating oil under an automatic delivery system without the customer having to make an affirmative purchase decision. These deliveries are scheduled by computer, based upon each customer's historical consumption patterns and prevailing weather conditions. The heating oil segment delivers home heating oil approximately six times during the year to the average customer. The segment's practice is to bill customers promptly after delivery. Approximately 33% of its customers are on a budget payment plan, whereby their estimated annual oil purchases and service contract are paid for in a series of equal monthly payments over a twelve month period.

Approximately 39% of the heating oil sales are made to individual customers under agreements pre-establishing a fixed or maximum price per gallon over a twelve month period. The fixed or maximum price at which home heating oil is sold to these price plan customers is generally renegotiated prior to the heating season of each year based on current market conditions. The segment currently enters into derivative instruments (futures, options, collars and swaps) covering a substantial majority of the heating oil it sells to these price plan customers in advance and at a fixed cost. Should events occur after a price plan customer's price is established that increases the cost of home heating oil above the amount anticipated, margins for the price plan customers whose heating oil was not purchased in advance would be lower than expected, while those customers whose heating oil was purchased in advance would be unaffected. Conversely, should events occur during this period that decrease the cost of heating oil below the amount anticipated, margins for the price plan customers whose heating oil was purchased in advance could be lower than expected, while those customers whose heating oil was not purchased in advance would be unaffected or higher than expected.

#### Competition

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The heating oil segment competes with distributors offering a broad range of services and prices, from full service distributors, like itself, to those offering delivery only. Long-standing customer relationships are typical in the industry. Like most companies in the home heating oil business, the heating oil segment provides home heating equipment repair service on a 24-hour a day basis. This tends to build customer loyalty. As a result of these factors, it may be difficult for the heating oil segment to acquire new retail customers, other than through acquisitions. In some instances homeowners have formed buying cooperatives that seek to purchase fuel oil from distributors at a price lower than individual customers are otherwise able to obtain. The heating oil segment also competes for retail customers with suppliers of alternative energy products, principally natural gas, propane, and electricity. The rate of conversion from the use of home heating oil to natural gas is primarily affected by the relative prices of the two products and the cost of replacing an oil fired heating system with one that uses natural gas. The heating oil segment believes that approximately 1% of its home heating oil customer base annually converts from home heating oil to natural gas.

#### Natural Gas and Electricity

##### Operations

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The Partnership's natural gas and electricity segment serves approximately 50,000 customers in four states and the District of Columbia. In 2001, the sales were comprised of 81% from sales of approximately 66.5 million therms of natural gas and 19% from sales of approximately 232 million kilowatts of electricity.

The initial business strategy of TG&E was to increase its market share in

deregulated natural gas and electricity. Its current business plan is to expand its market share by concentrating on obtaining new natural gas customers in areas where it believes they will be profitable and stable. As a result, TG&E ceased serving approximately 25,000 customers who bought only electricity. TG&E will continue to market the resale of electricity to existing natural gas customers while continuing to look for future opportunities.

#### Customers

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TG&E currently markets in the following states:

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

In 2001, approximately 98% of TG&E sales were made to households, with the remainder to industrial and commercial customers. New accounts are currently obtained through the utilization of a third party telemarketing firm on a commission basis. Approximately 55% of TG&E's customers are on a budget plan, whereby their estimated purchases are paid for in a series of equal monthly payments over a twelve month period.

#### Competition

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

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#### Suppliers and Supply Arrangements

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##### Propane Segment

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The propane segment obtains propane from over 20 sources, all of which are domestic or Canadian companies, including BP Canada Energy Marketing Corp., Chevron-Texaco, Dynegy Inc., Ferrell North America, Gas Supply Resources, Inc., Kinetic Resources, U.S.A., Marathon Oil Company, Markwest Hydrocarbons, ExxonMobil LPG, Sea-3 Inc., Shell Canada Limited, Sun Mid America Marketing & Refining, Enterprise Products Partners, and Phillips. Supplies from these sources have traditionally been readily available, although there is no assurance that supplies of propane will continue to be readily available.

Substantially all of the propane supply for the Northeast retail operations is purchased under annual or longer term supply contracts that generally provide for pricing in accordance with market prices at the time of delivery. Some of the contracts provide for minimum and maximum amounts of propane to be purchased. During 2001, none of the propane segment's Northeast suppliers accounted for more than 10% of its Northeast volume. The propane segment typically supplies its Midwest retail and wholesale operations by a combination of: (1) spot purchases from suppliers at Mont Belvieu, Texas, that are transported by pipeline to the propane segment's 21 million gallon underground storage facility in Seymour, Indiana, and then delivered to the Midwest branches; and (2) purchases from a number of Midwest refineries that are transported by truck to the branches either directly or via the Seymour

facility. Most of the refinery and terminal purchases are purchased under market based contracts. The Seymour facility is located on the TEPPCO Partners, L.P. pipeline system. The pipeline is connected to the Mont Belvieu, Texas storage facilities and is one of the largest conduits of supply for the U.S. propane industry. The Seymour facility allows the propane segment to buy and store large quantities of propane during periods of low demand that generally occur during the summer months. The Partnership believes that this ability allows it to achieve cost savings to an extent generally not available to competitors in the propane segment's Midwest markets and provides the Partnership with a security of supply in times of high demand that is not available to the competition. The Partnership believes that its diversification of suppliers will enable it to purchase all of its supply needs at market prices if supplies are interrupted from any of these sources without a material disruption of its operations.

The propane segment's Florida and Georgia operations are supplied by annual contracts at market pricing. Suppliers there are the same as some of the above, including Dynegy Inc., Sea-3 Inc. and Chevron-Texaco.

The financial hedging instruments of Star Gas Propane are limited to major companies. One of the companies contracted to provide Star Gas Propane with hedging instruments, Enron has filed for bankruptcy on December 2, 2001. Star Gas has contracts with Enron to hedge 19.2 million gallons of propane purchases through March, 2002. The market value of these contracts, on December 1, 2001, would have resulted in Star Gas Propane owing Enron approximately \$2.4 million. The market price per gallon of propane would have to increase almost 73% or 20.6(cen) per gallon in order for the company to be in a position of creditor with Enron.

#### Heating Oil Segment

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

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#### Natural Gas and Electricity Operations

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The TG&E segment purchases natural gas at either the well-head, the pipeline pooling point or delivered to the city gate. Purchases are at market based pricing from a variety of different suppliers. The segment's current suppliers are: Crown Energy Services, Inc., Duke Energy Trading & Marketing, Inc., Equitable Energy, LLC., Mirant Americas Energy Marketing, L.P., Sempra Energy Trading Corp., Scana Energy Marketing, Inc., Sprague Energy Corp. and Texaco Natural Gas, Inc. All of the segment's electricity requirements are currently purchased at market from Niagara Mohawk Energy Marketing, Inc. and New York Independent System Operator. During fiscal 2001, the majority of TG&E's electric purchases were made under fixed price arrangements.

#### Employees

As of September 30, 2001, the propane segment had 915 full-time employees, of whom 63 were employed by the corporate office and 852 were located in branch offices. Of these 852 branch employees, 286 were managerial and administrative;

393 were engaged in transportation and storage and 173 were engaged in field servicing. Approximately 69 of the segment's employees are represented by six different local chapters of labor unions. Management believes that its relations with both its union and non-union employees are satisfactory.

As of September 30, 2001, the home heating oil segment had 3,155 employees, of whom 879 were office, clerical and customer service personnel; 1,146 were heating equipment repairmen; 472 were oil truck drivers and mechanics; 343 were management and staff and 315 were employed in sales. In addition, approximately 350 seasonal employees are rehired annually to support the requirements of the heating season. The heating oil segment has approximately 1,100 employees, which are represented by 16 different local chapters of labor unions. Management believes that its relations with both its union and non-union employees are satisfactory.

As of September 30, 2001, the TG&E segment had 49 employees, of whom 37 were office, clerical and customer service personnel; 10 were management and staff and 2 were employed in sales.

#### Government Regulations

The Partnership is subject to various federal, state and local environmental, health and safety laws and regulations. Generally, these laws impose limitations on the discharge of pollutants and establish standards for the handling of solid and hazardous wastes. These laws include the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right to Know Act, the Clean Water Act and comparable state statutes. CERCLA, also known as the "Superfund" law, imposes joint and several liabilities without regard to fault or the legality of the original conduct on certain classes of persons that are considered to have contributed to the release or threatened release of a hazardous substance into the environment. Propane is not a hazardous substance within the meaning of CERCLA. However, certain automotive waste products generated by the Partnership's fleet could subject the Partnership to liability under CERCLA. These laws and regulations could result in civil or criminal penalties in cases of non-compliance or impose liability for remediation costs. To date, the Partnership has not been named as a party to any litigation in which it is alleged to have violated or otherwise incurred liability under any of the above laws and regulations.

National Fire Protection Association Pamphlets No. 54 and 58, which establish rules and procedures governing the safe handling of propane, or comparable regulations, have been adopted as the industry standard in all of the states in which the Partnership operates. In some states these laws are administered by state agencies, and in others they are administered on a municipal level. With respect to the transportation of propane by truck, the Partnership is subject to regulations promulgated under the Federal Motor Carrier Safety Act. These regulations cover the transportation of hazardous materials and are administered by the United States Department of Transportation. The Partnership conducts ongoing training programs to help ensure that its operations are in compliance with applicable regulations. The Partnership maintains various permits that are necessary to operate some of its facilities, some of which may be material to its operations. The Partnership believes that the procedures currently in effect at all of its facilities for the handling, storage and distribution of propane are consistent with industry standards and are in compliance in all material respects with applicable laws and regulations.

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

Future developments, such as stricter environmental, health or safety laws and regulations thereunder, could affect Partnership operations. It is not

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

Total Gas & Electric is an authorized supplier of electric and/or gas in the states of New York, New Jersey, Maryland, Connecticut, Florida, Pennsylvania and the District of Columbia, which allow consumers to choose their electric and/or gas supplier. TG&E is either licensed and/or registered to serve as an alternative competitive supplier in each state. The incumbent utility continues to serve as the transmission and distribution company, which delivers the commodity, and in many instances continues to send customers the monthly bill for the energy delivered. However, TG&E offers an alternative for the commodity portion of the consumers bill. As an alternative supplier, TG&E is subject to oversight by state public utility commissions, including licensing or registration requirements, information regarding rates and conditions of service, and in some instances annual filing requirements regarding numbers of customers, numbers of complaints, energy portfolio components, and other information relative to the company's conduct of operations. Total Gas & Electric currently has been subject to investigations by the Attorneys General of New York and New Jersey and an informal investigation by the Pennsylvania Public Utility Commission into its practices for soliciting customers. Total Gas & Electric has been in discussions with these agencies to resolve their investigations, has settled the New Jersey investigation and anticipates that the remaining investigations will be satisfactorily resolved. Total Gas & Electric has adopted a comprehensive sales compliance program to comply with applicable regulations.

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## ITEM 2. PROPERTIES

### Propane Segment

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As of September 30, 2001, the propane segment owned 93 of its 112 branch locations and 47 of its 54 satellite storage facilities and leased the balance. In addition, it owns the Seymour facility, in which it stores propane for itself and third parties. The propane segment's corporate headquarters are located in Stamford, Connecticut and is leased.

The transportation of propane requires specialized equipment. The trucks used for this purpose carry specialized steel tanks that maintain the propane in a liquefied state. As of September 30, 2001, Star Gas Propane had a fleet of 17 tractors, 28 transport trailers, 550 bobtail and rack trucks and 507 other service and pick-up trucks, the majority of which are owned.

As of September 30, 2001, the propane segment owned 389 bulk storage tanks with typical capacities of 12,000 to 35,000 gallons; approximately 280,000 stationary customer storage tanks with typical capacities of 24 to 1,000 gallons; and 35,000 portable propane cylinders with typical capacities of 5 to 24 gallons. The Partnership's obligations under its borrowings are secured by liens and mortgages on all of its real and personal property.

### Heating Oil Segment

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The heating oil segment provides services to its customers from 35 branches/depots and 31 satellites, 27 of which are owned and 39 of which are leased, in 29 marketing areas in the Northeast and Mid-Atlantic Regions of the United States. The heating oil's corporate headquarters is located in Stamford, Connecticut and is leased. As of September 30, 2001, the heating oil segment had a fleet of 1,239 truck and transport vehicles the majority of which are owned and 1,444 services vans the majority of which are leased. The Partnership's obligations under its borrowings are secured by liens and mortgages on all of its real and personal property.

### TG&E Segment

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

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

ITEM 3. LEGAL PROCEEDINGS - LITIGATION

Litigation

The Partnership's operations are subject to all operating hazards and risks normally incidental to handling, storing and transporting and otherwise providing for use by consumers of combustible liquids such as propane and home heating oil. As a result, at any given time the Partnership is a defendant in various legal proceedings and litigation arising in the ordinary course of business. The Partnership maintains insurance policies with insurers in amounts and with coverages and deductibles as the general partner believes are reasonable and prudent. However, the Partnership cannot assure that this insurance will be adequate to protect it from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices. In addition, the occurrence of an explosion may have an adverse effect on the public's desire to use the Partnership's products.

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

No matters were submitted to a vote of the security holders of the Partnership during the fourth quarter ended September 30, 2001.

PART II

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

The common units, representing common limited partner interests in the Partnership, are listed and traded on the New York Stock Exchange, Inc. ("NYSE") under the symbol "SGU". The common units began trading on the NYSE on May 29, 1998. Previously, the common units had traded on the NASDAQ National Market under the symbol "SGASZ."

The Partnership's senior subordinated units began trading on the NYSE on March 29, 1999 under the symbol "SGH." The Senior Subordinated Units became eligible to receive distributions in February 2000, and the first distribution was made in August 2000. The following tables set forth the high and low closing price ranges for the common and senior subordinated units and the cash distribution declared on each unit for the fiscal 2000 and 2001 quarters indicated.

Quarter Ended	SGU - Common Unit Price Range				Distributions Declared Per Unit	
	High		Low		2000	2001
	2000	2001	2000	2001		
December 31,	\$16.88	\$17.81	\$12.88	\$15.50	\$0.575	\$0.575
March 31,	\$15.88	\$19.00	\$13.25	\$16.94	\$0.575	\$0.575
June 30,	\$16.00	\$21.68	\$13.00	\$18.70	\$0.575	\$0.575
September 30,	\$17.94	\$21.45	\$15.19	\$18.20	\$0.575	\$0.575

Quarter Ended	SGH - Senior Subordinated Unit Price Range				Distributions Declared Per Unit	
	High		Low		2000	2001
	2000	2001	2000	2001		

December 31,	\$ 9.00	\$ 9.13	\$ 4.88	\$ 8.00	-	\$0.250
March 31,	\$ 6.12	\$17.10	\$ 4.38	\$ 9.19	-	\$0.575
June 30,	\$ 6.75	\$18.85	\$ 4.50	\$16.85	-	\$0.575
September 30,	\$ 9.19	\$22.50	\$ 6.06	\$19.25	\$0.250	\$0.575

As of September 30, 2001, there were approximately 755 holders of record of common units, and approximately 111 holders of record of senior subordinated units.

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

In general, the Partnership distributes to its partners on a quarterly basis, all of its Available Cash in the manner described below. Available Cash is defined for any of the Partnership's fiscal quarters, as all cash on hand at the end of that quarter, less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the general partner to (i) provide for the proper conduct of the business; (ii) comply with applicable law, any of its debt instruments or other agreements; or (iii) provide funds for distributions to the common unitholders and the senior subordinated unitholders during the next four quarters, in some circumstances.

The general partner may not establish cash reserves for distributions to the senior subordinated units unless the general partner has determined that the establishment of reserves will not prevent it from distributing the minimum quarterly distribution on all common units and any common unit arrearages for the next four quarters. The full definition of Available Cash is set forth in the Agreement of Limited Partnership of the Partnership. The information concerning restrictions on distributions required in this section is incorporated herein by reference to the Partnership's Consolidated Financial Statements, which begin on page F-1 of this Form 10-K.

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#### ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

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

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

(in thousands, except per unit data)

Statement of Operations Data:	Fiscal Year Ended September 30,				
	1997	1998	1999/ (c) /	2000	2001
Sales	\$ 135,159	\$ 111,685	\$ 224,020	\$ 744,664	\$ 1,085,973
Costs and expenses:					
Cost of sales	72,211	49,498	131,649	501,589	771,317
Delivery and branch	36,427	37,216	86,489	156,862	200,059
General and administrative	7,113	6,336	11,717	19,862	35,771
TG&E customer acquisition	-	-	-	2,082	1,868
Unit compensation	-	-	-	649	3,315
Depreciation and amortization	10,242	11,462	22,713	34,708	44,396
Operating income (loss)	9,166	7,173	(28,548)	28,912	29,247
Interest expense, net	6,966	7,927	15,435	26,784	33,727
Amortization of debt issuance costs	163	176	347	534	737
Income (loss) before income taxes, minority interest and cumulative effect of change in accounting principle	2,037	(930)	(44,330)	1,594	(5,217)
Minority interest in net loss of TG&E	-	-	-	251	-
Income tax expense (benefit)	25	25	(14,780)	492	1,498
Income (loss) before cumulative change in accounting principle	2,012	(955)	(29,550)	1,353	(6,715)
Cumulative effect of change in accounting principle for adoption of SFAS No. 133, net of income taxes	-	-	-	-	1,466
Net income (loss)	\$ 2,012	\$ (955)	\$ (29,550)	\$ 1,353	\$ (5,249)
Weighted average number of limited partner units	5,271	6,035	11,447	18,288	22,439
Per Unit Data:					
Net income (loss) per unit/(a)/	\$ 0.37	\$ (0.16)	\$ (2.53)	\$ 0.07	\$ (0.23)

Cash distribution declared per common unit	\$ 2.20	\$ 2.20	\$ 2.25	\$ 2.30	\$ 2.30
Cash distribution declared per senior sub. unit	\$ -	\$ -	\$ -	\$ 0.25	\$ 1.975
Balance Sheet Data (end of period):					
Current assets	\$ 14,165	\$ 17,947	\$ 86,868	\$ 126,990	\$ 185,262
Total assets	147,469	179,607	539,344	618,976	898,819
Long-term debt	85,000	104,308	276,638	310,414	457,086
Partners' Capital	51,578	57,347	150,176	139,178	198,264
Summary Cash Flow Data:					
Net Cash provided by operating activities	\$ 18,964	\$ 9,264	\$ 10,795	\$ 20,364	\$ 63,144
Net Cash used in investing activities	(4,905)	(13,276)	(2,977)	(65,172)	(256,134)
Net Cash provided by (used in) financing activities	(14,276)	4,238	(4,441)	51,226	199,308
Other Data:					
Earnings before interest, taxes, depreciation and amortization, TG&E customer acquisition expense and unit compensation expense, less net gain (loss) on sales of fixed assets (EBITDA) before the impact of SFAS No. 133/(b)/	\$ 19,703	\$ 18,906	\$ (5,752)	\$ 66,210	\$ 85,004
Retail propane gallons sold	94,893	98,870	99,457	107,557	137,031
Heating oil gallons sold	-	-	74,039	345,684	427,168

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

- (a) Net income (loss) per unit is computed by dividing the limited partners' interest in net income (loss) by the weighted average number of limited partner units outstanding.
- (b) EBITDA is defined as operating income (loss) plus depreciation and amortization, TG&E customer acquisition expense and unit compensation expense, less net gain (loss) on sales of fixed assets before the impact of SFAS No. 133. 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. EBITDA is calculated for the fiscal years ended September 30 as follows:

	1997	1998	1999	2000	2001
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Operating income (loss)	\$ 9,166	\$ 7,173	\$ (28,548)	\$ 28,912	\$ 29,247
Plus:					
Depreciation and amortization	10,242	11,462	22,713	34,708	44,396
TG&E customer acquisition expense	-	-	-	2,082	1,868
Unit compensation expense	-	-	-	649	3,315
Net (gain) loss on sales of fixed assets	295	271	83	(141)	26
Impact of SFAS No. 133	-	-	-	-	6,152
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EBITDA	\$ 19,703	\$ 18,906	\$ (5,752)	\$ 66,210	\$ 85,004
	=====	=====	=====	=====	=====

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

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



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

#### Overview

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

The Petro acquisition was made on March 26, 1999. Accordingly, the results of operations for the year ended September 30, 1999 only include Petro's results from March 26, 1999. Since Petro was acquired after the heating season, the results for the year ended September 30, 1999 include expected third and fourth fiscal quarters losses but do not include the profits from the heating season.

The Total Gas and Electric (TG&E) acquisition was made on April 7, 2000. Accordingly, the results of operations for the year ended September 30, 2001 include TG&E's results for the entire period whereas the results for the previous corresponding fiscal year only include TG&E's results of operations for only approximately six months.

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

The Partnership adopted SFAS No. 133 on October 1, 2000 and has since recorded its derivatives at fair market value. As a result, net income for 2001 was \$4.7 million less than what it would have been had the Standard not been adopted. The \$4.7 million is comprised of \$6.2 million additional cost of goods sold offset by \$1.5 million of net income attributable to the cumulative effect of change in accounting principle. The effect of the Standard has no impact in how the Partnership evaluates its ability to make the minimum quarterly distribution.

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FISCAL YEAR ENDED SEPTEMBER 30, 2001  
COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 2000  
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#### Volume

For fiscal 2001, retail volume of home heating oil and propane increased 111.0 million gallons, or 24.5%, to 564.2 million gallons, as compared to 453.2 million gallons for the fiscal 2000. This increase was due to an additional 81.5 million gallons provided by the heating oil segment and a 29.5 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. The propane segment estimates that its volume was adversely impacted by approximately 7.5 million gallons due to consumer conservation. Temperatures in the Partnership's areas of operations were an average of 12.0% colder than in the prior year and approximately 2%

colder than normal.

#### Sales

For fiscal 2001, sales increased \$341.3 million, or 45.8%, to \$1.1 billion, as compared to \$744.7 million for fiscal 2000. This increase was attributable to \$197.1 million provided by the home heating oil segment, a \$76.2 million increase in the propane segment and by a \$68.1 million of increased TG&E sales. 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 \$22.7 million and by \$7.1 million in the propane division due to increases in the sales of rationally related products including heating, air conditioning and water softening equipment installation and service.

#### Cost of Sales

For fiscal 2001, cost of product increased \$269.7 million, or 53.8%, to \$771.3 million, as compared to \$501.6 million for fiscal 2001. This increase was due to \$160.5 million of additional cost of product at the home heating segment, \$61.3 million of increased TG&E cost of product and a \$47.9 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. In addition, cost of product increased by \$6.2 million due to the impact of SFAS No. 133 on 2001 results. While both selling prices and supply cost increased on a per gallon basis, the increase in selling prices was greater than the increase in supply costs (excluding the impact of SFAS #133), which resulted in an increase in per gallon margins. Cost of sales for both the heating oil and propane segments also increased due to additional sales of rationally related products and as a result of additional service cost due to the colder temperatures.

#### Delivery and Branch Expenses

For fiscal 2001, delivery and branch expenses increased \$43.2 million, or 27.5%, to \$200.1 million, as compared to \$156.9 million for fiscal 2000. This increase was due to an additional \$30.1 million of delivery and branch expenses at the heating oil segment, and a \$13.0 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

For fiscal 2001, depreciation and amortization expenses increased \$9.7 million, or 27.9%, to \$44.4 million, as compared to \$34.7 million for fiscal 2000. This increase was primarily due to additional depreciation and amortization for heating oil and propane acquisitions and \$1.5 million of increased depreciation and amortization expenses for TG&E.

#### General and Administrative Expenses

For fiscal 2001, general and administrative expenses increased \$15.9 million, or 80.0%, to \$35.8 million, as compared to \$19.9 million for fiscal 2000. This increase was primarily due to \$10.7 million of additional TG&E general and administrative expenses and a \$3.3 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. General and administrative expenses increased \$1.9 million in total for the heating oil and propane segments due to increased incentive compensation and for acquisition related expenditures.

The \$10.7 million increase in expenses at TG&E was largely due to a \$6.4 million provision to increase its allowance for bad debts (representing a \$6.0 million increase over the prior year provision), \$2.4 million of start up and organizational expenses and inclusion of a full year of general and administration expense. Since its acquisition, TG&E has struggled with customer credit deficiencies and problems collecting its receivables. TG&E currently has

more than 50,000 terminated customers who collectively owe \$15.5 million, virtually all of which is greater than 90 days old. This balance includes \$5.3 million of accounts receivable that predated TG&E's acquisition by the Partnership. These pre-acquisition receivables were assigned no value and are not reflected on TG&E's books. Consequently, the gross amount of receivables from terminated accounts on the Company's books before bad debt reserves currently approximates \$10 million.

The Partnership has recently allocated substantial resources to a collection effort targeting these terminated accounts. Based on a sample group of accounts' preliminary collection results, the Partnership added \$5.7 million to TG&E's bad debt provision for the year ended September 30, 2001. This brought the total bad debt reserve on terminated accounts to \$6.0 million. Consequently, out of the roughly \$15 million owed TG&E by terminated accounts, all but \$4 million has been reserved. In addition, TG&E provided a \$0.7 million bad debt provision against its active accounts receivable for the year ended September 30, 2001 bringing the total allowances to \$0.9 million for active accounts at that time.

In the course of 2001, TG&E has instituted entirely new credit policies including a detailed procedure to approve new accounts. Simultaneously, new information systems have been purchased and adopted to TG&E's needs. The new systems are currently being implemented at TG&E. As a result, TG&E believes its delinquency levels and bad debt experience will improve. Once the system enhancements are fully in place and all of TG&E's customers have gone through the new credit approval procedures, bad debt losses should approximate the experience of the Partnership's other two operating segments.

TG&E incurred approximately \$2.4 million of start up and organizational expenses involving compliance, legal and data processing costs, which were included in general and administrative expenses in 2001.

#### TG&E Customer Acquisition Expense

For fiscal 2001, TG&E customer acquisition expense decreased \$0.2 million, or 10.3%, to \$1.9 million, as compared to \$2.1 million for fiscal 2000. 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 fiscal 2001, unit compensation expense increased \$2.7 million, or 410.8%, to \$3.3 million, as compared to \$0.6 million for fiscal 2000. These expenses were 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. The increase in fiscal 2001 resulted from the increased market price of the Subordinated Units, which was the basis for calculating unit compensation expense as well as for additional units that vested during fiscal 2001.

#### Interest Expense, net

For fiscal 2001, net interest expense increased \$6.9 million, or 25.9%, to \$33.7 million, as compared to \$26.8 million for fiscal 2000. This increase was due to additional interest expense for higher working capital borrowings necessitated by the higher cost of product and additional interest expense for the financing of propane and heating oil acquisitions.

#### Income Tax Expense

For fiscal 2001, income tax expense increased \$1.0 million, or 204.5%, to \$1.5 million, as compared to \$0.5 million for fiscal 2000. This increase was due to additional state income taxes for certain higher pretax earnings achieved for fiscal 2001.

#### Cumulative Effect of Adoption of Accounting Principle

For fiscal 2001, the Partnership recorded a \$1.5 million increase in net income arising from the adoption of SFAS No. 133.

For fiscal 2001, net income decreased \$6.6 million to a loss of \$5.2 million, as compared to net income of \$1.4 million for fiscal 2000. The decrease was due to a \$9.6 million increase in net income at the propane segment offset by \$3.6 million of less income at the heating oil segment, \$8.2 million of additional net loss for TG&E and a \$4.5 million additional net loss at the Partnership level, largely the result of the increase in unit compensation expense recorded at the Partnership level. The increase in net income for the propane segment was largely due to colder weather and as a result of acquisitions. The decrease in net income for the heating oil segment was largely due to the timing of when acquisitions were completed.

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 fiscal 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 \$18.8 million, or 28.4%, to \$85.0 million as compared to \$66.2 million, for fiscal 2000. This increase was due to a \$14.9 million increase in the propane segment EBITDA, \$11.3 million of additional EBITDA generated by the heating oil segment partially offset by \$3.3 million of additional expenses at the Partnership level and by \$4.1 million of lower TG&E EBITDA. 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.

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

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

#### Sales

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

#### Cost of Sales

For fiscal 2000, cost of product increased \$369.9 million, or 281.0%, to \$501.6 million, as compared to \$131.6 million for fiscal 1999. This increase was due to \$247.0 million of additional costs attributable to the heating oil cost of product, \$22.0 million of TG&E cost of product and for higher propane supply cost of \$34.7 million. While both propane selling prices and propane supply costs increased on a per gallon basis, the increase in selling prices was more than the increase in supply costs, which resulted in an increase in per gallon margins. Cost of sales also increased due to the inclusion of \$66.2 million of additional costs relating to the heating oil segment's cost of installation and service.

#### Delivery and Branch Expenses

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

#### Depreciation and Amortization

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

#### General and Administrative Expenses

For fiscal 2000, general and administrative expenses increased \$8.1 million, or 69.5%, to \$19.9 million, as compared to \$11.7 million for fiscal 1999. This increase was due to the inclusion of an additional \$4.3 million of general and administrative expenses for the heating oil segment, \$2.0 million of TG&E general and administrative expenses, a \$1.1 million increase in general and administrative expenses at the Partnership level and a \$0.7 million increase for the propane segment. The increase in expenses at the Partnership level was primarily due to a full year inclusion of expenses for the office of the chief executive officer. The \$0.7 million increase in general and administrative expenses at the propane segment was largely due to an increase in acquisition travel related expenditures as well as for normal inflationary increases.

#### TG&E Customer Acquisition Expense

For fiscal 2000, TG&E customer acquisition expense was \$2.1 million. This TG&E segment expense is for the cost of acquiring new accounts through the services of a third party direct marketing company. Since its acquisition, TG&E added approximately 50,000 new customers.

#### Unit Compensation Expense

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

#### Interest Expense, net

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

#### Income Tax Expense (Benefit)

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

#### Net Income (Loss)

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

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

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

#### Liquidity and Capital Resources

During the year ended September 30, 2001, the Partnership sold 7.3 million common units, the net proceeds of which, was \$123.8 million. These funds combined with net cash provided by operating activities of \$63.1 million, \$175.9 million of long-term debt borrowings (\$143.0 million of senior secured notes issued by the heating oil segment, \$29.5 million of senior notes issued by the propane segment and \$3.4 million of acquisition related notes) and \$0.6 million in proceeds from the sale of fixed assets amounted to \$363.4 million. Such funds were used for acquisitions of \$239.0 million, distributions of \$50.6 million, debt repayment of \$9.0 million and net working capital and acquisition facility repayment of \$35.4 million, capital expenditures of \$17.7 million and other financing activities of \$5.4 million. As a result of the above activity, cash increased by \$6.3 million to \$17.2 million.

The \$143.0 million of senior secured notes mentioned above represent two separate issuances of notes by the heating oil segment. The first was a \$40.0 million series of notes issued to three institutional lenders to refinance \$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 second was a \$103.0 million series of notes issued to institutional lenders to complete a refinancing of \$36.0 million of indebtedness incurred under its bank acquisition facility with the remaining proceeds of \$67.0 million used to partially fund the Meenan acquisition. The Senior Notes bear interest at the rate of 8.25% and have an average life of seven years with a final maturity of August 1, 2013.

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, were used to fund 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 fiscal 2002, the Partnership anticipates paying interest of approximately \$43.0 million and anticipates growth and maintenance capital additions of approximately \$15 million. In addition, the Partnership plans to pay distributions on its units in accordance with the partnership agreement. The Partnership also plans to pursue strategic acquisitions as part of its business strategy and to prudently fund such acquisitions through a combination of debt and equity. Based on its current cash position, bank credit availability and net cash from operating activities, the Partnership expects to be able to meet all

of its obligations for fiscal 2002.

#### Accounting Principles Not Yet Adopted

In July 2001, the FASB issued Statement No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets". Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as for all purchase method business combinations completed after June 30, 2001. Statement No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement No. 142. Statement No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

The Partnership adopted the provisions of Statement No. 141 effective July 1, 2001 and Statement No. 142 is required to be adopted effective October 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement No. 142.

Statement No. 141 will require upon adoption of Statement No. 142, that the Partnership evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement No. 141 for recognition apart from goodwill. Upon adoption of Statement No. 142, the Partnership will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Partnership will be required to test the intangible asset for impairment in accordance with the provisions of Statement No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement No. 142 will require the Partnership to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this the Partnership must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Partnership will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Partnership must perform the second step of the transitional impairment test. In the second step, the Partnership must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Partnership's statement of operations.

As of September 30, 2001, the Partnership had unamortized goodwill in the amount of \$263.3 million. The Partnership also had \$207.4 million of unamortized identifiable intangible assets, of which \$201.2 will be subject to the transition provisions of SFAS No. 141 and No. 142. Amortization expense related

to goodwill was \$7.4 million and \$7.9 million for the years ended September 30, 2000 and 2001, respectively. Because of the extensive effort needed to comply with adopting Statements No. 141 and No. 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Partnership's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of change in accounting principle.

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ITEM 7A.  
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

At September 30, 2001, the Partnership had outstanding borrowings of approximately \$31.9 million under its Bank Credit Facilities. In the event that interest rates associated with these facilities were to increase 100 basis points, the impact on future cash flows would be a \$0.3 million annually.

The Partnership also selectively uses derivative financial instruments to manage its exposure to market risk related to changes in the current and futures 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 home heating oil, propane or natural gas being hedged. Sensitivity analysis is a technique used to evaluate the impact of hypothetical market value changes. Based on a hypothetical ten percent increase in the cost of product at September 30, 2001, the potential impact on the Partnership's hedging activity would be to increase the fair market value of these outstanding derivatives by \$5.0 million to a fair market value loss of \$(1.0) million; and conversely a hypothetical ten percent decrease in the cost of product would decrease the fair market value of these outstanding derivatives by \$4.0 million to a fair market value loss of \$(10.0) million.

ITEM 8.  
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
SEE INDEX TO FINANCIAL STATEMENTS PAGE F-1

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

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

Partnership Management

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



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

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

Directors and Executive Officers of the General Partner

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

Name	Age	Position with the General Partner
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Irik P. Sevin/(b)/ .....	54	Chairman of the Board and Chief Executive Officer
William G. Powers, Jr. ....	48	Executive Vice President - Heating Oil and Member of the Office of President
Joseph P. Cavanaugh .....	64	Executive Vice President - Propane and Member of the Office of President
Ami Trauber .....	62	Chief Financial Officer
Carolyn LoGalbo .....	51	Executive Vice President
Richard F. Ambury .....	44	Vice President and Treasurer
James Bottiglieri .....	45	Vice President
Audrey L. Sevin .....	75	Secretary
Paul Biddelman/(a)/(b)/ .....	55	Director
Thomas J. Edelman/(c)/ .....	50	Director
I. Joseph Massoud/(c)/ .....	33	Director
William P. Nicoletti/(c)/ .....	56	Director
Stephen Russell/(a)/ .....	61	Director

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

Irik P. Sevin has been the Chairman of the Board of Directors of Star Gas LLC since March 1999. From December 1993 to March 1999, Mr. Sevin served as Chairman of the Board of Directors of Star Gas Corporation, the predecessor general partner. Mr. Sevin has been a Director of Petro since its organization in October 1983, and Chairman of the Board of Petro since January 1993 and served as President of Petro from 1983 through January 1997. Mr. Sevin was an associate in the investment banking division of Kuhn Loeb & Co. and then Lehman Brothers Kuhn Loeb Incorporated from February 1975 to December 1978.

William G. Powers, Jr. has been Executive Vice President of the heating oil division and member of the Office of the President of Star Gas LLC since March 1999. From December 1997 to March 1999 Mr. Powers served as President of Petro.

Mr. Powers served as President and Chief Executive Officer of Star Gas Corporation, the predecessor general partner from December 1993 to November 1997. From 1984 to 1993 Mr. Powers was employed by Petro where he served in various capacities, including Regional Operations Manager and Vice President of Acquisitions. From 1977 to 1983, he was employed by The Augsbury Corporation, a company engaged in the wholesale and retail distribution of fuel oil and gasoline throughout New York and New England and served as Vice President of Marketing and Operations.

Joseph P. Cavanaugh has been Executive Vice President of the propane division and member of the Office of the President of Star Gas LLC since March 1999. From December 1997 to March 1999 Mr. Cavanaugh served as President and Chief Executive Officer of Star Gas Corporation, the predecessor general partner. From October 1985 to December 1997, Mr. Cavanaugh held various financial and management positions with Petro. Prior to his current appointment Mr. Cavanaugh was also active in the Partnership's management with the development of safety/compliance programs, assisting with acquisitions and their subsequent integration into the Partnership.

Ami Trauber has been Chief Financial Officer of Star Gas LLC since November 2001. From 1996 to 2001, Mr. Trauber was the Chief Financial Officer of Syratech Corporation, a consumer goods company. From 1991 to 1995, Mr. Trauber was the President, Chief Operating Officer and part owner of Ed's West, Inc., an apparel company. From 1978 to 1990, Mr. Trauber was Corporate Vice President - Finance and Controller of Harcourt General, Inc., a fortune 500 conglomerate.

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Carolyn LoGalbo has been Executive Vice President of Star Gas LLC since November 2000. Ms. LoGalbo was Chief Marketing Officer at MetLife in the institutional business prior to joining Star Gas. Previously she was Chief Marketing Officer for MFS Communications, a start up telecommunications company and from 1980-1993, she held various positions at Kraft Foods in general management and marketing.

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

James J. Bottiglieri has been Vice President of Star Gas LLC since March 1999, and has served as Controller of Petro since 1994. Mr. Bottiglieri was Assistant Controller of Petro from 1985 to 1994 and was elected Vice President in December 1992. From 1978 to 1984, Mr. Bottiglieri was employed by a predecessor firm of KPMG, a public accounting firm. Mr. Bottiglieri has been a Certified Public Accountant since 1980.

Audrey L. Sevin has been a Director of Star Gas LLC since March 1999 and was a Director of Star Gas Corporation, the predecessor general partner from December 1993 to March 1999. Mrs. Sevin served as the Secretary of Star Gas Corporation from June 1994 to March 1999. Mrs. Sevin had been a Director and Secretary of Petro since its organization in October 1983. Mrs. Sevin was a Director, executive officer and principal shareholder of A. W. Fuel Co., Inc. from 1952 until its purchase by Petro in May 1981.

Paul Biddelman has been a Director of Star Gas LLC since March 1999 and was a Director of Star Gas Corporation, the predecessor general partner from December 1993 to March 1999. Mr. Biddelman had been a director of Petro since October 1994. Mr. Biddelman has been President of Hanseatic Corporation since December 1997. From April 1992 through December 1997, he was Treasurer of Hanseatic Corporation. Mr. Biddelman is a director of Celadon Group, Inc., Insituform Technologies, Inc., Six Flags, Inc. and System One Technologies, Inc.

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

was a Vice President of The First Boston Corporation.

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

William P. Nicoletti has been a Director of Star Gas LLC since March 1999 and was a Director of Star Gas Corporation, the predecessor general partner from November 1995 to March 1999. Mr. Nicoletti is Managing Director of Nicoletti & Company Inc., a private investment banking firm servicing clients in the energy and transportation industries. In addition, Mr. Nicoletti serves as a Senior Advisor to the Energy Investment Banking Group of McDonald Investments Inc. From March 1998 until July 1999, Mr. Nicoletti was a Managing Director and co-head of Energy Investment Banking for McDonald Investments Inc. Prior to forming Nicoletti & Company Inc. in 1991, Mr. Nicoletti was a Managing Director and head of Energy Investment Banking for PaineWebber Incorporated. Previously, he held a similar position at E.F. Hutton & Company Inc. He is chairman of the board of directors of Russell-Stanley Holdings, Inc., a manufacturer and marketer of plastic and steel industrial containers and a director of StatesRail, Inc., a short-line railroad holding company.

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

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

#### Meetings and Compensation of Directors

During fiscal 2001, the Board of Directors met six times. All Directors attended each meeting except that Mr. Russell and Mr. Massoud did not attend one meeting and Mr. Nicoletti did not attend one other meeting. Star Gas LLC pays each director including the chairman, an annual fee of \$27,000. Members of the audit committee receive an additional \$5,000 per annum.

#### Committees of the Board of Directors

Star Gas LLC's Board of Directors has an Audit Committee, a Compensation Committee and a Distribution Committee. The members of each committee are appointed by the Board of Directors for a one-year term and until their respective successors are elected.

#### Audit Committee

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

The current members of the Audit Committee are William P. Nicoletti, Thomas J. Edelman and I. Joseph Massoud. During fiscal 2001, the audit committee met six times. Members of the Audit Committee may not be employees of Star Gas LLC or its affiliated companies.

#### Compensation Committee

The current members of the Compensation Committee are Paul Biddelman and Stephen Russell. The duties of the Compensation Committee are (i) to determine the annual salary, bonus and other benefits, direct and indirect, of any and all named executive officers (as defined under Regulation S-K promulgated by the Securities and Exchange Commission) and (ii) to review and recommend to the full Board any and all matters related to benefit plans covering the foregoing officers and any other employees. During fiscal 2001, the Compensation Committee met five times.

Distribution Committee

The current members of the Distribution Committee are Irik Sevin and Paul Biddelman. The duties of the Distribution Committee are to discuss and review the Partnership's distributions. During fiscal 2001, the Distribution Committee met four times.

Reimbursement of Expenses of the General Partner

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

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the annual salary, bonuses and all other compensation awards and payouts to the President and Chief Executive Officer and to certain named executive officers of the General Partner for services rendered to Star Gas Partners and its subsidiaries during the fiscal years ended September 30, 2001, 2000 and 1999.

Name and Principal Position	Year	Summary Compensation Table			Long-Term	
		Annual Compensation			Compensation	
		Salary	Bonus	Other Annual Compensation	Restricted Stock Awards	Securities Underlying UARs
Irik P. Sevin, Chairman of the Board and Chief Executive Officer	2001	\$550,000	\$1,137,200/(5)/	\$ 7,966/(8)/	\$495,000/(10) (11)/	
	2000	\$500,000	\$ 511,250/(6)/	\$11,650/(8)/	\$723,188/(9)/	400,000/(12)/
	1999	\$325,000/(1)/	\$ 225,000	\$ 2,900/(8)/		
William G. Powers, Jr., Executive Vice President/(2)/	2001	\$325,000	\$ 346,250/(5)/	\$15,965/(8)/		
	2000	\$250,000	\$ 182,750/(6)/	\$12,900/(8)/		
	1999	\$125,000/(3)/	\$ 75,000	\$ 3,900/(8)/	_(11)/	
Joseph P. Cavanaugh, Executive Vice President	2001	\$245,200	\$ 300,150/(5)/	\$18,768/(7)/		
	2000	\$225,000	\$ 89,250/(6)/	\$18,768/(7)/		
	1999	\$225,000	\$ 50,000	\$18,768/(7)/	_(11)/	
George Leibowitz, Chief Financial Officer/(4)/	2001	\$172,500	\$ 246,200/(5)/	\$ 8,950/(8)/		
	2000	\$292,500/(5)/	\$ 37,625/(6)/	\$10,225/(8)/		
	1999	\$202,500/(5)/	\$ 100,000	\$ 2,150/(8)/	_(11)/	
Richard F. Ambury Vice President and Treasurer	2001	\$183,950	\$ 169,375/(5)/	\$27,657/(7)/		
	2000	\$180,000	\$ 83,375/(6)/	\$27,657/(7)/		
	1999	\$160,000	\$ 70,000	\$26,022/(7)/	_(11)/	

- /(1)/ Amount does not include \$175,000 of compensation paid by Petro prior to its acquisition by the Partnership.
- /(2)/ Mr. Powers assumed the position of President of Petro on November 30, 1997.
- /(3)/ Amount does not include \$125,000 of compensation paid by Petro prior to its acquisition by the Partnership.
- /(4)/ Mr. Trauber replaced Mr. Leibowitz who will be retiring on December 31, 2001, as the Chief Financial Officer effective November 1, 2001.
- /(5)/ Fiscal 2001 bonus amount includes the value of Senior Subordinated Units vested in fiscal 2001 under the Partnership's Employee Unit Incentive Plan as follows: Irik P. Sevin - \$400,000, William G. Powers, Jr. - \$160,000, Joseph P. Cavanaugh - \$120,000, George Leibowitz - \$226,200 and Richard F. Ambury - \$100,000. Mr. Sevin was also granted 8,250 Common Units (vesting as of January 2002) in lieu of cash compensation for his 2001 bonus performance at a value of \$165,000.
- /(6)/ Fiscal 2000 bonus amount includes the value of Senior Subordinated Units granted and vested in fiscal 2000 under the Partnership's Employee Unit Incentive Plan as follows; Irik P. Sevin - \$117,500, William G. Powers, Jr. - \$47,000, Joseph P. Cavanaugh - \$35,250, George Leibowitz - \$17,625 and Richard F. Ambury - \$29,375. Mr. Sevin was also granted 20,149 Senior

- Subordinated Units in December 2000 in lieu of cash compensation for his 2000 bonus performance at a value of \$168,750 on the grant date.
- /(7)/ These amounts represent funds paid in lieu of contributions to the Partnership's retirement plans.
  - /(8)/ These amounts represent contributions under Petro's defined contribution retirement plan.
  - /(9)/ This award represents the granting of 87,000 Restricted Senior Subordinated units that vest equally in four installments on December 1, 2001, December 1, 2002, December 1, 2003 and December 1, 2004. Distributions on the restricted units will accrue (to the extent declared) from June 30, 2000.
  - /(10)/ This award represents the granting of 24,750 Restricted Common Units that vest equally in three installments on January 1, 2003, January 1, 2004 and January 1, 2005. Distributions on these units will accrue to the extent declared.
  - /(11)/ As of September 30, 2001, the following Restricted grants of Senior Subordinated Units granted under the Partnership's Employee Unit Incentive Plan valued at the September 30, 2001 closing price were outstanding as follows: Irik P. Sevin - \$1,335,000 (60,000 units), William G. Powers, Jr. - \$534,000 (24,000 units), Joseph P. Cavanaugh - \$400,500 (18,000 units), and Richard F. Ambury - \$333,750 (15,000 units).
  - /(12)/ Mr. Sevin was also granted an option to acquire shares in TG&E equal to approximately three percent of TG&E's outstanding shares as of March 21, 2001.

Option/UAR Grants in Last Fiscal Year

None

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

Name	Number of Unexercised UARs at September 30, 2001 Exercisable(E)/Unexercisable(U)	Value of In the Money UARs at September 30, 2001
Irik P. Sevin	400,223 (U)	\$5,465,594

Long-Term Incentive Plans - Awards in Last Fiscal

None

Employment Contracts

Agreement with Irik Sevin

-----

The Partnership entered into an employment agreement (the "Employment Agreement") with Mr. Sevin effective October 1, 2001. Mr. Sevin's Employment Agreement has an initial term of five years, and automatically renews for successive one-year periods, unless earlier terminated by the Partnership or by Mr. Sevin or otherwise terminated in accordance with the Employment Agreement. The Employment Agreement for Mr. Sevin provides for an annual base salary of \$600,000 which shall increase at the rate of \$25,000 per year commencing in fiscal 2003. In addition, Mr. Sevin may earn a bonus of up to 80% of his annual base salary (the "Targeted Bonus") for services rendered based upon certain performance criteria. Mr. Sevin can also earn certain equity incentives if the Partnership meets certain performance criteria specified in the Employment Agreement. In addition, Mr. Sevin is entitled to certain supplemental executive retirement benefits ("SERP") if he retires after age 65. If a "change of control" (as defined in the Employment Agreement) of the Partnership occurs and prior thereto or at any time within two years subsequent to such change of control the Partnership terminates the Executive's employment without "cause" or the Executive resigns with "good reason" or the Executive terminates his employment during the thirty day period commencing on the first anniversary of a change of control, then Mr. Sevin will be entitled to (i) a lump sum payment equal to Mr. Sevin's anticipated annual basic salaries, Targeted Bonuses and equity incentives for the three year following the termination date; (ii) the continuation of Mr. Sevin's group insurance benefits for two years following the termination date; (iii) a cash payment equal to the value of 325,000 senior subordinated units; and (iv) the acceleration of Mr. Sevin's SERP benefits. The

Employment Agreement provides that if any payment received by Mr. Sevin is subject to a federal excise tax under Section 4999 of the Internal Revenue Code, the payment will be grossed up to permit Mr. Sevin to retain a net amount on an after-tax basis equal to what he would have received had the excise tax not been payable.

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

401(k) Plans

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

Messrs. Sevin, Powers and Leibowitz are covered under a 401(K) defined contribution plan maintained by Petro. Participants in the plan may elect to contribute a sum not to exceed 17% of a participant's compensation or \$10,500. Under this plan, Petro makes a 4% core contribution of a participant's compensation up to \$170,000 and matches 2/3 of each amount that a participant contributes with a maximum employer match of 2%.

ITEM 12.  
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the beneficial ownership as of November 15, 2001 of common units, senior subordinated units, junior subordinated units and general partner units by:

- (1) Star Gas LLC and certain beneficial owners and all of the directors and officers of Star Gas LLC;
- (2) each of the named executive officers of Star Gas LLC; and
- (3) all directors and executive officers of Star Gas LLC as a group.

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

Name	Common Units		Senior Subordinated Units		Junior Subordinated Units		General Partner Units/(a)/	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Star Gas LLC	-	- %	29,133	- %	-	- %	325,729	100%
Irik P. Sevin	-	-	55,699 (b)	1.8	53,426	15.5	325,729 (b)	100
Audrey L. Sevin	-	-	29,133 (b)	-	153,131	44.3	325,729 (b)	100
Hanseatic Americas, Inc.	350,000	1.5%	29,133 (b)	-	138,807	40.2	325,729 (b)	100
Paul Biddelman	-	-	2,157	*	-	-	-	-
Thomas Edelman	-	-	97,801 (c) (d)	3.2	-	-	-	-
I. Joseph Massoud	519	*	1,852	*	-	-	-	-
William P. Nicoletti	-	-	1,852	*	-	-	-	-
Stephen Russell	-	-	1,852	*	-	-	-	-
Richard F. Ambury	2,125	*	5,489	*	-	-	-	-
Ami Trauber	-	-	-	-	-	-	-	-
Carolyn LoGalbo	-	-	2,724	*	-	-	-	-
James Bottiglieri	1,500	*	1,634	*	-	-	-	-
Joseph P. Cavanaugh	1,000	*	6,600	*	-	-	-	-

William G. Powers, Jr. All officers and directors and Star Gas LLC as a group (13 persons)	1,000    6,144	*    *	8,715    186,375	*    6.2	-    206,557	-    59.8%	-    325,729	-    100%
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- (a) For purpose of this table, the number of General Partner Units is deemed to include the 0.01% General Partner interest in Star Gas Propane.
- (b) Assumes each of Star Gas LLC owners may be deemed to beneficially own all of Star Gas LLC's general partner units and senior subordinated units, however, they disclaim beneficial ownership of these units.
- (c) Includes senior subordinated units owned by Mr. Edelman's wife and trust for the benefit of his minor children.
- (d) Includes 6,000 senior subordinated units owned by trusts for the benefit of Mr. Edelman's siblings for which Mr. Edelman serves as Trustee. Mr. Edelman disclaims beneficial ownership of these units.

\* Amount represents less than 1%.

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

Based solely on its review of the copies of such forms received by the General Partner, or written representations from certain reporting persons that no Form 5's were required for those persons, the General Partner believes that during fiscal year 2001 all filing requirements applicable to its officers, directors, and greater than 10 percent beneficial owners were met in a timely manner.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

The Partnership has agreed to pay Mr. Edelman a finder's fee of 1% of the purchase price if the Partnership acquires a company that Mr. Edelman has introduced to the Partnership. The Partnership is under no obligation to pursue this acquisition and the terms of such acquisition have not yet been determined.

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#### PART IV

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

- (a)
  - 1. Financial Statements  
See "Index to Consolidated Financial Statements and Financial Statement Schedule" set forth on page F-1.
  - 2. Financial Statement Schedule.  
See "Index to Consolidated Financial Statements and Financial Statement Schedule" set forth on page F-1.
  - 3. Exhibits.  
See "Index to Exhibits" set forth on page 34.
- (b) Reports on Form 8-K.  
The Partnership did not file a Form 8-K during the quarter ended September 30, 2001.

## INDEX TO EXHIBITS

Exhibit Number	Description
4.2	Form of Agreement of Limited Partnership of Star Gas Partners, L.P.(2)
4.3	Form of Agreement of Limited Partnership of Star Gas Propane, L.P.(2)
4.4	Amendment No. 1 dated as of April 17, 2001 to Amended and Restated Agreement of Limited Partnership of Star Gas Partners, L.P. (18)
4.5	Unit Purchase Rights Agreement dated April 17, 2001(19)
10.1	Form of Credit Agreement among Star Gas Propane, L.P. and certain banks(3)
10.2	Form of Conveyance and Contribution Agreement among Star Gas Corporation, the Partnership and the Operating Partnership.(3)
10.3	Form of First Mortgage Note Agreement among certain insurance companies, Star Gas Corporation and Star Gas Propane L.P.(3)
10.4	Intercompany Debt(3)
10.5	Form of Non-competition Agreement between Petro and the Partnership(3)
10.6	Form of Star Gas Corporation 1995 Unit Option Plan(3)(17)
10.7	Amoco Supply Contract(3)
10.8	Stock Purchase Agreement dated October 20, 1997 with respect to the Pearl Gas Acquisition(4)
10.9	Conveyance and Contribution Agreement with respect to the Pearl Gas Acquisition(4)
10.10	Second Amendment dated as of October 21, 1997 to the Credit Agreement dated as of December 13, 1995 among the Operating Partnership, Bank Boston, N.A. and NationsBank, N.A.(4)
10.11	Note Agreement, dated as of January 22, 1998, by and between Star Gas and The Northwestern Mutual Life Insurance Company(6)
10.12	Third Amendment dated April 15, 1998 to the Bank Credit Agreement (8)
10.13	Fourth Amendment dated November 3, 1998 to the Bank Credit Agreement (9)
10.14	Agreement and Plan of Merger by and among Petroleum Heat and Power Co., Inc., Star Gas Partners, L.P., Petro/Mergeco, Inc., and Star Gas Propane, L.P. (2)
10.15	Exchange Agreement (2)
10.16	Amendment to the Exchange Agreement dated as of February 10, 1999 (2)
10.17	Seventh amendment dated June 18, 1999 to the Credit Agreement dated December 13, 1995, between Star Gas Propane, L.P. and BankBoston, N.A. and NationsBank, N.A.(10)
10.18	Amendment No. 2 dated as of February 15, 2000, to the Credit Agreement, dated as of March 15.
10.19	\$12,500,000 8.67% First Mortgage Notes, Series A, due March 30, 2012 \$15,000,000 8.72% First Mortgage Notes, Series B, due March 30, 2015 dated as of March 30, 2000 (12)
10.20	Eighth amendment dated June 30, 2000 to the Credit Agreement dated December 13, 1995, between Star Gas Propane, L.P. and Fleet National Bank formerly known as BankBoston, N.A., and Bank of America, N.A. formerly known as NationsBank, N.A.(13)
10.21	June 2000 Star Gas Employee Unit Incentive Plan (13)(17)
10.22	\$40,000,000 Senior Secured Note Agreement (14)
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. (15)
10.24	Credit Agreement, dated as of March 30, 2001, by Total Gas & Electric, Inc. and Chase Manhattan Bank, as agent. (15)
10.25	Credit Agreement dated as of June 15, 2001 by Petroleum Heat and Power Co., Inc., and Bank of America N.A. as agent. (16)
10.26	Credit Agreement dated as of July 30, 2001 by Star Gas Partners, L.P., Petro Holdings, Inc., Petroleum Heat and Power Co., Inc., and the agents Bank of America, N.A. and First Union Securities, Inc.(1)
10.27	Employment agreement dated as of September 30, 2001 between Star Gas LLC, and Irik P. Sevin.(1)(17)
10.28	Equity Purchase Agreement dated July 31, 2001(20)
21	Subsidiaries of the Registrant (6)
23.1	Consent of KPMG LLP (1)
(1)	Filed herewith.
(2)	Incorporated by reference to an Exhibit to the Registrant's Registration Statement on Form S-4, File No. 333-66005, filed with the



- Commission on October 22, 1998.
- (3) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-1, File No. 33-98490, filed with the Commission on December 13, 1995.
  - (4) Incorporated by reference to the same Exhibit to Registrant's Periodic Report on Form 8-K, as amended, as filed with the Commission on October 23 and 29, 1997.
  - (5) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-1, File No. 333-40855, filed with the Commission on December 11, 1997.
  - (6) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-3, File No. 333-47295, filed with the Commission on March 4, 1998.
  - (7) Incorporated by reference to the same Exhibit to Registrant's Statement on Form S-4, File No. 333-49751, filed with the Commission on April 9, 1998.
  - (8) Incorporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 7, 1998.
  - (9) Incorporated by reference to the same Exhibit to Registrant's Annual Report on Form 10-K filed with the Commission on November 24, 1998.
  - (10) Incorporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 11, 1999.
  - (11) [Intentionally Omitted]
  - (12) Incorporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Commission on April 26, 2000.
  - (13) Incorporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 10, 2000.
  - (14) In Accordance with item 601(B)(4)(iii) of Regulation S-K, the Partnership will provide a copy of this document to the SEC upon request.
  - (15) Incorporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Commission on May 10, 2001
  - (16) Incorporated by reference to the same Exhibit to Registrant's Quarterly Report on Form 10-Q filed with the Commission on August 13, 2001
  - (17) Management compensation agreement
  - (18) Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated April 16, 2001.
  - (19) Incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form 8-A filed with the Commission on April 18, 2001.
  - (20) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated July 31, 2001.

SIGNATURE

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

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

/s/Irik P. Sevin  
-----

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

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

Signature	Title	Date
/s/ Irik P. Sevin	Chairman of the Board, Chief Executive Officer and Director	December 20, 2001
Irik P. Sevin Star Gas LLC		
/s/ Ami Trauber	Chief Financial Officer	December 20, 2001

----- Ami Trauber (Principal Financial and Accounting Officer)	Star Gas LLC	
/s/ Audrey L. Sevin ----- Audrey L. Sevin	Director Star Gas LLC	December 20, 2001
/s/ Paul Biddelman ----- Paul Biddelman	Director Star Gas LLC	December 20, 2001
/s/ Thomas J. Edelman ----- Thomas J. Edelman	Director Star Gas LLC	December 20, 2001
/s/ I. Joseph Massoud ----- I. Joseph Massoud	Director Star Gas LLC	December 20, 2001
/s/ William P. Nicoletti ----- William P. Nicoletti	Director Star Gas LLC	December 20, 2001
/s/ Stephen Russell ----- Stephen Russell	Director Star Gas LLC	December 20, 2001

STAR GAS PARTNERS, L.P. AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULE

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Part II Financial Information:

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Schedule for the years ended September 30, 1999, 2000 and 2001	
II. Valuation and Qualifying Accounts .....	F-31

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

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

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

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

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Star Gas Partners, L.P. and Subsidiaries as of September 30, 2000 and 2001 and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Stamford, Connecticut  
December 20, 2001

KPMG LLP

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(in thousands)	September 30,	
	2000	2001
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,910	\$ 17,228
Receivables, net of allowance of \$1,956 and \$11,364, respectively	66,858	104,973
Inventories	34,407	41,130
Prepaid expenses and other current assets	14,815	21,931
Total current assets	126,990	185,262
Property and equipment, net	171,300	235,371
Long-term portion of accounts receivable	7,282	6,752
Intangibles and other assets, net	313,404	471,434
Total assets	\$ 618,976	\$ 898,819
<b>Liabilities and Partners' Capital</b>		
Current liabilities:		
Accounts payable	\$ 27,874	\$ 35,800
Working capital facility borrowings	24,400	13,866
Current maturities of long-term debt	16,515	11,886
Accrued expenses	42,410	77,678
Unearned service contract revenue	15,654	24,575
Customer credit balances	37,943	65,207
Total current liabilities	164,796	229,012
Long-term debt	310,414	457,086
Other long-term liabilities	4,588	14,457
<b>Partners' Capital:</b>		
Common unitholders	134,672	209,911
Subordinated unitholders	6,090	2,772
General partner	(1,584)	(2,220)
Accumulated other comprehensive income	-	(12,199)

Total Partners' Capital	----- 139,178 -----	----- 198,264 -----
Total Liabilities and Partners' Capital	\$ 618,976 =====	\$ 898,819 =====

See accompanying notes to consolidated financial statements.

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

(in thousands, except per unit data)	Years Ended September 30,		
	----- 1999 -----	----- 2000 -----	----- 2001 -----
Sales	\$ 224,020	\$ 744,664	\$ 1,085,973
Costs and expenses:			
Cost of sales	131,649	501,589	771,317
Delivery and branch expenses	86,489	156,862	200,059
Depreciation and amortization	22,713	34,708	44,396
General and administrative expenses	11,717	19,862	35,771
TG&E customer acquisition expense	-	2,082	1,868
Unit compensation expense	-	649	3,315
	-----	-----	-----
Operating income (loss)	(28,548)	28,912	29,247
Interest expense, net	15,435	26,784	33,727
Amortization of debt issuance costs	347	534	737
	-----	-----	-----
Income (loss) before income taxes, minority interest and cumulative effect of change in accounting principle	(44,330)	1,594	(5,217)
Minority interest in net loss of TG&E	-	251	-
Income tax expense (benefit)	(14,780)	492	1,498
	-----	-----	-----
Income (loss) before cumulative change in accounting principle	(29,550)	1,353	(6,715)
Cumulative effect of change in accounting principle for adoption of SFAS No. 133, net of income taxes	-	-	1,466
	-----	-----	-----
Net income (loss)	\$ (29,550)	\$ 1,353	\$ (5,249)
	-----	-----	-----
General Partner's interest in net income (loss)	\$ (587)	\$ 24	\$ (75)
	-----	-----	-----
Limited Partners' interest in net income (loss)	\$ (28,963)	\$ 1,329	\$ (5,174)
	-----	-----	-----
Basic and diluted net income (loss) per Limited Partner unit	\$ (2.53)	\$ 07	\$ (.23)
	-----	-----	-----
Basic and diluted weighted average number of Limited Partner units outstanding	11,447	18,288	22,439
	-----	-----	-----

See accompanying notes to consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Years Ended September 30,		
	----- 1999 -----	----- 2000 -----	----- 2001 -----
Net income (loss)	\$ (29,550)	\$ 1,353	\$ (5,249)
Other comprehensive income (loss)			
Unrealized loss on derivative instruments	-	-	(16,121)
Unrealized loss on pension plan obligations	-	-	(4,149)
	-----	-----	-----
Comprehensive income (loss)	\$ (29,550)	\$ 1,353	\$ (25,519)
	-----	-----	-----

Reconciliation of Accumulated Other Comprehensive

Income			
Balance, beginning of period	\$ -	\$ -	\$ -
Cumulative effect of the adoption of SFAS No. 133	-	-	10,544
Current period reclassification to earnings	-	-	(2,473)
Current period other comprehensive loss	-	-	(20,270)
	-----	-----	-----
Balance, end of period	\$ -	\$ -	\$ (12,199)
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

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STAR GAS PARTNERS, L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL  
Years Ended September 30, 1999, 2000 and 2001

(in thousands, except per unit amounts)

	Number of Units									
	Common	Sub.	Senior Sub.	Junior Sub.	General Partner	Common	Sub.	Senior Sub.	Junior Sub.	General Partner
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance as of September 30, 1998	3,859	2,396	-	-	-	\$ 58,686	\$ (1,446)	\$ -	-	\$ 107
Exchange of ownership in connection with the Star Gas / Petro Transaction		(2,396)	2,477	345	326	(8,958)	(2,754)	11,903	797	(988)
Issuance of Units in equity offerings	10,076					135,816				
Issuance of Units in redemption of Petro's 12 7/8% Preferred Stock	401					5,399				
Issuance of Units in redemption of Petro's Junior Preferred Stock	103					1,459				
Net loss						(26,141)	4,200	(6,165)	(857)	(587)
Distributions (\$2.25 per common unit)						(19,484)				(140)
Other	(61)					(871)		200		
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance as of September 30, 1999	14,378	-	2,477	345	326	145,906	-	5,938	(60)	(1,608)

Issuance of Common Units	1,667					22,611				
Issuance of Senior Subordinated Units		110						649		
Net income						1,122		182	25	24
Distributions:										
(\$2.30 per common unit)						(34,967)				
(\$0.25 per senior Sub. unit)								(644)		
-----										
Balance as of September 30, 2000	16,045	-	2,587	345	326	134,672	-	6,125	(35)	(1,584)
Issuance of Common Units	7,349					123,846				
Issuance of Senior Subordinated Units			130					3,319		
Net loss						(4,475)		(620)	(79)	(75)
Other Comprehensive loss, net										
Distributions:										
(\$2.300 per common unit)						(44,132)				
(\$1.975 per senior sub. unit)								(5,341)		
(\$1.725 per junior sub. unit)									(597)	
(\$1.725 per general partner unit)										(561)
-----										
Balance as of September 30, 2001	23,394	-	2,717	345	326	\$ 209,911	\$ -	\$ 3,483	\$ (711)	\$ (2,220)
=====										

	Other Compre- hensive Income -----	Total Partners' Capital -----
Balance as of September 30, 1998	\$ -	\$ 57,347
Exchange of ownership in connection with the Sta Gas / Petro Transaction		-
Issuance of Units in equity offerings		135,816
Issuance of Units in redemption of Petro's 12 7/8% Preferred Stock		5,399
Issuance of Units in redemption of Petro's Junior Preferred Stock		1,459
Net loss		(29,550)
Distributions (\$2.25 per common unit)		(19,624)
Other		(671)
-----		
Balance as of September 30, 1999	-	150,176
Issuance of Common Units		22,611
Issuance of Senior Subordinated Units		649
Net income		1,353
Distributions:		
(\$2.30 per common unit)		(34,967)
(\$0.25 per senior Sub. unit)		(644)
-----		
Balance as of September 30, 2000	-	139,178
Issuance of Common Units		123,846
Issuance of Senior Subordinated Units		3,319
Net loss		(5,249)
Other Comprehensive loss, net	(12,199)	(12,199)
Distributions:		
(\$2.300 per common unit)		(44,132)
(\$1.975 per senior sub. unit)		(5,341)
(\$1.725 per junior sub. unit)		(597)
(\$1.725 per general partner unit)		(561)
-----		
Balance as of		

See accompanying notes to consolidated financial statements.

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

(in thousands)	Years Ended September 30,		
	1999	2000	2001
Cash flows provided by (used in) operating activities:			
Net income (loss)	\$ (29,550)	\$ 1,353	\$ (5,249)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	22,713	34,708	44,396
Amortization of debt issuance cost	347	534	737
Minority interest in net loss of TG&E	-	(251)	-
Unit compensation expense	-	649	3,315
Provision for losses on accounts receivable	371	2,669	10,624
(Gains) loss on sales of fixed assets	83	(143)	26
Deferred tax benefit	(14,946)	-	-
Cumulative effect of change in accounting principle for the adoption of SFAS No. 133	-	-	(1,466)
Changes in operating assets and liabilities:			
Decrease (increase) in receivables	27,954	(22,327)	(44,905)
Increase in inventories	(1,962)	(6,272)	(3,824)
Increase in other assets	(8,460)	(3,134)	(15,066)
Increase (decrease) in accounts payable	(1,922)	6,589	10,942
Increase in other current and long-term liabilities	16,167	5,989	63,614
Net cash provided by operating activities	10,795	20,364	63,144
Cash flows provided by (used in) investing activities:			
Capital expenditures	(7,383)	(7,560)	(17,687)
Proceeds from sales of fixed assets	207	1,136	596
Cash acquired in acquisitions	19,151	876	5
Acquisitions	(14,952)	(59,624)	(239,048)
Net cash used in investing activities	(2,977)	(65,172)	(256,134)
Cash flows provided by (used in) financing activities:			
Working capital facility borrowings	20,350	104,450	114,250
Working capital facility repayments	(21,970)	(85,801)	(124,784)
Acquisition facility borrowings	21,000	65,800	70,700
Acquisition facility repayments	(16,700)	(36,200)	(95,600)
Repayment of debt, net	(198,062)	(9,426)	(8,980)
Proceeds from issuance of debt	87,552	28,726	175,923
Distributions	(19,624)	(35,611)	(50,631)
Increase in deferred charges	(944)	(442)	(5,527)
Proceeds from issuance of Common Units, net	136,065	22,611	123,846
Redemption of preferred stock	(11,746)	-	-
Other	(362)	(2,881)	111
Net cash provided by (used in) financing activities	(4,441)	51,226	199,308
Net increase in cash	3,377	6,418	6,318
Cash at beginning of period	1,115	4,492	10,910
Cash at end of period	\$ 4,492	\$ 10,910	\$ 17,228

See accompanying notes to consolidated financial statements.

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

1) Partnership Organization

Star Gas Partners, L.P. ("Star Gas Partners" or the "Partnership") is a diversified home energy distributor and services provider, specializing in heating oil, propane, natural gas and electricity. Star Gas Partners is a Master Limited Partnership, which at September 30, 2001 had 23.4 million common limited partner units (trading symbol "SGU" representing a 87.4% limited partner interest in Star Gas Partners) and 2.7 million senior

subordinated units (trading symbol "SGH" representing a 10.1% limited partner interest in Star Gas Partners), which are traded on the New York Stock Exchange. Additional interest in Star Gas Partners are comprised of 0.3 million junior subordinated units (representing a 1.3% limited partner interest in Star Gas Partners) and 0.3 million general partner units (representing a 1.2% general partner interest in Star Gas Partners).

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

Operationally the Partnership is organized as follows:

- . Star Gas Propane, L.P., ("Star Gas Propane" or the "propane segment") is a wholly owned subsidiary of Star Gas. Star Gas Propane markets and distributes propane gas and related products to more than 280,000 customers in the Midwest, Northeast, Florida and Georgia.
- . Petro Holdings, Inc. ("Petro" or the "heating oil segment"), is the nation's largest distributor of home heating oil and serves approximately 530,000 customers in the Northeast and Mid-Atlantic. Petro is an indirect wholly owned subsidiary of Star Gas Propane, L.P.
- . 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 households in deregulated energy markets in the states of New York, New Jersey, Florida, Maryland and the District of Columbia and serves approximately 50,000 residential customers. TG&E is an 80% owned subsidiary of the Partnership.
- . Star Gas Partners ("Partners" or the "Public Master Limited Partnership") includes the office of the Chief Executive Officer and in addition has the responsibility for maintaining investor relations and investor reporting for the Partnership.

## 2) Summary of Significant Accounting Policies

### Basis of Presentation

The Consolidated Financial Statements for the period October 1, 1998 through March 25, 1999 include the accounts of Star Gas Partners, L.P., and subsidiaries, principally Star Gas Propane. Beginning March 26, 1999, the Consolidated Financial Statements also include the accounts and results of operations of Petro. Beginning April 7, 2000, the Consolidated Financial Statements also include the accounts and results of operations of TG&E. The Partnership consolidates 80% of TG&E's balance sheet. Revenue and expenses are also consolidated with the Partnership with a deduction for the net loss allocable to the minority interest, which amount has been limited based upon the equity of the minority interest. All material intercompany items and transactions have been eliminated in consolidation.

### Reclassification

Certain prior year amounts have been reclassified to conform with the current year presentation.

### Use of Estimates

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

### Revenue Recognition

Sales of propane, heating oil, natural gas, electricity, propane/heating oil and air conditioning equipment are recognized at the time of delivery of the product to the customer or at the time of sale or installation.



Revenue from repairs and maintenance service is recognized upon completion of the service. Payments received from customers for heating oil equipment service contracts are deferred and amortized into income over the terms of the respective service contracts, on a straight-line basis, which generally do not exceed one year.

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2) Summary of Significant Accounting Policies - (continued)

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

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

Cash Equivalents

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

Inventories

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

Property, Plant, and Equipment

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

Intangible Assets

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

Goodwill is the excess of cost over the fair value of net assets in the acquisition of a company. The Partnership amortizes goodwill using the straight-line method over a twenty-five year period for goodwill acquired prior to July 1, 2001. In accordance with SFAS No. 142, goodwill acquired after June 30, 2001 is not amortized.

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

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

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

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

Advertising Expenses

Advertising costs are expensed as they are incurred.

Customer Credit Balances

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

#### Environmental Costs

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

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## 2) Summary of Significant Accounting Policies - (continued)

#### TG&E Customer Acquisition Expense

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

#### Employee Unit Incentive Plan

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

#### Income Taxes

The Partnership is a master limited partnership. As a result, for Federal income tax purposes, earnings or losses are allocated directly to the individual partners. Except for the Partnership's corporate subsidiaries, no recognition has been given to Federal income taxes in the accompanying financial statements of the Partnership. While the Partnership's corporate subsidiaries will generate non-qualifying Master Limited Partnership revenue, dividends from the corporate subsidiaries to the Partnership are included in the determination of Master Limited Partnership income. In addition, a portion of the dividends received by the Partnership from the corporate subsidiaries will be taxable to the partners. Net earnings for financial statement purposes will differ significantly from taxable income reportable to partners as a result of differences between the tax basis and financial reporting basis of assets and liabilities and due to the taxable income allocation requirements of the Partnership agreement.

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

#### Concentration of Revenue with Price Plan Customers

Approximately 45% of the volume sold in the Partnership's heating oil segment is sold to individual customers under an agreement pre-establishing a fixed or maximum sales price of home heating oil over a twelve month

period. The fixed or maximum price at which home heating oil is sold to these price plan customers is generally renegotiated prior to the heating season of each year based on current market conditions. The heating oil segment currently enters into derivative instruments (futures, options, collars and swaps) for a substantial majority of the heating oil it sells to these price plan customers in advance and at a fixed cost. Should events occur after a price plan customer's price is established that increases the cost of home heating oil above the amount anticipated, margins for the price plan customers whose heating oil was not purchased in advance would be lower than expected, while those customers whose heating oil was purchased in advance would be unaffected. Conversely, should events occur during this period that decrease the cost of heating oil below the amount anticipated, margins for the price plan customers whose heating oil was purchased in advance could be lower than expected, while those customers whose heating oil was not purchased in advance would be unaffected or higher than expected.

#### Derivatives and Hedging

Prior to October 2000 and in accordance with Statement of Financial Accounting Standards ("SFAS") No. 80. "Accounting for Futures Contracts," futures contracts were classified as a hedge when the item to be hedged exposed the Partnership to price risk and the futures contract reduced that risk exposure. Future contracts that related to transactions that were expected to occur were accounted for as a hedge when the significant characteristics and expected terms of the anticipated transactions were identified and it was probable that the anticipated transaction would occur. If a transaction did not meet the criteria to qualify as a hedge, it was considered to be speculative. Any gains or losses associated with

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#### 2) Summary of Significant Accounting Policies - (continued)

futures contracts which were classified as speculative were recognized in the current period. If a futures contract that had been accounted for as a hedge was closed or matured before the date of the anticipated transaction, the accumulated change in value of the contract was carried forward and included in the measurement of the related transaction. Option contracts were accounted for in the same manner as futures contracts.

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

To hedge a substantial portion of the purchase price associated with propane gallons anticipated to be sold to its fixed price customers, the propane segment at September 30, 2000 had outstanding futures contracts to buy 7.6 million gallons of propane with a notional value of \$3.2 million and a fair market value totaling \$3.0 million. The contracts expired at various times with no contracts expiring later than March 2001.

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

At September 30, 2000, the unrealized gain (losses) on the heating oil segment's, propane segment's and TG&E's hedging activity was approximately \$12.7 million, \$(0.2) million and \$(0.6) million, respectively. The heating oil segment's hedging activity was designed to help it achieve its planned margins and represented approximately 52% of the expected total home heating oil volume sold in a twelve month period. The propane segment's

hedging activity was also designed to help it achieve its planned margins and represented approximately 5% of the expected total propane volume sold in a twelve month period. TG&E's hedging activity was also designed to help achieve its planned margins and represents a hedge on 100% of its required physical inventory of natural gas at September 30, 2000.

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

In October 2000, the Partnership adopted the provisions of the Financial Accounting Standards Board ("FASB") 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 Partnership periodically hedges a portion of its home heating oil, propane and natural gas purchases through futures, options, collars and swap agreements. The purpose of the hedges is to provide a measure of stability in the volatile environment of home heating 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.

Upon adoption of SFAS No. 133 on October 1, 2000, 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 all of which were recorded as cumulative effect of a change in accounting principle.

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2) Summary of Significant Accounting Policies - (continued)

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. All of the Partnership's derivative instruments entered into for the purchase of heating oil, propane and natural gas to be sold to price plan customers are designated as cash flow hedges. For derivatives recognized as fair value hedges, changes in fair value are recognized in the statement of operations and are offset by related results of the hedged item. Substantially all of the derivative instruments entered into in order to mitigate the price exposure for firm commitments relating to the purchase of heating oil, propane and natural gas to be sold to price plan customers are designated as fair value hedges. 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.

For the year ended September 30, 2001, the Partnership has recognized the following for derivative instruments designated as cash flow hedges: \$11.1 million gain due to instruments expiring during the current year, \$8.1 million loss in other comprehensive income due to the effective portion of derivative instruments outstanding at September 30, 2001, \$4.2 million loss due to hedge ineffectiveness for derivative instruments outstanding at September 30, 2001 and \$1.0 million loss relating to the time value writeoff of outstanding option agreements at September 30, 2001. For derivative instruments accounted for as fair value hedges, the Partnership has recognized a \$3.3 million loss due to instruments expiring during the

current year, and a \$0.2 million gain for the change in the fair market value of derivative instruments outstanding at September 30, 2001. For derivative instruments not designated as hedging instruments, the Partnership recognized a \$0.2 million gain due to instruments expiring during the year, and a \$0.4 million gain for the change in fair market value of derivative instruments outstanding at September 30, 2001.

All of the existing losses in accumulated other comprehensive income are expected to be reclassified into earnings over the next 12 months.

#### Accounting Principles Not Yet Adopted

In July 2001, the FASB issued Statement No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets." Statement No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as for all purchase method business combinations completed after June 30, 2001. Statement No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement No. 142. Statement No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

The Partnership adopted the provisions of Statement No. 141 effective July 1, 2001 and Statement No. 142 is required to be adopted effective October 1, 2002. Furthermore, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement No. 142.

Statement No. 141 will require upon adoption of Statement No. 142, that the Partnership evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement No. 141 for recognition apart from goodwill. Upon adoption of Statement No. 142, the Partnership will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Partnership will be required to test the intangible asset for impairment in accordance with the provisions of Statement No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of change in accounting principle in the first interim period.

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#### 2) Summary of Significant Accounting Policies - (continued)

In connection with the transitional goodwill impairment evaluation, Statement No. 142 will require the Partnership to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this the Partnership must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Partnership will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Partnership must perform the second step of the transitional impairment test. In the second step, the Partnership must compare the implied fair value of the reporting unit's

goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Partnership's statement of operations.

As of September 30, 2001, the Partnership had unamortized goodwill in the amount of \$263.3 million. The Partnership also had \$207.4 million of unamortized identifiable intangible assets, of which \$201.2 will be subject to the transition provisions of SFAS No. 141 and No. 142. Amortization expense related to goodwill was \$7.4 million and \$7.9 million for the year ended September 30, 2000 and 2001, respectively. Because of the extensive effort needed to comply with adopting Statements No. 141 and No. 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Partnership's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of change in accounting principle.

In August 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 requires recording the fair market value of an asset retirement obligation as a liability in the period in which a legal obligation associated with the retirement of tangible long-lived assets is incurred. SFAS No. 143 also requires recording the contra asset to the initial obligation as an increase to the carrying amount of the related long-lived asset and to depreciate that cost over the life of the asset. The liability is then increased at the end of each period to reflect the passage of time and changes in the initial fair value measurement. The Partnership is required to adopt the provisions of SFAS No. 143, effective October 1, 2002 and has not yet determined the extent of its impact, if any.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144 addresses financial accounting and reporting for the improvement or disposal of long-lived assets. It also extends the reporting requirements to report separately as discontinued operations, components of an entity that have either been disposed of or classified as held for sale. The Partnership is required to adopt the provisions of SFAS No. 144, effective October 1, 2002 and has not yet determined the extent of its impact, if any.

### 3) Quarterly Distribution of Available Cash

In general, the Partnership distributes to its partners on a quarterly basis all "Available Cash." Available Cash generally means, with respect to any fiscal quarter, all cash on hand at the end of such quarter less the amount of cash reserves that are necessary or appropriate in the reasonable discretion of the General Partner to (1) provide for the proper conduct of the Partnership's business, (2) comply with applicable law or any of its debt instruments or other agreements or (3) in certain circumstances provide funds for distributions to the common unitholders and the senior subordinated unitholders during the next four quarters. The General Partner may not establish cash reserves for distributions to the senior subordinated units unless the General Partner has determined that in its judgment the establishment of reserves will not prevent the Partnership from distributing the Minimum Quarterly Distribution ("MQD") on all common units and any common unit arrearages thereon with respect to the next four quarters. Certain restrictions on distributions on senior subordinated units, junior subordinated units and general partner units could result in cash that would otherwise be Available Cash being reserved for other purposes. Cash distributions will be characterized as distributions from either Operating Surplus or Capital Surplus.

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

3) Quarterly Distribution of Available Cash - (continued)

The Partnership intends to distribute to the extent there is sufficient Available Cash, at least a MQD of \$0.575 per common unit, or \$2.30 per common unit on a yearly basis. In general, Available Cash will be distributed per quarter based on the following priorities:

- . First, to the common units until each has received \$0.575, plus any arrearages from prior quarters.
- . Second, to the senior subordinated units until each has received \$0.575.
- . Third, to the junior subordinated units and general partner units until each has received \$0.575.
- . Finally, after each has received \$0.575, available cash will be distributed proportionately to all units until target levels are met.

If distributions of available cash exceed target levels greater than \$0.604, the senior subordinated units, junior subordinated units and general partner units will receive incentive distributions.

In August 2000, the Partnership commenced quarterly distributions on its senior subordinated units at an initial rate of \$0.25 per unit. In February 2001, the Partnership decided to increase the quarterly distributions on its senior subordinated units, junior subordinated units and general partner units to \$0.575 per unit.

The subordination period will end once the Partnership has met the financial tests stipulated in the partnership agreement, but it generally cannot end before October 1, 2003. However, if the general partner is removed under some circumstances, the subordination period will end. When the subordination period ends, all senior subordinated units and junior subordinated units will convert into Class B common units on a one-for-one basis, and each common unit will be redesignated as a Class A common unit. The main difference between the Class A common units and Class B common units is that the Class B common units will continue to have the right to receive incentive distributions and additional units.

The subordination period will generally extend until the first day of any quarter beginning on or after October 1, 2003 that each of the following three events occur:

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

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

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

4) Segment Reporting

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

core competencies and provide a clear means for evaluation of operating results.

The 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.

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4) Segment Reporting - (continued)

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 ten markets in the Northeast, Mid-Atlantic, Florida and the District of Columbia, where competition for energy suppliers range from independent resellers, like TG&E, to large public utilities.

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

The following are the statements of operations and balance sheets for each segment as of and for the periods indicated. The heating oil segment was consolidated with the propane ent beginning March 26, 1999, and the electric and natural gas resng segment (TG&E) was added beginning April 7, 2000. There were nter-segment sales.

(in thousands)	Years Ended September 30,				
	2000				
Statements of Operations	Heating Oil	Propane	TG&E	Partners	Consol.
Sales	\$ 570,877	\$ 150,184	\$ 23,603	\$ --	\$ 744,664
Cost of sales	403,260	76,303	22,026	--	501,589
Delivery and branch	112,820	44,042	--	--	156,862
Deprec. and amort	22,373	11,916	416	3	34,708
G & A expense	9,196	6,129	2,041	2,496	19,862
TG&E customer acquisition expense	--	--	2,082	--	2,082
Unit compensation	--	--	--	649	649
Operating income (loss)	23,228	11,794	(2,962)	(3,148)	28,912
Net interest expense	17,069	9,509	635	(429)	26,784
Amortization of debt issuance costs	343	191	--	--	534
Income (loss) before income taxes & minority interest	5,816	2,094	(3,597)	(2,719)	1,594
Minority interest in net loss of TG&E	--	--	251	--	251
Income tax expense	400	90	2	--	492



Income (loss) before cumulative change in accounting principle	5,416	2,004	(3,348)	(2,719)	1,353
Cumulative change in accounting principle	--	--	--	--	--
Net income (loss)	\$ 5,416	\$ 2,004	\$ (3,348)	\$ (2,719)	\$ 1,353
Capital expenditures	\$ 3,478	\$ 3,927	\$ 155	\$ --	\$ 7,560

(in thousands)

Years Ended September 30,

Statements of Operations	2001				
	Heating Oil	Propane	TG&E	Partners	Consol.
Sales	\$ 767,959	\$ 226,340	\$ 91,674	\$ --	\$ 1,085,973
Cost of sales	563,803	124,164	83,350	--	771,317
Delivery and branch	142,968	57,091	--	--	200,059
Deprec. and amort	28,586	13,867	1,934	9	44,396
G & A expense	10,240	6,992	12,720	5,819	35,771
TG&E customer acquisition expense	--	--	1,868	--	1,868
Unit compensation	--	--	--	3,315	3,315
Operating income (loss)	22,362	24,226	(8,198)	(9,143)	29,247
Net interest expense	20,891	11,863	2,934	(1,961)	33,727
Amortization of debt issuance costs	506	231	--	--	737
Income (loss) before income taxes & minority interest	965	12,132	(11,132)	(7,182)	(5,217)
Minority interest in net loss of TG&E	--	--	--	--	--
Income tax expense	1,200	297	1	--	1,498
Income (loss) before cumulative change in accounting principle	(235)	11,835	(11,133)	(7,182)	(6,715)
Cumulative change in accounting principle	2,093	(229)	(398)	--	1,466
Net income (loss)	\$ 1,858	\$ 11,606	\$ (11,531)	\$ (7,182)	\$ (5,249)
Capital expenditures	\$ 11,979	\$ 5,390	\$ 318	\$ --	\$ 17,687

(in thousands)

Year Ended September 30, 1999

Statement of Operations	Heating Oil	Propane	Partners	Consol.
Sales	\$ 116,399	\$ 107,621	\$ --	\$ 224,020
Cost of sales	90,070	41,579	--	131,649
Delivery and branch	45,470	41,019	--	86,489
Depreciation and amortization	10,531	12,182	--	22,713
General and administrative	4,882	5,395	1,440	11,717
Operating income (loss)	(34,554)	7,446	(1,440)	(28,548)
Interest expense, net	7,128	8,307	--	15,435
Amortization of debt issuance cos	167	180	--	347
Loss before income taxes	(41,849)	(1,041)	(1,440)	(44,330)
Income tax expense (benefit)	(11,900)	(2,880)	--	(14,780)
Net income (loss)	\$ (29,949)	\$ 1,839	\$ (1,440)	\$ (29,550)

Capital expenditures	\$ 2,323	\$ 5,060	\$ --	\$ 7,383
	=====	=====	=====	=====

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4) Segment Reporting - (continued)

(in thousands)

	September 30, 2000				
	Heating				(1)
Balance Sheets	Oil	Propane	TG&E	Partners	Consol.
-----	---	-----	---	-----	-----
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				(1)
	Oil	Propane	TG&E	Partners	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
	=====	=====	=====	=====	=====

(in thousands)

September 30, 2001

Balance Sheets	Heating				(1)
	Oil	Propane	TG&E	Partners	Consol.
Assets					
Current assets:					
Cash and cash equivalents	\$ 7,181	\$ 3,655	\$ 102	\$ 6,290	\$ 17,228
Receivables, net	82,484	12,002	10,487	-	104,973
Inventories	24,735	13,181	3,214	-	41,130
Prepaid expenses and other current assets	16,921	3,523	2,349	-	21,931
Total current asset	131,321	32,361	16,152	6,290	185,262
Property and equipment, net	72,204	162,680	487	-	235,371
Long-term portion of accounts receivable	6,752	-	-	-	6,752
Investment in subsidiaries	-	108,035	-	194,647	-
Intangibles and other assets, net	381,348	77,750	12,117	219	471,434
Total assets	\$ 591,625	\$ 380,826	\$ 28,756	\$ 201,156	\$ 898,819
Liabilities and Partners' Capital					
Current Liabilities:					
Accounts payable	\$ 22,407	\$ 5,682	\$ 7,711	\$ -	\$ 35,800
Working capital					
Facility borrowings	-	8,400	5,466	-	13,866
Current maturities of long-term debt	1,184	8,702	2,000	-	11,886
Accrued expenses and other current liabilities	63,895	10,267	1,052	2,464	77,678
Due to affiliate	(185)	(1,450)	2,069	(434)	-
Unearned service contract revenue	24,575	-	-	-	24,575
Customer credit balances	45,456	18,053	1,698	-	65,207
Total current liabilities	157,332	49,654	19,996	2,030	229,012
Long-term debt	314,148	142,375	563	-	457,086
Other long-term liabilities	12,110	2,307	40	-	14,457
Partners' Capital:					
Equity Capital	108,035	186,490	8,157	199,126	198,264
Total liabilities and Partners' Capital	\$ 591,625	\$ 380,826	\$ 28,756	\$ 201,156	\$ 898,819

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

The \$10.7 million increase in expenses at TG&E was largely due to a \$6.4 million provision to increase its allowance for bad debts (representing a \$6.0 million increase over the prior year provision), \$2.4 million of start up and organizational expenses and inclusion of a full year of general and administration expense. Since its acquisition, TG&E has struggled with customer credit deficiencies and problems collecting its receivables. TG&E currently has more than 50,000 terminated customers who collectively owe \$15.5 million, virtually all of which is greater than 90 days old. This balance includes \$5.3 million of accounts receivable that predated TG&E's acquisition by the Partnership. These pre-acquisition receivables were assigned no value and are not reflected on TG&E's books. Consequently, the gross amount of receivables from terminated accounts on the Company's books before bad debt reserves currently approximates \$10

million.

The Partnership has recently allocated substantial resources to a collection effort targeting these terminated accounts. Based on a sample group of accounts' preliminary collection results, the Partnership added \$5.7 million to TG&E's bad debt provision for the year ended September 30, 2001. This brought the total bad debt reserve on terminated accounts to \$6.0 million. Consequently, out of the roughly \$15 million owed TG&E by terminated accounts, all but \$4 million has been reserved. In addition, TG&E provided a \$0.7 million bad debt provision against its active accounts receivable for the year ended September 30, 2001 bringing the total allowances to \$0.9 million for active accounts at that time.

In the course of 2001, TG&E has instituted entirely new credit policies including a detailed procedure to approve new accounts. Simultaneously, new information systems have been purchased and adopted to TG&E's needs. The new systems are currently being implemented at TG&E. As a result, TG&E believes its delinquency levels and bad debt experience will improve. Once the system enhancements are fully in place and all of TG&E's customers have gone through the new credit approval procedures, bad debt losses should approximate the experience of the Partnership's other two operating segments.

TG&E incurred approximately \$2.4 million of start up and organizational expenses involving compliance, legal and data processing costs, which were included in general administrative expenses in 2001.

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5) Inventories

The components of inventory were as follows:

(in thousands)

	September 30, 2000	September 30, 2001
	-----	-----
Propane gas	\$ 6,323	\$ 9,546
Propane appliances and equipment	2,313	3,635
Fuel oil	14,263	12,403
Fuel oil parts and equipment	7,374	12,332
Natural gas	4,134	3,214
	-----	-----
	\$ 34,407	\$ 41,130
	=====	=====

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

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

The Partnership is an independent reseller of natural gas and electricity to residential homeowners in deregulated markets, through its 80% controlling interest in TG&E. In the markets in which TG&E operates,

natural gas and electricity are available from wholesale natural gas producers and electricity generating companies. Substantially all purchases were from major US wholesalers, who transport the natural gas to the incumbent utility company for TG&E, through purchased or assigned capacity using existing pipelines. Additionally, all of TG&E's electricity was purchased from a major New York State wholesaler, who transports the electricity to the incumbent utility company, through scheduled deliveries using existing electric lines.

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

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

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6) Property, Plant and Equipment

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

(in thousands)

	September 30, 2000 -----	September 30, 2001 -----	Estimated Useful Lives -----
Land	\$ 10,688	\$ 17,872	
Buildings and leasehold improvements	22,295	32,662	4 - 30 years
Fleet and other equipment	39,600	56,359	3 - 30 years
Tanks and equipment	131,901	165,275	8 - 30 years
Furniture and fixtures	17,500	30,265	5 - 12 years
	-----	-----	
Total	221,984	302,433	
Less accumulated depreciation	50,684	67,062	
	-----	-----	
Total	\$171,300 =====	\$235,371 =====	

7) Intangibles and Other Assets

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

(in thousands)

	September 30, 2000 -----					September 30, 2001 -----				
	Propane -----	Heating Oil ---	TG&E ---	Partners -----	Total -----	Propane -----	Heating Oil ---	TG&E ---	Partners -----	Total -----
Goodwill	\$ 36,622	\$150,807	\$ 6,629	\$ -	\$194,058	\$ 35,223	\$238,377	\$ 10,036	\$ -	\$283,636
Covenants not to compete	3,586	3,314	-	-	6,900	6,966	4,725	-	-	11,691

Customer lists	41,272	102,759	6,077	-	150,108	59,475	174,594	2,670	-	236,739
Deferred charges	3,546	3,300	-	161	7,007	4,244	7,990	170	231	12,635
Total intangibles	85,026	260,180	12,706	161	358,073	105,908	425,686	12,876	231	544,701
Less accumulated amortization	22,290	24,430	361	3	47,084	28,320	44,841	2,198	12	75,371
Net intangibles	62,736	235,750	12,345	158	310,989	77,588	380,845	10,678	219	469,330
Other assets	267	319	1,829	-	2,415	162	503	1,439	-	2,104
Intangibles and other assets	\$ 63,003	\$236,069	\$ 14,174	\$ 158	\$313,404	\$ 77,750	\$381,348	\$ 12,117	\$ 219	\$471,434

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

#### Merger and Exchange

Petro, Star Gas Partners and Star Gas Propane entered into a merger agreement (the "merger agreement"). Under the terms of the merger agreement, a newly formed subsidiary of Star Gas Propane was merged with Petro, with Petro surviving the merger as a wholly owned indirect subsidiary of Star Gas Propane.

As a result of the merger:

- . each outstanding share of Petro Class A common stock, par value \$0.10 per share, and Petro Class C common stock, par value \$0.10 per share, other than shares that were exchanged (the "Exchange"), was converted into 0.11758 senior subordinated units (2,476,797 senior subordinated units issued in total);
- . each outstanding share of Petro junior convertible preferred stock was converted into 0.13064 common units (102,848 total common units); and
- . each outstanding share of Petro Series C exchangeable preferred stock due 2009 was converted into the right to receive \$10.69 in cash per share plus accrued and unpaid dividends, except for an aggregate of 505,000 shares of Series C preferred stock that were converted into an aggregate of 400,531 common units, plus accrued and unpaid dividends on the preferred, with the right to receive an additional 175,000 Senior Subordinated Units contingent upon Petro achieving certain operating results.

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#### 7) Intangibles and Other Assets - (continued)

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

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

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

#### Financings and Refinancings

Star Gas Partners offered and sold to the public 9.0 million common units in an equity offering (including 230,000 overallotment common units), the

net proceeds of which were approximately \$118.8 million. Petro offered and sold, in a private placement, \$90.0 million of senior secured notes, the net proceeds of which were approximately \$87.6 million. Star Gas Partners and Petro Holdings guaranteed the notes.

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

- . to redeem \$80.2 million principal amount of Petro's 12 1/4% Senior Subordinated Debentures due 2005, \$48.7 million principal amount of Petro's 10 1/8% Senior Subordinated Notes due 2003, \$74.3 million principal amount of Petro's 9 3/8% Senior Subordinated Debentures due 2006 and the \$17.4 million of Petro's 12 7/8% preferred stock at an aggregate redemption price of \$201.3 million;
- . to repurchase Petro's 1989 preferred stock at an aggregate redemption price of \$4.2 million; and
- . to pay \$6.3 million of the expenses of the transaction.

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

New General Partner  
-----

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

Amendment of Partnership Agreement  
-----

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

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7) Intangibles and Other Assets - (continued)

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

	(in thousands)
Consideration given for the exchange of Petro shares	\$ 20,822
Fair market value of Petro's assets and liabilities as of March 26, 1999:	
Current assets	(107,102)
Property, plant and equipment	(40,109)
Value of Petro's investment in the Partnership	(21,864)
Current liabilities	78,792
Long-term debt	276,568
Deferred income taxes	12,000
Other liabilities	7,251
Preferred stock	12,978
Junior preferred stock	1,459
	-----
Sub-total	219,973
	-----
Total value assigned to intangibles and other assets	\$ 240,795

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

The fair market value for property, plant and equipment, excluding real estate, was established using the replacement cost approach method. The market approach was used in valuing the real estate. The value assigned to customer lists was derived using a discounted cash flow analysis. The cash attributable to the customer lists were discounted back at an equity risk adjusted cost of capital to the net present value. Any excess was attributable to goodwill.

8) Long-Term Debt and Bank Facility Borrowings

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

(in thousands)	September 30, 2000	September 30, 2001
	-----	-----
Propane Segment:		
8.04% First Mortgage Notes (a)	\$ 85,000	\$ 83,077
7.17% First Mortgage Notes (a)	11,000	11,000
8.70% First Mortgage Notes (a)	27,500	27,500
7.89% First Mortgage Notes (a)	-	29,500
Acquisition Facility Borrowings (b)	7,500	-
Working Capital Facility Borrowings (b)	800	8,400
Heating Oil Segment:		
7.92% Senior Notes (c)	90,000	90,000
9.0% Senior Notes (d)	61,779	57,170
8.25% Senior Notes (e)	-	103,000
10.25% Senior and Subordinated Notes (f)	4,137	2,000
8.96% Senior Notes (g)	-	40,000
Acquisition Facility Borrowings (h)	34,000	16,000
Working Capital Facility Borrowings(h)	17,000	-
Acquisition Notes Payable (i)	1,135	4,147
Subordinated Debentures (j)	3,015	3,015
TG&E Segment:		
Working Capital Facility Borrowings (k)	6,600	5,466
Acquisition Facility Borrowings (k)	1,400	2,000
14.5% Junior Convertible Subordinated Notes Payable (l)	463	563
	-----	-----
	351,329	482,838
Less current maturities	(16,515)	(11,886)
Less working capital facility borrowings	(24,400)	(13,866)
	-----	-----
Total	\$ 310,414	\$ 457,086
	=====	=====

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

(a) In December 1995, Star Gas Propane assumed \$85.0 million of first mortgage notes (the "First Mortgage Notes") with an annual interest rate of 8.04% in connection with the initial Partnership formation. In January 1998, Star Gas Propane issued an additional \$11.0 million of First Mortgage Notes with an annual interest rate of 7.17%. In March 2000, the Star Gas Propane segment issued \$27.5 million of 8.70% First Mortgage Notes. In March 2001, the Star Gas segment issued \$29.5 million of senior notes with an average annual interest rate of 7.89% per year. Obligations under the First Mortgage Note Agreements are secured, on an equal basis with Star Gas Propane's obligations under the Star Gas Propane Bank Credit Facilities, by a mortgage on substantially all of the real property and liens on substantially all of the operating facilities, equipment and other assets of Star Gas Propane. The First Mortgage Notes will require semiannual prepayments, without premium on the principal thereof, beginning on March 15, 2001 and have a final maturity of March 30, 2015. Interest on the Notes is payable semiannually in March and September. The First Mortgage Note Agreements contain various restrictive and affirmative covenants applicable to Star Gas Propane; the most restrictive of these covenants relate to the



incurrence of additional indebtedness and restrictions on dividends, certain investments, guarantees, loans, sales of assets and other transactions.

(b) The Star Gas Propane Bank Credit Facilities currently consist of a \$25.0 million Acquisition Facility and a \$18.0 million Working Capital Facility. At September 30, 2001, \$8.4 million was borrowed under the Working Capital Facility. The agreement governing the Bank Credit Facilities contains covenants and default provisions generally similar to those contained in the First Mortgage Note Agreements. The Bank Credit Facilities bear interest at a rate based upon, at the Partnership's option, either the London Interbank Offered Rate plus a margin or a Base Rate (each as defined in the Bank Credit Facilities). The Partnership is required to pay a fee for unused commitments which amounted to \$0.1 million in each of fiscal years ending September 30, 1999, through September 30, 2001. For fiscal 2000 and 2001, the weighted average interest rate on borrowings under these facilities was 8.68% and 8.0%, respectively. At September 30, 2001 the interest rate on the borrowings outstanding was 6.825%.

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

(c) Petro issued \$90.0 million of 7.92% Senior Secured Notes in six separate series in a private placement to institutional investors as part of its acquisition by the Partnership. The Senior Secured Notes are guaranteed by Star Gas Partners and are secured equally and ratably with Petro's existing senior debt and bank credit facilities by Petro's cash, accounts receivable, notes receivable, inventory and customer list. Each series of Senior Secured Notes will mature between April 1, 2003 and April 1, 2014. Only interest on each series is due semiannually. On the last interest payment date for each series, the outstanding principal amount is due and payable in full.

The note agreements for the senior secured notes contain various negative and affirmative covenants, the most restrictive of the covenants include restrictions on payment of dividends or other distributions by Star Gas Partners on any partnership interest if the ratio of consolidated pro forma operating cash flow to consolidated pro forma interest expense, do not meet the requirements in the agreement for the period of the four most recent fiscal quarters ending on or prior to the date of the dividend or distribution.

(d) The Petro 9.0% Senior Secured Notes, which pay interest semiannually, were issued under agreements that are substantially identical to the agreements under which the \$90.0 million of Senior Secured Notes were issued, including negative and affirmative covenants. The 9.0% Senior Notes are guaranteed by Star Gas Partners. The notes have various sinking fund payments of which the largest are \$11.6 million due on October 1, 2001, and a final maturity payment of \$45.3 million due on October 1, 2002. All such notes are redeemable at the option of the Partnership, in whole or in part upon payment of a premium as defined in the note agreement. The holders of these notes have the right to extend \$30.0 million of the maturity due on October 1, 2002 for a one year period at an annual rate of 10.9%. In August 2001, the holders of these notes exercised their option to extend \$15.0 million of the original maturities due on October 1, 2001 to October 1, 2002.

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

(e) The Petro 8.25% Senior Notes which pay interest semiannually also were issued under agreements that are substantially identical to the agreement under which the \$90.0 million and 9.0% Senior Notes were issued. These notes are also guaranteed by Star Gas Partners. The largest series has a maturity date of August 1, 2006 in the amount of \$73.0 million. The remaining series are due in equal sinking fund payments due August 1, 2009 and ending on August 1, 2013.

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

(g) The Petro 8.96% Senior Notes which pay interest semiannually, were issued under agreements that are substantially identical to the agreements under which the Partnership's other Senior Notes were issued. These notes are also guaranteed by Star Gas Partners. These notes were issued in three separate series. The largest series has annual sinking fund payments of \$2.8 million due beginning November 1, 2004 and ending November 1, 2010. The other two series are due on November 1, 2004 and November 1, 2005.

(h) The Petro Bank Facilities consist of three separate facilities; a \$123 million working capital facility, a \$20 million insurance letter of credit facility and a \$50 million acquisition facility. At September 30, 2001 there was no outstanding borrowings under the working capital facility, \$18.1 million of the insurance letter of credit facility was used, \$16.0 million was outstanding under the acquisition facility, along with an additional \$4.0 million outstanding from the acquisition facility in the form of letter of credits (see footnote i below). The working capital facility and letter of credit facility will expire on June 30, 2004. The acquisition facility will convert to a term loan on June 30, 2004 which will be payable in eight equal quarterly principal payments. Amounts borrowed under the working capital facility are subject to a requirement to maintain a zero balance for 45 consecutive days during the period from April 1 to September 30 of each year. In addition, each facility will bear an interest rate that is based on either the London Interbank Offer Rate or another base rate plus a set percentage. The bank facilities agreement contains covenants and default provisions generally similar to those contained in the note agreement for the senior secured notes. The Partnership is required to pay a commitment fee, which amounted to \$0.5 million for both of the years ended September 30, 2000 and 2001. For the years ended September 30, 2000 and 2001, the weighted average interest rate for borrowings under these facilities was 8.15% and 8.46%, respectively. As of September 30, 2001, the interest rate on the borrowings outstanding was 5.87%

(i) These Petro notes were issued in connection with the purchase of fuel oil dealers and other notes payable and are due in monthly and quarterly installments. Interest is at various rates ranging from 7% to 15% per annum, maturing at various dates through 2007. Approximately \$4.0 million of letter of credits issued under the Petro Bank Acquisition Facility are issued to support these notes.

(j) Petro also has outstanding \$1.3 million of 10 1/8% Subordinated Debentures due 2003, \$0.7 million of 9 3/8% Subordinated Notes due 2006 and \$1.1 million of 12 1/4% Subordinated Notes due 2005. In October 1998, the indentures under which the 10 1/8%, 9 3/8% and 12 1/4% subordinated notes were issued were amended to eliminate substantially all of the covenants provided by the indentures.

(k) The TG&E Bank Facilities currently consist of a \$3.0 million Acquisition Facility and a \$15.4 million Working Capital Facility and are secured by substantially all of the assets of TG&E. At September 30, 2001, \$2.0 million and \$5.5 million was borrowed under the Acquisition Facility and Working Capital Facility, respectively. These facilities are guaranteed by Star Gas Partners. The agreement covering the Bank Credit Facilities contains various restrictive and affirmative covenants and default provisions applicable to TG&E; the most restrictive of these covenants relate to the incurrence of additional indebtedness and restrictions on certain investments, guarantees, loans, sale of assets and other transactions. The Bank Credit Facilities bear interest at a rate based upon, at the Partnership's option, either the London Interbank Offered Rate plus a margin or a Base Rate (each as defined in the Bank Credit Facilities). The Partnership is required to pay a fee for unused commitments, which amounts to less than \$0.1 million for fiscal 2000 and 2001. For fiscal 2001, the weighted average interest rate on borrowings under these facilities was 8.6%. At September 30, 2001 the interest rate on the borrowings outstanding was 5.67%.

The Working Capital Facility will expire on March 30, 2002. The Acquisition Facility will revolve until March 30, 2002, after which time any outstanding loans thereunder; will be due as a single payment on September 30, 2002.

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

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

As of September 30, 2001, the Partnership was in compliance with all debt covenants. As of September 30, 2001, the maturities during fiscal years ending September 30 are set forth in the following table:

	(in thousands)
2002	\$ 25,752
2003	71,410
2004	22,516
2005	49,224
2006	114,197
Thereafter	199,739
	-----
	\$482,838
	=====

9) Acquisitions

In August 2001, the Partnership completed the purchase of Meenan Oil Co., Inc., believed to be the third largest home heating oil dealer in the United States; for \$131.8 million. During fiscal 2001, the Partnership also purchased twelve other unaffiliated heating oil dealers for \$52.2 million. In addition to these thirteen unaffiliated oil dealers, acquired during fiscal 2001, the Partnership also acquired nine unaffiliated retail propane dealers for \$60.8 million.

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

The following table indicates the allocation of the aggregate purchase price paid and the respective periods of amortization assigned for the 2000 and 2001 acquisitions.

(in thousands)	2000	2001	Useful Lives
	-----	-----	-----
Land	\$ 1,794	\$ 7,002	-
Buildings	650	8,816	30 years
Furniture and equipment	679	2,236	10 years
Fleet	4,103	14,995	5-30 years
Tanks and equipment	16,049	30,753	5-30 years
Customer lists	17,458	84,976	6-15 years
Restrictive covenants	4,539	4,742	5 years
Goodwill	18,170	84,401	25 years
Minority interest	1,578	-	-
Working capital	(5,396)	6,911	-
	-----	-----	
Total	\$ 59,624	\$244,832	
	=====	=====	

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

acquisition. The purchase prices in excess of the fair values of net assets acquired were classified as intangibles in the Consolidated Balance Sheets. Sales and net income have been included in the Consolidated Statements of Operations from the respective dates of acquisition.

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9) Acquisitions - (continued)

The following unaudited pro forma information presents the results of operations of the Partnership and the acquisitions previously described, as if the acquisitions had taken place on October 1, 1999.

(in thousands)

	Years Ended September 30,	
	2000	2001
Sales	\$ 1,187,261	\$1,418,876
Net income	\$ 11,228	\$ 11,497
General Partner's interest in net income	\$ 161	\$ 164
Limited Partners' interest in net income	\$ 11,067	\$ 11,333
Basic net income per limited partner unit	\$ 0.42	\$ 0.43
Diluted net income per limited partner unit	\$ 0.41	\$ 0.42

10) Employee Benefit Plans

Propane Segment

The propane segment has a 401(k) plan, which covers certain eligible non-union and union employees. Subject to IRS limitations, the 401(k) plan provides for each employee to contribute from 1.0% to 15.0% of compensation. The propane segment contributes to non-union participants a matching amount up to a maximum of 3.0% of compensation. Aggregate matching contributions made to the 401(k) plan during fiscal 1999, 2000 and 2001 were \$0.3 million, \$0.4 million and \$0.4 million, respectively. For the fiscal years 1999, 2000 and 2001 the propane segment made monthly contributions on behalf of its union employees to union sponsored defined benefit plans of \$0.4 million, \$0.4 million and \$0.5 million, respectively.

Heating Oil Segment

The heating oil segment has a 401(k) plan, which covers certain eligible non-union and union employees. Subject to IRS limitations, the 401(k) plan provides for each employee to contribute from 1.0% to 17.0% of compensation. The Partnership makes a 4% core contribution of a participant's compensation and matches 2/3 of each amount a participant contributes up to a maximum of 2.0% of a participant's compensation. The Partnership's aggregate contributions to the heating oil segment's 401(k) plan during fiscal 1999, 2000 and 2001 were \$1.5 million, \$2.7 million and \$2.7 million, respectively.

As a result of the Petro acquisition, the Partnership assumed Petro's pension liability. Effective December 31, 1996, the heating oil segment consolidated all of its defined contribution pension plans and froze the benefits for non-union personnel covered under defined benefit pension plans. In 1997, the heating oil segment froze the benefits of its New York

City union defined benefit pension plan as a result of operation consolidations. Benefits under the frozen defined benefit plans were generally based on years of service and each employee's compensation. As part of the Meenan acquisition, the Partnership assumed the pension plan obligations and assets for Meenan's company sponsored plan. This plan will be frozen and merged into the Partnership's defined benefit pension for non-union personnel as of January 1, 2002. The Partnership's pension expense for all defined benefit plans during fiscal 1999, 2000 and 2001 were \$0.2 million, \$0.3 million and \$0.2 million, respectively.

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10) Employee Benefit Plans - (continued)

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

(in thousands)	Year Ended September 30, 2000	Year Ended September 30, 2001
<u>Reconciliation of Benefit Obligations</u>		
Benefit obligations at beginning of year	\$ 24,486	\$ 24,021
Service cost	-	36
Interest cost	1,778	1,720
Actuarial loss	624	694
Benefit payments	(1,524)	(2,242)
Settlements	(1,343)	-
Meenan's benefit obligations assumed	-	32,914
Benefit obligation at end of year	<u>\$ 24,021</u>	<u>\$ 57,143</u>
<u>Reconciliation of Fair Value of Plan Assets</u>		
Fair value of plan assets at beginning of year	\$ 21,069	\$ 21,473
Actual return on plan assets	1,217	(1,079)
Employer contributions	2,054	2,090
Benefit payments	(1,524)	(2,241)
Settlements	(1,343)	-
Meenan's asset assumed	-	27,130
Fair value of plan assets at end of year	<u>\$ 21,473</u>	<u>\$ 47,373</u>
<u>Funded Status</u>		
Benefit obligation	\$ 24,021	\$ 57,143
Fair value of plan assets	21,473	47,373
Amount included in comprehensive income	-	(4,149)
Unrecognized net actuarial (gain) loss	(659)	4,025
Prepaid (accrued) benefit cost	<u>\$ (3,207)</u>	<u>\$ (9,894)</u>
<u>Components of Net Periodic Benefit Cost</u>		
Service cost	\$ -	\$ 36
Interest cost	1,778	1,720
Expected return on plan assets	1,745	1,795
Net amortization	87	240
Settlement loss	210	-
Net periodic benefit cost	<u>\$ 330</u>	<u>\$ 201</u>
<u>Weighted-Average Assumptions Used in the Measurement of the Partnership's Benefit Obligation as of the period indicated</u>		
Discount rate	7.50%	7.25%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	N/A	N/A

In addition, the heating oil segment made contributions to union-administered pension plans of \$1.1 million for fiscal 1999, \$3.5 million for fiscal 2000 and \$4.6 million for fiscal 2001.

The Partnership recorded an additional minimum pension liability for underfunded plans of \$4.1 million as of September 30, 2001, representing the excess of unfunded accumulated benefit obligations over plan assets. A corresponding amount is recognized as an intangible asset except to the extent that these additional liabilities exceed the related unrecognized prior service costs and net transition obligation, in which case the

increase in liabilities is charged as a reduction of partner's capital of \$4.1 million as of September 30, 2001.

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11) Income Taxes

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

(in thousands)	Years Ended September 30,		
	1999	2000	2001
Current:			
Federal	\$ -	\$ -	\$ -
State	166	492	1,498
Deferred	(14,946)	-	-
	<u>\$ (14,780)</u>	<u>\$ 492</u>	<u>\$ 1,498</u>

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

(in thousands)	Years Ended September 30,	
	2000	2001
Excess of tax over book (book over tax) depreciation	\$ (619)	\$ 77
Excess of (book over tax) amortization expense	(2,252)	(2,616)
Excess of book over tax vacation expense	(172)	(98)
Excess of tax over book restructuring expense	212	68
Excess of book over tax bad debt expense	(118)	(5,233)
Excess of tax over book hedge accounting	-	782
Excess of tax over book supplemental benefit expense	262	200
Excess of tax over book pension contribution	692	726
Other, net	12	-
Utilization of (increase in) net operating loss carryforward	2,054	-
Recognition of tax benefit of net operating loss to the extent of current and previous recognized temporary differences	-	(1,862)
Change in valuation allowance	(71)	7,956
	<u>\$ -</u>	<u>\$ -</u>

The components of the net deferred taxes and the related valuation allowance for the years ended September 30, 2000 and September 30, 2001 using current rates are as follows:

(in thousands)	Years Ended September 30,	
	2000	2001
Deferred Tax Assets:		
Net operating loss carryforwards	\$ 26,471	\$ 28,333
Excess of book over tax vacation expense	1,929	2,027
Excess of book over tax restructuring expense	322	254
Excess of book over tax bad debt expense	388	5,621
Excess of book over tax supplemental benefit expense	447	247
Other, net	309	309
Total deferred tax assets	29,866	36,791
Valuation allowance	(16,377)	(24,333)
Net deferred tax assets	<u>\$ 13,489</u>	<u>\$ 12,458</u>
Deferred Tax Liabilities:		
Excess of tax over book depreciation	\$ 6,977	\$ 7,054
Excess of tax over book amortization	4,762	2,146
Excess of tax over book pension contribution	1,750	2,476
Excess of tax over book hedge accounting	-	782
Total deferred tax liabilities	<u>\$ 13,489</u>	<u>\$ 12,458</u>
Net deferred taxes	\$ -	\$ -

## 11) Income Taxes - (continued)

In order to fully realize the net deferred tax assets the Partnership's corporate subsidiaries will need to generate future taxable income. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based upon the level of current taxable income and projections of future taxable income of the Partnership's corporate subsidiaries over the periods which the deferred tax assets are deductible, management believes it is more likely than not that the Partnership will realize the benefits of these deductible differences, net of existing valuation allowance at September 30, 2001. The amount of deferred tax assets considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced.

At September 30, 2001, the Partnership had net income tax loss carryforwards for Federal income tax reporting purposes of approximately \$69 million of which approximately \$18.6 million are limited in accordance with Federal income tax law. The losses are available to offset future Federal taxable income through 2021.

## 12) Lease Commitments

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

The future minimum rental commitments at September 30, 2001 under operating leases having an initial or remaining non-cancelable term of one year or more are as follows:

(in thousands)	Heating Oil Segment	Propane Segment	TG&E	Total
	-----	-----	-----	-----
2002	\$ 5,888	\$ 1,751	\$ 119	\$ 7,758
2003	6,163	1,464	107	7,734
2004	5,619	1,177	18	6,814
2005	4,196	524	-	4,720
2006	3,455	305	-	3,760
Thereafter	14,158	993	-	15,151
	-----	-----	-----	-----
Total minimum lease payments	\$ 39,479	\$ 6,214	\$ 244	\$ 45,937
	=====	=====	=====	=====

The Partnership's rent expense was \$4.4 million, \$8.0 million and \$9.0 million in 1999, 2000 and 2001, respectively.

## 13) Unit Grants

In June 2000, the Partnership granted 552 thousand restricted senior subordinated units to senior management and outside directors. These units were granted under the Partnership's Employee and Director Incentive Unit Plans. One-fifth of the units immediately vested with the remaining units vesting annually in four equal installments if the Partnership achieves specified performance objectives for each of the respective fiscal years. The Partnership recognized \$.6 million and \$2.7 million of unit compensation expense for these units for the years ended September 30, 2000 and 2001, respectively.

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

the extent declared. The Partnership recognized \$476 of unit compensation expense for the restricted senior subordinated units and \$2,448 of compensation expense for the unit appreciation rights for the year ended September 30, 2001.

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14) Supplemental Disclosure of Cash Flow Information

(in thousands)	Years Ended September 30,		
	1999	2000	2001
Cash paid during the period for:			
Income taxes	\$ 106	\$ 4,047	\$ 1,298
Interest	\$ 15,703	\$ 28,912	\$ 31,145
Non-cash investing activities:			
Acquisitions:			
Net long-term assets	\$ (2,945)	\$ -	\$ (12,526)
Increase in assumed pension obligation	\$ -	\$ -	\$ 5,784
Accrued expense	\$ -	\$ -	\$ 6,742
Deferred income tax liability	\$ 2,945	\$ -	\$ -
Non-cash financing activities:			
Issuance of Common Units	\$ 6,858	\$ -	\$ -
Redemption of preferred stock	\$ (6,858)	\$ -	\$ -

15) Commitments and Contingencies

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

16) Related Party Transactions

Prior to March 26, 1999, the Partnership was managed by the Star Gas Corporation, a wholly owned subsidiary of Petro. Pursuant to the Partnership Agreement that was in effect at the time, Star Gas Corporation was entitled to reimbursement for all direct and indirect expenses incurred or payments it made on behalf of the Partnership, and all other necessary or appropriate expenses allocable to the Partnership or otherwise reasonably incurred by Star Gas Corporation in connection with operating the Partnership's business. Indirect expenses were allocated to the Partnership on a basis consistent with the type of expense incurred. For example, services performed by employees of Star Gas Corporation on behalf of the Partnership were reimbursed on the basis of hours worked and rent expense was reimbursed on the proportion of the square footage leased by the Partnership. For the fiscal year ended September 30, 1999 (until the Star Gas / Petro Transaction resulting in Star Gas Corporation being replaced as the General Partner by Star Gas LLC), the Partnership reimbursed Star Gas Corporation and Petro \$10.2 million, representing salary, payroll tax and other compensation paid to the employees of the Star Gas Corporation. In addition, the Partnership reimbursed Petro \$0.4 million for the fiscal year ended September 30, 1999, relating to the Partnership's share of the costs incurred by Petro in conducting the operations of a certain shared branch location, which included managerial services.

17) Subsequent Events

Cash Distribution

On October 26, 2001, the Partnership announced that it would pay cash distributions of \$0.575 per unit on all units for the quarter ended September 30, 2001. The distributions were paid on November 14, 2001 to holders of record as of November 5, 2001. Additionally, as a result of the heating oil segment achieving certain financial test specified in the Partnership agreement - 303,000 Senior Subordinated Units were distributed proportionally to the Senior Subordinated, Junior Subordinated and General



Partner Unitholders of record as of November 5, 2001. Holders of Senior Subordinated, Junior Subordinated and General Partner units received one additional Senior Subordinated unit for every 11.1807 Senior Subordinated, Junior Subordinated or General Partner unit held as of the November 5/th/ record date.

Acquisitions

On October 23, 2001, the Partnership completed the acquisition of certain assets of a retail propane distributor located in New York, with annual propane sales of approximately six million gallons.

18) Disclosures About the Fair Value of Financial Instruments

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

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

Long-Term Debt  
-----

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

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

(in thousands)	At September 30, 2000		At September 30, 2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	\$326,929	\$320,540	\$468,972	\$470,371

Limitations  
-----

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

19) Earnings Per Limited Partner Units

(in thousands, except per unit data)

	September 30,		
	1999	2000	2001
Income (loss) before cumulative effect of change in accounting Principle per Limited Partner unit:			
Basic	\$ (2.53)	\$ .07	\$ (.30)
Diluted	\$ (2.53)	\$ .07	\$ (.30)
Cumulative effect of change in accounting principle per Limited Partner unit:			
Basic	-	-	\$ .07
Diluted	-	-	\$ .07
Net income (loss) per Limited Partner unit:			
Basic	\$ (2.53)	\$ .07	\$ (.23)
Diluted	\$ (2.53)	\$ .07	\$ (.23)
Basic Earnings Per Unit:			
Net income (loss)	\$ (29,550)	\$ 1,353	\$ (5,249)
Less: General Partner's interest in net income (loss)	(587)	24	(75)
Limited Partner's interest in net income (loss)	\$ (28,963)	\$ 1,329	\$ (5,174)

Common Units	8,830	15,438	19,406
Senior Subordinated Units	1,283	2,505	2,688
Junior Subordinated Units	179	345	345
Subordinated Units	1,155	-	-
	-----	-----	-----
Weighted average number of Limited Partner units outstanding	11,447	18,288	22,439
	=====	=====	=====
Basic earnings (losses) per unit	\$ (2.53)	\$ .07	\$ (.23)
	=====	=====	=====
Diluted Earnings Per Unit:			
-----			
Effect of dilutive securities	\$ -	\$ -	\$ -
	-----	-----	-----
Limited Partner's interest in net income (loss)	\$ (28,963)	\$ 1,329	\$ (5,174)
	=====	=====	=====
Effect of dilutive securities	-	-	-
	-----	-----	-----
Weighted average number of Limited Partner units outstanding	11,447	18,288	22,439
	=====	=====	=====
Diluted earnings (losses) per unit	\$ (2.53)	\$ .07	\$ (.23)
	=====	=====	=====

Fiscal 2001 fully diluted per unit does not include 33 common units granted to Mr. Sevin in December 2001 as well as the 110 subordinated units that vested pursuant to the employee incentive plan in December 2001 and the 303 senior subordinated units distributed in November 2001 pursuant to the heating oil segment achieving certain financial test because the impact of these issuances are antidilutive.

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## 20) Selected Quarterly Financial Data (unaudited)

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

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

(in thousands)

	Three Months Ended				Total
	December 31, 2000	March 31, 2001	June 30, 2001	September 30, 2001	
Sales	\$ 323,504	\$ 470,447	\$ 166,052	\$ 125,970	\$ 1,085,973
Operating income (loss)	25,186	74,191	(23,629)	(46,501)	29,247
Income (loss) before taxes, minority interest and cumulative effect of change in accounting principle	16,924	65,037	(31,677)	(55,501)	(5,217)
Net income (loss)	17,674	64,114	(31,791)	(55,246)	(5,249)
Limited Partner interest in net income (loss)	17,391	63,150	(31,342)	(54,373)	(5,174)
Net income (loss) per					
Limited Partner Unit Basic/(a)/	\$ 0.87	\$ 2.86	\$ (1.38)	\$ (2.18)	\$ (0.23)
Limited Partner Unit Diluted/(a)/	\$ 0.86	\$ 2.85	\$ (1.38)	\$ (2.18)	\$ (0.23)

	Three Months Ended				Total
	December 31, 1999	March 31, 2000	June 30, 2000	September 30, 2000	
Sales	\$ 186,886	\$ 321,695	\$ 130,163	\$ 105,920	\$ 744,664
Operating income (loss)	16,080	58,930	(15,448)	(30,650)	28,912
Income (loss) before taxes and minority interest	9,478	51,902	(22,197)	(37,589)	1,594
Net income (loss)	9,365	51,687	(21,991)	(37,708)	1,353
Limited Partner interest in					

net income (loss)	9,191	50,772	(21,617)	(37,017)	1,329
Net income (loss) per Limited Partner Unit Basic and Diluted/ (a) /	\$ 0.53	\$ 2.80	\$ (1.15)	\$ (1.95)	\$ .07

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

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

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Schedule II

Star Gas Partners, L.P.  
VALUATION AND QUALIFYING ACCOUNTS  
Years Ended September 30, 1999, 2000 and 2001  
(in thousands)

Year	Description	Balance at Beginning of Year	Additions		Balance at End of Year
			Charged to Costs & Expenses	Other Changes Add (Deduct)	
1999	Allowance for doubtful accounts	\$ 252	\$ 371	\$ 1,437/ (b) / (1,112) / (a) /	\$ 948
2000	Allowance for doubtful accounts	\$ 948	\$ 2,669	\$ 5,330/ (c) / (6,991) / (a) /	\$ 1,956
2001	Allowance for doubtful accounts	\$ 1,956	\$10,624	\$ 2,203/ (d) / \$(3,419) / (a) /	\$11,364

- (a) Bad debts written off (net of recoveries).
- (b) Amount acquired as part of the Petro acquisition.
- (c) Amount acquired as part of the TG&E acquisition.
- (d) Amount acquired as part of the Meenan and Midwest Bottle Gas acquisitions.

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Star Gas Partners, L.P.  
 Petro Holdings, Inc.  
 Petroleum Heat and Power Co., Inc.

\$103,000,000 Senior Secured Notes

\$73,000,000 8.05% Series A Senior Secured Notes due August 1, 2006  
 \$30,000,000 8.73% Series B Senior Secured Notes due August 1, 2013

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 Note Purchase Agreement  
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Dated as of July 30, 2001

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 (Not a part of the Agreement)

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Petro Holdings, INC.  
Petroleum Heat and Power Co., Inc.  
Davenport Street  
Stamford, Connecticut 06904

\$103,000,000 Senior Secured Notes

\$73,000,000 8.05% Series A Senior Secured Notes due August 1, 2006  
\$30,000,000 8.73% Series B Senior Secured Notes due August 1, 2013

Dated as of  
July 30, 2001

To each of the Purchasers listed in  
the attached Schedule A:

Ladies and Gentlemen:

Star Gas Partners, L.P., a Delaware limited partnership, Petro Holdings, Inc., a Minnesota corporation, and Petroleum Heat and Power Co., Inc., a Minnesota corporation (respectively, "Star Partners", "Petro Holdings" and the "Company" and collectively, the "Constituent Companies"), agree with you as follows:

Section 1. Authorization of Notes.

(a) The Company will authorize the issue and sale of \$103,000,000 aggregate principal amount of its Senior Secured Notes, comprised of \$73,000,000 8.05% Series A Senior Secured Notes due August 1, 2006 and \$30,000,000 8.73% Series B Senior Secured Notes due August 1, 2013 (respectively, the "Series A Notes" and the "Series B Notes" and collectively, the "Notes," each such term to include any such notes issued in substitution therefor pursuant to Section 13 of this Agreement or the Other Agreements (as hereinafter defined)). The Notes shall be substantially in the form set out in Exhibit 1(a), with such changes therefrom, if any, as may be approved by you and the Company. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

(b) Pursuant to the Intercreditor Agreement Joinder you and the Other Purchasers will join into the Intercreditor Agreement.

(c) Giving effect to the Intercreditor Agreement Joinder, the Notes will be secured by (i) an Intercreditor and Trust Agreement substantially in the form attached hereto as Exhibit 1(c)-1 (the "Original Intercreditor Agreement"), as supplemented by the First Supplement dated as of October 1, 2000, substantially in the form attached hereto as Exhibit 1(c)-2 (the "First Intercreditor Agreement Supplement"), and by the Second Supplement

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dated as of June 1, 2001, substantially in the form attached hereto as Exhibit 1(c)-3 (the "Second Intercreditor Agreement Supplement"; the Original Intercreditor Agreement, as supplemented by the First Intercreditor Agreement Supplement and the Second Intercreditor Agreement Supplement being hereinafter referred to as the "Intercreditor Agreement"), securing the Notes, the 1999 Senior Notes, the 2000 Senior Notes, other Parity Debt and the Debt outstanding under the Credit Agreement and (ii) the Security Documents referred to in the

## Intercreditor Agreement.

(d) Giving effect to the Intercreditor Agreement Joinder, the payment of the Notes will be jointly and severally guaranteed by (i) Star Partners and Petro Holdings (collectively, the "Parent Guarantors") under and pursuant to a Guarantee Agreement, substantially in the form attached to the Original Intercreditor Agreement as Exhibit A thereto, as amended by the First Intercreditor Agreement Supplement (as so amended, the "Parent Guarantee Agreement"), and (ii) the Subsidiaries of Petro Holdings (other than the Company) (collectively, the "Subsidiary Guarantors"; the Subsidiary Guarantors together with the Parent Guarantors being hereinafter referred to collectively as the "Guarantors") under and pursuant to a Guarantee Agreement, substantially in the form attached to the Original Intercreditor Agreement as Exhibit B, as amended by the First Intercreditor Agreement Supplement (as so amended, the "Subsidiary Guarantee Agreement"). The Subsidiary Guarantee Agreement and the Parent Guarantee Agreement are hereinafter referred to collectively as the "Guarantee Agreements".

(e) The Constituent Companies will use their best efforts to cause the Intercreditor Agreement and the Security Documents to be amended to make the changes indicated by blacklining in Exhibit 1(e) hereto. If such amendments have not been executed and delivered by all necessary parties to give them full force and effect by February 1, 2002, the Company will on that date pay you a fee in the amount of 0.25% of your commitment set forth in Schedule A hereto.

## Section 2. Sale and Purchase of Notes.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to you and you will purchase from the Company, at the Closing provided for in Section 3, Notes of the Series and in the principal amount specified opposite your name in Schedule A at the purchase price of 100% of the principal amount thereof. Contemporaneously with entering into this Agreement, the Company is entering into separate Note Purchase Agreements (the "Other Agreements") identical with this Agreement with each of the other purchasers named in Schedule A (the "Other Purchasers"), providing for the sale at such Closing to each of the Other Purchasers of Notes in the principal amount and of the Series specified opposite its name in Schedule A. Your obligation hereunder, and the obligations of the Other Purchasers under the Other Agreements, are several and not joint obligations, and you shall have no obligation under any Other Agreement and no liability to any Person for the performance or nonperformance by any Other Purchaser thereunder.

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## Section 3. Closing.

The sale and purchase of the Notes to be purchased by you and the Other Purchasers shall occur at the offices of Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603 at 10:00 A.M. Chicago time, at a closing (the "Closing") on August 13, 2001 or on such other Business Day thereafter on or prior to August 31, 2001 as may be agreed upon by the Company and you and the Other Purchasers. At the Closing the Company will deliver to you the Notes to be purchased by you in the form of a single Note (or such greater number of Notes in denominations of at least \$200,000 or, if less, the aggregate amount of your purchase, as you may request at least three Business Days prior to the Closing) dated the date of the Closing and registered in your name (or in the name of your nominee), against delivery by you to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds to Petro, Inc., Chase Manhattan Bank, Account #022-0-98571, ABA #021000021. If at the Closing the Company shall fail to tender such Notes to you as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to your satisfaction, you shall, at your election, be relieved of all further obligations under this Agreement, without thereby waiving any rights you may have by reason of such failure or such nonfulfillment.

## Section 4. Conditions to Closing.



Your obligation to purchase and pay for the Notes to be sold to you at the Closing is subject to the fulfillment to your satisfaction, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Constituent Companies in this Agreement shall be correct when made and at the time of the Closing.

Section 4.2. Performance; No Default. Each Constituent Company shall have performed and complied with all agreements and conditions contained in this Agreement and the other Basic Documents to which it is a party required to be performed or complied with by it prior to or at the Closing, and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof), no Default or Event of Default shall have occurred and be continuing. None of the Constituent Companies nor any Subsidiary shall have entered into any transactions since the date of the Memorandum that would have been prohibited by Section 10 hereof had such Section applied since such date.

Section 4.3. Basic Documents. The Basic Documents shall have been duly executed and delivered by the parties thereto.

Section 4.4. Security Documents. The Security Documents (or financing statements or other notices with respect thereto) shall have been duly recorded or filed for record in all public

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offices where such recording or filing is necessary to perfect the Lien and security interest thereof as against creditors of and purchasers from the grantors.

Section 4.5. Compliance Certificates.

(a) Officer's Certificate. Each Constituent Company shall have delivered to you an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1 through 4.4, both inclusive, and Section 4.11 have been fulfilled.

(b) Secretary's Certificate. Each Constituent Company and each Subsidiary of Petro Holdings shall have delivered to you a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Basic Documents to which it is a party.

Section 4.6. Opinions of Counsel. You shall have received opinions in form and substance satisfactory to you, dated the date of the Closing (a) from Phillips Nizer Benjamin Krim & Ballon LLP, counsel for the Constituent Companies, covering the matters set forth in Exhibit 4.6(a) and covering such other matters incident to the transactions contemplated hereby as you or your counsel may reasonably request (and the Constituent Companies hereby instruct their counsel to deliver such opinion to you) and (b) from Chapman and Cutler, your special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.6(b) and covering such other matters incident to such transactions as you may reasonably request.

Section 4.7. Purchase Permitted by Applicable Law, etc. On the date of the Closing your purchase of Notes shall (i) be permitted by the laws and regulations of each jurisdiction to which you are subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (ii) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (iii) not subject you to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by you, you shall have received an Officer's Certificate certifying as to such matters of fact as you may reasonably specify to enable you to determine whether such purchase is so permitted.

Section 4.8. Sale of Other Notes. Contemporaneously with the Closing, the Company shall sell to the Other Purchasers, and the Other Purchasers shall purchase, the Notes to be purchased by them at the Closing as specified in Schedule A.

Section 4.9. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the fees, charges and disbursements of your special counsel referred to in Section 4.6 to the extent reflected in a

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statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

Section 4.10. Private Placement Number. 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) shall have been obtained for each Series of the Notes.

Section 4.11. Changes in Corporate Structure. None of the Constituent Companies shall have changed its jurisdiction of incorporation or been a party to any merger or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

Section 4.12. Related Transactions. Contemporaneously with the Closing, the Meenan Acquisition shall have been consummated and the Star Partners Public Offering shall have been consummated, and you shall have received an opinion from special counsel for the Company to that effect.

Section 4.13. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

Section 5. Representations and Warranties of the Constituent Companies.

The Constituent Companies jointly and severally represent and warrant to you that:

Section 5.1. Organization; Power and Authority. Each Constituent Company other than Star Partners is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Star Partners is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Delaware. Each Constituent Company has the corporate or partnership power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver the Basic Documents to which it is a party and to perform the provisions hereof and thereof. Star Gas LLC is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has the power and authority to perform its obligations as general partner of Star Partners and Star Propane. Each representation and warranty made by any

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Constituent Company in or pursuant to the Credit Agreement was true and correct in all material respects when made.

Section 5.2. Authorization, etc. The Basic Documents to which it is a party have been duly authorized by all necessary corporate or partnership action, as applicable, on the part of each Constituent Company, and this Agreement constitutes, and upon execution and delivery thereof each other Basic Document to which it is a party will constitute, a legal, valid and binding obligation of such Constituent Company enforceable against such Constituent Company in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company, through its agents, Banc of America Securities, LLC and First Union Securities, Inc., has delivered to you and each Other Purchaser a copy of a Confidential Private Placement Memorandum, dated June, 2001 (the "Memorandum"), relating to the transactions contemplated hereby. Taken as a whole, the Memorandum fairly describes, in all material respects, the general nature of the business and principal properties of Star Partners and its Subsidiaries and the transactions contemplated hereby. This Agreement, the other Basic Documents, the Memorandum and the financial statements listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since September 30, 2000, there has been no change in the financial condition, operations, business, properties or prospects of any Constituent Company or any of its Subsidiaries except as set forth in the Memorandum and except changes that individually or in the aggregate could not reasonably be expected to have a Material Adverse Effect on such Constituent Company. There is no fact known to any Constituent Company that could reasonably be expected to have a Material Adverse Effect on such Constituent Company that has not been set forth herein or in the Memorandum.

Section 5.4. Organization and Ownership of Shares of Subsidiaries; Affiliates. (a) Schedule 5.4 contains (except as noted therein) complete and correct lists (i) of Star Partners' Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by Star Partners and each other Subsidiary, (ii) of Star Partners' Affiliates, other than Subsidiaries, and (iii) of each Constituent Company's directors and senior officers.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by Star Partners and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by Star Partners or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

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(c) Each Subsidiary of Star Partners identified in Schedule 5.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on any Constituent Company. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

(d) No Subsidiary of Star Partners is a party to, or otherwise subject to, any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate

law statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

Section 5.5. Financial Statements. Each Constituent Company has delivered to each Purchaser copies of the financial statements of such Constituent Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of such Constituent Company and its Subsidiaries as of the respective dates specified in such Schedule and the consolidated 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 5.6. Compliance with Laws, Other Instruments, etc. The execution, delivery and performance by each Constituent Company of the Basic Documents to which it is a party will not (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of such Constituent Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other agreement or instrument to which such Constituent Company or any Subsidiary is bound or by which such Constituent Company or any Subsidiary or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to such Constituent Company or any Subsidiary or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to such Constituent Company or any Subsidiary.

Section 5.7. Governmental Authorizations, etc. No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in

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connection with the execution, delivery or performance by any Constituent Company of the Basic Documents to which it is a party.

Section 5.8. Litigation; Observance of Agreements, Statutes and Orders. (a) There are no actions, suits or proceedings pending or, to the knowledge of any Constituent Company, threatened against or affecting such Constituent Company or any Subsidiary or any property of such Constituent Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on such Constituent Company.

(b) No Constituent Company nor any Subsidiary is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on such Constituent Company.

Section 5.9. Taxes. Each Constituent Company and its Subsidiaries have filed all tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments levied upon them or their properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material to such Constituent Company or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which such Constituent Company or a Subsidiary, as the case may be,

has established adequate reserves in accordance with GAAP. No Constituent Company knows of any basis for any other tax or assessment that could reasonably be expected to have a Material Adverse Effect on such Constituent Company. The charges, accruals and reserves on the books of each Constituent Company and its Subsidiaries in respect of Federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been determined by the Internal Revenue Service and paid for all fiscal years up to and including the fiscal year ended December 31, 1992.

Section 5.10. Title to Property; Leases. Each Constituent Company and its Subsidiaries have good and sufficient title to their respective properties, including all such properties reflected in its most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by such Constituent Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business and except for title defects which could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on any Constituent Company), in each case free and clear of Liens prohibited by this Agreement. All leases that individually or in the aggregate are Material to any Constituent Company are valid and subsisting and are in full force and effect in all Material respects.

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Section 5.11. Licenses, Permits, etc. (a) Each Constituent Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that individually or in the aggregate are Material to such Constituent Company, without known conflict with the rights of others.

(b) To the best knowledge of each Constituent Company, no product of such Constituent Company infringes in any Material respect any license, permit, franchise, authorization, patent, copyright, service mark, trademark, trade name or other right owned by any other Person.

(c) To the best knowledge of each Constituent Company, there is no Material violation by any Person of any right of such Constituent Company or any of its Subsidiaries with respect to any patent, copyright, service mark, trademark, trade name or other right owned or used by such Constituent Company or any of its Subsidiaries.

Section 5.12. Compliance with ERISA. (a) Each Constituent Company and each ERISA Affiliate of such Constituent Company has operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect on such Constituent Company. Neither any Constituent Company nor any ERISA Affiliate of such Constituent Company has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by such Constituent Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of such Constituent Company or any ERISA Affiliate of such Constituent Company, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material to such Constituent Company.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of December 31, 1999 on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$6,500,000 in the aggregate for all Plans. The term "benefit liabilities" has the meaning specified in section 4001 of ERISA and the terms "current value" and "present value" have the meanings specified in section 3 of ERISA.

(c) Each Constituent Company and its ERISA Affiliates have not incurred

withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material to such Constituent Company.

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(d) The expected post-retirement benefit obligation (determined as of the last day of each Constituent Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of such Constituent Company and its Subsidiaries is not Material to such Constituent Company.

(e) The execution and delivery of the Basic Documents and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Constituent Companies in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of your representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by you.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes 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, any Person other than you, the Other Purchasers and not more than 60 other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act.

Section 5.14. Use of Proceeds; Margin Regulations. The net proceeds from the sale of the Notes will be used for corporate purposes. None of the transactions contemplated in the Basic Documents (including, without limitation thereof, the use of proceeds from the issuance of the Notes) will violate or result in a violation of Section 7 of the Exchange Act or any regulation issued pursuant thereto, including, without limitation, Regulations U, T and X of the Board of Governors of the Federal Reserve System, 12 C.F.R., Chapter II. Neither the Company nor any Subsidiary owns or intends to carry or purchase any "margin stock" within the meaning of said Regulation U. None of the proceeds from the sale of the Notes will be used to purchase, or refinance any borrowing, the proceeds of which were used to purchase any "security" within the meaning of the Exchange Act.

Section 5.15. Existing Indebtedness; Future Liens. (a) Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness of each Constituent Company and its Subsidiaries as of June 30, 2001, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of any Constituent Company or its Subsidiaries. Neither any Constituent Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Indebtedness of any Constituent Company or any Subsidiary and no event or condition exists with respect to any Indebtedness of any Constituent Company or any Subsidiary that would permit (or that with notice or the lapse of time, or both, would permit) one

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or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Except as disclosed in Schedule 5.15, neither Petro Holdings nor any Subsidiary has agreed or consented to cause or permit in the future (upon the happening of a contingency or otherwise) any of its property, whether now owned or hereafter acquired, to be subject to a Lien other than the Lien of the Security Documents.

Section 5.16. Foreign Assets Control Regulations, etc. Neither the sale of the Notes by the Company hereunder nor its use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

Section 5.17. Status under Certain Statutes. Neither any Constituent Company nor any Subsidiary is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, the ICC Termination Act of 1995, as amended, or the Federal Power Act, as amended.

Section 5.18. Environmental Matters. Neither any Constituent Company nor any of its Subsidiaries has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against any Constituent Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect on any Constituent Company. Without limiting the foregoing:

(a) neither any Constituent Company nor any of its Subsidiaries has knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by any of them or to other assets or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect on any Constituent Company;

(b) neither any Constituent Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in a manner contrary to any Environmental Laws in each case in any manner that could reasonably be expected to result in a Material Adverse Effect on any Constituent Company; and

(c) all buildings on all real properties now owned, leased or operated by each Constituent Company or any of its Subsidiaries are in compliance with applicable

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Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect on such Constituent Company.

Section 5.19. Parity Debt. Upon delivery thereof the Notes will constitute "Parity Debt" within the meaning of the Intercreditor Agreement and the Security Documents, and you will be entitled to all rights and benefits of a Secured Party under the Intercreditor Agreement and the Security Documents upon your execution and delivery of the Intercreditor Agreement Joinder.

Section 6. Representations of the Purchaser.

Section 6.1. Purchase for Investment. You represent that you are purchasing the Notes for your own account or for one or more separate accounts maintained by you or for the account of one or more pension or trust funds and

not with a view to the distribution thereof, provided that the disposition of your or their property shall at all times be within your or their control. You understand that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes. You acknowledge that the Company has no obligation hereunder or under any of the other Basic Documents to register the Notes pursuant to the provisions of the Securities Act.

Section 6.2. Source of Funds. You represent that at least one of the following statements is an accurate representation as to each source of funds ("Source") to be used by you to pay the purchase price of the Notes to be purchased by you hereunder:

(a) the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995) and there is no employee benefit plan, treating as a single plan all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceeds 10% of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement filed with your state of domicile; or

(b) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as you have disclosed to the Company in writing pursuant to this paragraph (b), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

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(c) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a Person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (c); or

(d) the Source is a governmental plan; or

(e) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (e); or

(f) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

If you or any subsequent transferee of the Notes indicates that you or such



transferee are relying on any representation contained in paragraph (b), (c) or (e) above, the Company shall deliver on the date of Closing and on the date of any applicable transfer a certificate, which shall either state that (i) it is neither a party in interest nor a "disqualified person" (as defined in section 4975(e)(2) of the Code), with respect to any plan identified pursuant to paragraphs (b) or (e) above, or (ii) with respect to any plan identified pursuant to paragraph (c) above, neither it nor any "affiliate" (as defined in Section V(c) of the QPAM Exemption) has at such time, and during the immediately preceding one year, exercised the authority to appoint or terminate said QPAM as manager of any plan identified in writing pursuant to paragraph (c) above or to negotiate the terms of said QPAM's management agreement on behalf of any such identified plan. As used in this Section 6.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 7. Information as to Constituent Companies.

Section 7.1. Financial and Business Information. Each Constituent Company shall deliver to each holder of Notes that is an Institutional Investor:

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(a) Quarterly Statements -- within 60 days after the end of each quarterly fiscal period in each fiscal year of such Constituent Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) consolidated (and in the case of Petro Holdings consolidating) balance sheets of such Constituent Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated (and in the case of Petro Holdings consolidating) statements of income, changes in shareholders' or partners' equity and cash flows of such Constituent Company and its Subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in the case of each consolidated statement in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer of such Constituent Company as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of such Constituent Company'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 of this Section 7.1(a);

(b) Annual Statements -- within 105 days after the end of each fiscal year of such Constituent Company, duplicate copies of:

(i) consolidated (and in the case of Petro Holdings consolidating) balance sheets of such Constituent Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated (and in the case of Petro Holdings consolidating) statements of income, changes in shareholders' or partners' equity and cash flows of such Constituent Company and its Subsidiaries, for such year,

setting forth in the case of each consolidated statement in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by

(A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state

that such consolidated financial statements present fairly, in all material respects, the financial position of

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the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(B) a certificate of such accountants stating that they have reviewed this Agreement and stating further whether, in making their audit, they have become aware of any condition or event that then constitutes a Default or an Event of Default, and, if they are aware that any such condition or event then exists, specifying the nature and period of the existence thereof (it being understood that such accountants shall not be liable, directly or indirectly, for any failure to obtain knowledge of any Default or Event of Default unless such accountants should have obtained knowledge thereof in making an audit in accordance with generally accepted auditing standards or did not make such an audit),

provided that the delivery within the time period specified above of such Constituent Company's Annual Report on Form 10-K for such fiscal year (together with such Constituent Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission, together with the accountant's certificate described in clause (B) above, shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) SEC and Other Reports -- promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by such Constituent Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by such Constituent Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and other statements made available generally by such Constituent Company or any Subsidiary to the public concerning developments that are Material to such Constituent Company;

(d) Notice of Default or Event of Default -- promptly, and in any event within five days after a Responsible Officer of such Constituent Company becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action such Constituent Company is taking or proposes to take with respect thereto;

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(e) ERISA Matters -- promptly, and in any event within five days after a Responsible Officer of such Constituent Company becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that such Constituent Company or an ERISA

Affiliate of such Constituent Company proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(b) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution 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 such Constituent Company or any ERISA Affiliate of such Constituent Company of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrance of any liability by such Constituent Company or any ERISA Affiliate of such Constituent Company pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of such Constituent Company or any ERISA Affiliate of such Constituent Company pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect on such Constituent Company;

(f) Notices from Governmental Authority -- promptly, and in any event within 30 days of receipt thereof, copies of any notice to such Constituent Company or any Subsidiary from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect on such Constituent Company; and

(g) Requested Information -- with reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of such Constituent Company or any of its Subsidiaries or relating to the ability of such Constituent Company to perform its obligations under the Basic Documents to which such Constituent Company is a party as from time to time may be reasonably requested by any such holder of Notes.

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Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer of such Constituent Company setting forth:

(a) Covenant Compliance -- the information (including detailed calculations) required in order to establish whether (i) in the case of the certificate of the Senior Financial Officer of Petro Holdings, whether Petro Holdings was in compliance with the requirements of Section 10.1 hereof during the quarterly or annual period covered by the statements then being furnished (including, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Section, and the calculation of the amount, ratio or percentage then in existence) and (ii) in the case of the certificate of the Senior Financial Officer of Star Partners, whether Star Partners was in compliance with the requirements of Section 10.2 hereof during the quarterly or annual period covered by the statements then being furnished (including, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Section, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default -- a statement that such officer has reviewed

the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of such Constituent Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of such Constituent Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action such Constituent Company shall have taken or proposes to take with respect thereto.

Section 7.3. Inspection. Each Constituent Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to such Constituent Company, to visit the principal executive office of such Constituent Company, to discuss the affairs, finances and accounts of such Constituent Company and its Subsidiaries with the Company's officers, and (with the consent of such Constituent Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of such Constituent Company, which consent will not be unreasonably withheld) to visit the other offices and properties of such Constituent Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

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(b) Default -- if a Default or Event of Default then exists, at the expense of such Constituent Company, to visit and inspect any of the offices or properties of such Constituent Company or any 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 and independent public accountants (and by this provision such Constituent Company authorizes said accountants to discuss the affairs, finances and accounts of such Constituent Company and its Subsidiaries), all at such times and as often as may be requested.

Section 8. Prepayment of the Notes.

Section 8.1. Required Prepayments.

(a) Series A Notes. The entire outstanding principal amount of the Series A Notes shall be due on August 1, 2006. Except as set forth in Section 8.2, the Series A Notes may not be prepaid prior to maturity at the option of the Company.

(b) Series B Notes. On August 1, 2009 and on the first day of each August thereafter to and including August 1, 2012, the Company will prepay \$6,000,000 principal amount (or such lesser principal amount as shall then be outstanding) of the Series B Notes at par and without payment of the Make-Whole Amount or any premium, provided that upon any partial prepayment of the Series B Notes pursuant to Section 8.2 or 8.3 or purchase of the Series B Notes permitted by Section 8.6, the principal amount of each required prepayment of the Series B Notes becoming due under this Section 8.1 on and after the date of such prepayment or purchase shall be reduced in the same proportion as the aggregate unpaid principal amount of the Series B Notes is reduced as a result of such prepayment or purchase.

Section 8.2. Optional Prepayments with Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than \$1,000,000 or such lesser principal amount of the Notes as may then be outstanding, at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, plus the Make-Whole Amount determined for the

prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this Section 8.2 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.4), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer of the Company as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver

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to each holder of Notes a certificate of a Senior Financial Officer of the Company specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

#### Section 8.3. Prepayment on Change of Control.

(a) Notice of Change in Control or Control Event. Each Constituent Company will, within 15 days after such Constituent Company obtains knowledge of the occurrence of any Change in Control or Control Event, give written notice of such Change in Control or Control Event to each holder of Notes unless notice in respect of such Change in Control (or the Change in Control contemplated by such Control Event) shall have been given pursuant to subparagraph (b) of this Section. If a Change in Control has occurred, any such notice from the Company shall contain and constitute an offer to prepay Notes as described in subparagraph (c) of this Section and shall be accompanied by the certificate described in subparagraph (g) of this Section.

(b) Condition to Action. No Constituent Company will take any action that consummates or finalizes a Change in Control unless (i) at least 60 days prior to such action the Company shall have given to each holder of Notes written notice containing and constituting an offer to prepay Notes as described in subparagraph (c) of this Section, accompanied by the certificate described in subparagraph (g) of this Section, and (ii) contemporaneously with such action, the Company prepays all Notes required to be prepaid in accordance with this Section.

(c) Offer To Prepay Notes. The offer to prepay Notes contemplated by subparagraphs (a) and (b) of this Section shall be an offer to prepay, in accordance with and subject to this Section, all, but not less than all, the Notes held by each holder (in this case only, "holder" in respect of any Note registered in the name of a nominee for a disclosed beneficial owner shall mean such beneficial owner) on a date specified in such offer (the "Proposed Prepayment Date"). If such Proposed Prepayment Date is in connection with an offer contemplated by subparagraph (a) of this Section, such date shall be not less than 30 days and not more than 90 days after the date of such offer.

(d) Acceptance. A holder of Notes may accept or reject the offer to prepay made pursuant to this Section by causing a notice of such acceptance or rejection to be delivered to the Company at least 15 days prior to the Proposed Prepayment Date. A failure by a holder of Notes to timely respond to an offer to prepay made pursuant to this Section shall be deemed to constitute an acceptance of such offer by such holder.

(e) Prepayment. Prepayment of the Notes to be prepaid pursuant to this Section shall be at 100% of the principal amount of such Notes, plus the Make-Whole Amount determined for the date of prepayment with respect to such principal amount, together with interest on such Notes accrued to the date of prepayment. Two Business Days preceding the date of prepayment, the Company shall deliver to each holder of the Notes being prepaid a statement showing the Make-Whole Amount due in connection with such prepayment and setting forth the details of the

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computation of such amount. The prepayment shall be made on the Proposed Prepayment Date except as provided in subparagraph (f) of this Section.

(f) Deferral Pending Change in Control. The obligation of the Company to prepay Notes pursuant to the offers required by subparagraph (b) and accepted in accordance with subparagraph (d) of this Section is subject to the occurrence of the Change in Control in respect of which such offers and acceptances shall have been made. In the event that such Change in Control does not occur on the Proposed Prepayment Date in respect thereof, the prepayment shall be deferred until and shall be made on the date on which such Change in Control occurs. Each Constituent Company shall keep each holder of Notes reasonably and timely informed of (i) any such deferral of the date of prepayment, (ii) the date on which such Change in Control and the prepayment are expected to occur, and (iii) any determination by such Constituent Company that efforts to effect such Change in Control have ceased or been abandoned (in which case the offers and acceptances made pursuant to this Section in respect of such Change in Control shall be deemed rescinded). In the event of any such deferral, each holder of Notes shall have the privilege by written notice to the Company of rescinding its acceptance pursuant to paragraph (d) of this Section of the Company's offer to prepay the Notes held by such holder.

(g) Officer's Certificate. Each offer to prepay the Notes pursuant to this Section shall be accompanied by a certificate, executed by the Chief Financial Officer of the Company and dated the date of such offer, specifying: (i) the Proposed Prepayment Date; (ii) that such offer is made pursuant to this Section 8.3, (iii) the principal amount of each Note offered to be prepaid; (iv) the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of prepayment), setting forth details of such computation; (v) the interest that would be due on each Note offered to be prepaid, accrued to the Proposed Prepayment Date; (vi) in reasonable detail, the nature and date or proposed date of the Change in Control; and (vii) that a failure to timely respond to an offer of prepayment pursuant to this Section 8.3 shall be deemed to constitute an acceptance of such offer.

(h) "Change in Control" Defined. "Change in Control" means any of the following events or circumstances:

(i) any issue, sale or other disposition of shares of membership interests in Star Gas LLC which results in the number of membership interests entitled to vote for directors beneficially owned by the Sevin Group being less than a majority of the issued and outstanding membership interests entitled to vote for directors, other than a disposition of membership interests to a testamentary trust, all beneficiaries of which are members of the immediate family of a member of the Sevin Group and all trustees of which are members of the Sevin Group and, under the terms of the trust, have the power to vote such membership interests on all matters as to which the holders of such membership interests have the power to vote, so long as, giving effect to any such disposition, the Sevin Group has beneficial ownership or voting control of a sufficient number of shares of the membership interests in Star Gas LLC to entitle them to elect,

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and they do elect, at least the smallest number of directors that is necessary to constitute a majority of the Board of Directors of Star Gas LLC; or

(ii) any event which results in Star Gas LLC failing to be the sole general partner of Star Partners or Star Propane.

(i) "Control Event" Defined. "Control Event" means:

(i) the execution by any Constituent Company or any of its Subsidiaries or Affiliates of any agreement or letter of intent with respect to any proposed transaction or event or series of transactions or events which, individually or in the aggregate, may reasonably be expected to result in a Change in Control,

(ii) the execution of any written agreement which, when fully performed by the parties thereto, would result in a Change in Control, or

(iii) the making of any written offer by any person (as such term is used in section 13(d) and section 14(d)(2) of 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) to the holders of the common stock or other equity interest of any Constituent Company or an Affiliate, which offer, if accepted by the requisite number of holders, would result in a Change in Control.

(j) "Sevin Group" Defined. "Sevin Group" means Audrey L. Sevin and Irik P. Sevin and any trust over which such persons have the sole voting power.

Section 8.4. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes (other than a prepayment pursuant to Section 8.3 or a Debt Prepayment Application), the principal amount of the Notes to be prepaid shall be allocated among all of the Notes of all Series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof.

Section 8.5. Maturity; Surrender, etc. In the case of each prepayment of Notes pursuant to this Section 8, 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 Company 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 be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

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Section 8.6. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company or an Affiliate pro rata to the holders of all Notes at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 30 Business Days. If the holders of 25% or more of the principal amount of the Notes then outstanding accept such offer, the Company shall promptly notify the remaining holders of the Notes of such fact and the expiration date for the acceptance by such holders shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.7. Make-Whole Amount. The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following

meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or 8.3 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, 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 the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.5% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" on the Bloomberg Financial Markets Services Screen (or such other display as may replace Page PX1 on the Bloomberg Financial Markets Services 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 (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity

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Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day 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 will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the constant maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the constant maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of such Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years that 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" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due 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 Section 8.2, 8.3 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or 8.3 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

Section 9. Affirmative Covenants.



Star Partners covenants that so long as any of the Notes is outstanding:

Section 9.1. Compliance with Law. Star Partners will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which they are respectively subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with

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such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on any Constituent Company.

Section 9.2. Insurance. Star Partners will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. Star Partners will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent Star Partners or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and Star Partners has concluded that such discontinuance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on any Constituent Company.

Section 9.4. Payment of Taxes and Claims. Star Partners will, and will cause each of its Subsidiaries to, file all tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies imposed on them or any of their respective properties, assets, income or franchises, to the extent such taxes and assessments have become due and payable and before they have become delinquent and all claims for which sums have become due and payable that have or might become a Lien on properties or assets of Star Partners or any Subsidiary, provided that neither Star Partners nor any Subsidiary need pay any such tax or assessment or claims if (i) the amount, applicability or validity thereof is contested by Star Partners or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and Star Partners or such Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of Star Partners or such Subsidiary or (ii) the nonpayment of all such taxes and assessments in the aggregate could not reasonably be expected to have a Material Adverse Effect on any Constituent Company.

Section 9.5. Corporate Existence, etc. Star Partners will at all times preserve and keep in full force and effect its partnership existence. Star Partners will at all times preserve and keep in full force and effect the corporate or partnership existence, as applicable, of each of its Subsidiaries and all rights and franchises of Star Partners and its Subsidiaries unless, in the good faith judgment of Star Partners, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise could not, individually or in the aggregate,

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have a Material Adverse Effect on any Constituent Company. Star Partners will in all events preserve and keep in full force and effect the corporate existence of the Company and Petro Holdings, except that nothing in this Section 9.5 or Section 9.6 shall be deemed to preclude a merger of the Company into Petro Holdings so long as, giving effect thereto, no Default or Event of Default shall have occurred and be continuing.

Section 9.6. Maintenance of Ownership of Petro Holdings and the Company. Star Partners will at all times preserve and maintain its beneficial ownership, directly or indirectly, of all of the issued and outstanding capital stock of Petro Holdings, free of all Liens, and Petro Holdings will at all times preserve and maintain its beneficial ownership of at least 99% of the issued and outstanding capital stock of the Company, free of all Liens.

Section 9.7. Maintenance of a Rating of the Notes. Star Partners will cause a rating of the Notes at all times to be maintained in effect by Fitch IBCA, Inc., or another nationally recognized securities rating organization that has not been objected to by the Required Holders of any Series.

Section 10. Negative Covenants.

Section 10.1. Petro Holdings and its Subsidiaries.

Section 10.1.1. Line of Business. Petro Holdings will not, and will not permit any of its Subsidiaries to, engage in any business if, as a result, the general nature of the business in which Petro Holdings and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which Petro Holdings and its Subsidiaries, taken as a whole, are engaged, as described in the Memorandum.

Section 10.1.2. Incurrence of Debt. (a) Neither Petro Holdings nor the Company will, directly or indirectly, create, incur, assume, guarantee, or otherwise become directly or indirectly liable with respect to, any Debt, other than

(i) Debt of the Company under the Working Capital Facility, so long as (x) amounts outstanding thereunder do not exceed, at any time, the lesser of (1) 85% of eligible accounts receivable and (2) \$123,000,000, and (y) there shall have been during the immediately preceding 365 days a period of at least 45 consecutive days on which there shall have been no Debt outstanding under the Working Capital Facility;

(ii) Debt of the Company or Petro Holdings issued in exchange for, or all of the proceeds of which are used to refinance, any outstanding Debt provided that (x) the principal amount of such Debt shall not exceed the principal amount of the Debt so exchanged or refinanced, (y) such Debt (1) shall not mature prior to the stated maturity of the Debt so exchanged or refinanced and (2) shall have a Weighted Average Life to Maturity equal to or greater than the remaining Weighted Average Life to Maturity of the

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Debt so exchanged or refinanced, and (z) if the Debt so exchanged or refinanced is subordinate in ranking to the Notes, such new Debt shall also be subordinate to the Notes;

(iii) the undrawn balance of the Letter of Credit Facility;

(iv) Debt of Petro Holdings under the Parent Guarantee Agreement relating to the Credit Agreement, the 1999 Senior Notes, the 2000 Senior Notes, the Notes and any other Parity Debt; and

(v) Debt of the Company or Petro Holdings in addition to that permitted under clauses (i) through (iv) above, provided that on the date

the Company or Petro Holdings becomes liable with respect to any such Debt and immediately after giving effect thereto and the concurrent retirement of any other Debt,

(x) the ratio of Consolidated Pro Forma Total Debt to Consolidated Pro Forma Operating Cash Flow for the Four-Quarter Period then most recently ended at least 30 days prior to the date of determination would not exceed 4.5 to 1.0,

(y) the ratio of Consolidated Pro Forma Operating Cash Flow to Consolidated Pro Forma Interest Expense is at least 2.25 to 1.0 for the Four-Quarter Period then most recently ended at least 30 days prior to the date of determination, and

(z) no Default or Event of Default exists.

(b) Petro Holdings will not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume, guarantee, or otherwise become directly or indirectly liable with respect to any Debt other than; (v) Debt of Subsidiaries of Petro Holdings ratably guaranteeing the Notes, the Credit Agreement, the 1999 Senior Notes, the 2000 Senior Notes and any other Parity Debt; (w) Debt owing to Petro Holdings or one of its Wholly-Owned Subsidiaries; (x) Debt secured by Liens permitted pursuant to the provisions of Section 10.1.3; (y) Debt of the Company permitted by Section 10.1.2(a) hereof and (z) Debt in addition to that permitted by the foregoing clauses (v) through (y), provided that on the date such Subsidiary becomes liable with respect to any such Debt and immediately after giving effect thereto and the concurrent retirement of any other Debt, Priority Debt does not exceed 5% of Consolidated Total Assets of Petro Holdings.

Section 10.1.3. Liens. Petro Holdings will not, and will not permit any of its Subsidiaries to, directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien on or with respect to any property or asset (including, without limitation, any document or instrument in respect of goods or accounts receivable) of Petro Holdings or any such Subsidiary, whether now owned or held or hereafter acquired, or any

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income or profits therefrom, or assign or otherwise convey any right to receive income or profits, except:

(a) any Lien existing on property of a Person immediately prior to its being consolidated with or merged into Petro Holdings or a Subsidiary or its becoming a Subsidiary, or any Lien existing on any property acquired by Petro Holdings or any Subsidiary at the time such property is so acquired (whether or not the Debt secured thereby shall have been assumed), provided that (i) no such Lien shall have been created or assumed in contemplation of such consolidation or merger or such Person's becoming a Subsidiary or such acquisition of property, and (ii) each such Lien shall extend 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;

(b) any Lien created to secure all or any part of the purchase price, or to secure Debt incurred or assumed to pay all or any part of the purchase price or cost of construction, of property (or any improvement thereon) acquired or constructed by Petro Holdings or a Subsidiary after the date of the Closing, provided that

(i) any such Lien shall extend solely to the item or items of such property (or improvement thereon) so acquired or constructed and, if required by the terms of the instrument originally creating such Lien, other property (or improvement thereon) which is an improvement to or is acquired for specific use in connection with such acquired or constructed property (or improvement thereon) or which is real property being improved by such acquired or constructed property (or improvement thereon),

(ii) the principal amount of the Debt secured by any such Lien shall at no time exceed an amount equal to the lesser of (x) the cost to Petro Holdings or such Subsidiary of the property (or improvement thereon) so acquired or constructed and (y) the Fair Market Value (as determined in good faith by the board of directors of Petro Holdings) of such property (or improvement thereon) at the time of such acquisition or construction, and

(iii) any such Lien shall be created contemporaneously with, or within 180 days after, the acquisition or construction of such property;

(c) Liens on property or assets of any of Petro Holdings' Subsidiaries securing Debt owing to Petro Holdings or to any of its Wholly-Owned Subsidiaries;

(d) utility deposits and pledges in connection with workers' compensation insurance, unemployment insurance and other insurance coverages required by law;

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(e) any attachment or judgment Lien, unless the judgment it secures shall not, within 30 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 30 days after the expiration of any such stay;

(f) Liens for taxes, assessments or other governmental charges which are not yet due and payable or the payment of which is not at the time required by Section 9.4;

(g) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other similar Liens, in each case, incurred in the ordinary course of business for sums not yet due and payable or the payment of which is not at the time required by Section 9.4;

(h) Liens existing on the date of this Agreement and securing the Debt of the Company referred to in item 7 of Schedule 5.15;

(i) any Lien renewing, extending or refunding any Lien permitted by paragraphs (a), (b) or (h) of this Section 10.1.3, provided that (i) the principal amount of Debt secured by such Lien immediately prior to such extension, renewal or refunding is not increased or the maturity thereof reduced, (ii) such Lien is not extended to any other property, and (iii) immediately after such extension, renewal or refunding no Default or Event of Default would exist;

(j) any Lien on personal property subject to a lease under which Petro Holdings or any of its Subsidiaries is lessee and none of Petro Holdings or its Subsidiaries is lessor, provided that such lease is not (i) a Capital Lease or (ii) a lease of property of which the lessee claims ownership for federal income tax purposes;

(k) other Liens not otherwise permitted by paragraphs (a) through (j), provided that on the date Petro Holdings or such Subsidiary becomes liable with respect to any such Debt and immediately after giving effect to the Debt secured by such Liens and the application of the proceeds thereof and the concurrent retirement of any other Debt, Priority Debt does not exceed 5% of Consolidated Total Assets of Petro Holdings; and

(l) the Lien of the Security Documents.

#### Section 10.1.4. Restricted Payments and Restricted Investments.

(a) Limitation. Petro Holdings will not declare, make or incur any liability to make any Restricted Payment, and Petro Holdings will not, and will not permit any of its Subsidiaries to, make or authorize any Restricted Investment unless immediately after giving effect to such action:

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(i) the ratio of Consolidated Operating Cash Flow to Consolidated Interest Expense of Petro Holdings is greater than 1.75 to 1.0 for its Four-Quarter Period then most recently ended;

(ii) the sum of (x) the aggregate value of all Restricted Investments of Petro Holdings and its Subsidiaries (valued immediately after such action), plus (y) the aggregate amount of (1) Restricted Payments of Petro Holdings and its Subsidiaries declared or made during the period commencing on January 1, 1999, and ending on the date such Restricted Payment or Restricted Investment is declared or made, inclusive, (2) capital expenditures of Petro Holdings and its Subsidiaries, other than capital expenditures relating to the acquisition of a business entity or assets comprising a line of business of a business entity, during the period commencing on January 1, 1999, and ending with the fiscal quarter of the Company then most recently ended, (3) Consolidated Interest Expense incurred by Petro Holdings and its Subsidiaries and cash income taxes paid by Petro Holdings and its Subsidiaries (excluding so much of taxes arising from the Restructuring Transactions as shall not exceed \$10,000,000 in the aggregate), in each case, during the period commencing on January 1, 1999, and ending with the fiscal quarter of the Company then most recently ended, would not exceed the sum of

(A) \$15,000,000, plus

(B) Consolidated Operating Cash Flow of Petro Holdings, for the period commencing on January 1, 1999, and ending with the fiscal quarter of the Company then most recently ended, plus

(C) the aggregate amount of Net Proceeds of capital stock during the period commencing on January 1, 1999, and ending on the date such Restricted Payment or Restricted Investment is declared or made, inclusive, other than the Net Proceeds of capital stock issued in connection with or on or before the closing of the Restructuring Transactions; and

(iii) no Default or Event of Default would exist.

(b) Time of Payment. Petro Holdings will not, nor will it permit any of its Subsidiaries to, authorize a Restricted Payment that is not payable within 60 days of authorization, but Petro Holdings or its Subsidiaries shall be permitted to make a Restricted Payment that was permitted under paragraph (a) of this Section at the time of its declaration notwithstanding that it would not be permitted to be declared on the date of payment.

Section 10.1.5. No Limitation on Dividends by Subsidiaries. Petro Holdings will not, and will not permit any of its Subsidiaries (other than the Company) to, enter into any agreement which would restrict such Subsidiary's ability or right to (i) pay dividends or make any other distributions on its capital stock or any other equity interest or participation in its profits which

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are owned by or owed to Petro Holdings or any Subsidiary of Petro Holdings or pay any Indebtedness owed to Petro Holdings or any of its Subsidiaries; (ii) make loans or advances to Petro Holdings or to any of its Subsidiaries; or (iii) transfer any of its properties or assets to Petro Holdings or its Subsidiaries except for such restrictions existing under or by reason of (v) applicable law, (w) any instrument governing Debt of a Person acquired by Petro Holdings or any of its Subsidiaries outstanding at the time of such acquisition (other than Indebtedness issued in contemplation of, as consideration for, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Subsidiary

became a Subsidiary), (x) customary provisions restricting subletting or assignment of any lease governing a leasehold interest of Petro Holdings or any of its Subsidiaries, (y) customary restrictions on dispositions of real property interests or so-called "due on sale" clauses found in mortgages of Petro Holdings or any of its Subsidiaries, and (z) any agreement for the sale or disposition of a Subsidiary that restricts distributions by such Subsidiary pending such sale or other disposition.

Section 10.1.6. Sale of Assets, etc. Except as permitted under Section 10.1.7 Petro Holdings will not, and will not permit any of its Subsidiaries to, make any Asset Disposition unless:

(a) in the good faith opinion of Petro Holdings, the Asset Disposition is in exchange for consideration having a Fair Market Value at least equal to that of the property exchanged and is in the best interest of Petro Holdings;

(b) immediately after giving effect to the Asset Disposition, no Default or Event of Default would exist; and

(c) immediately after giving effect to the Asset Disposition, the Disposition Value of all property that was the subject of any Asset Disposition occurring in the then current fiscal year of Petro Holdings would not exceed 10% of Consolidated Total Assets as of the end of the then most recently ended fiscal year of Petro Holdings.

If the Net Proceeds Amount for any Transfer is applied to a Debt Prepayment Application or a Property Reinvestment Application within 180 days after such Transfer, then such Transfer, only for the purpose of determining compliance with subsection (c) of this Section as of any date, shall be deemed not to be an Asset Disposition.

Section 10.1.7. Merger, Consolidation, etc. Petro Holdings will not, and will not permit any of its Subsidiaries to, consolidate or merge with any other corporation or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person (except that a Subsidiary of Petro Holdings other than the Company may (i) consolidate with or merge with, or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to, Petro Holdings or another Wholly-Owned Subsidiary of Petro Holdings and (ii) convey, transfer or lease all of its assets in compliance with the provisions of

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Section 10.1.6), provided that the foregoing restriction does not apply to the consolidation or merger of Petro Holdings or the Company (as the case may be, the "Predecessor Corporation") with, or the conveyance, transfer or lease of substantially all of the assets of the Predecessor Corporation in a single transaction or series of transactions to, any Person so long as:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of the Predecessor Corporation as an entirety, as the case may be (the "Successor Corporation"), shall be (i) a solvent corporation that is organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and (ii) a Wholly-Owned Subsidiary of Star Partners;

(b) if the Predecessor Corporation is not the Successor Corporation, (i) the Successor Corporation shall have executed and delivered to each holder of Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement, the Other Agreements, the Notes and the other Basic Documents to which the Predecessor Corporation is a party, and (ii) Star Partners (and, if the Predecessor Corporation is the Company, Petro Holdings) shall have executed and delivered to each holder of Notes its affirmation of its obligation under the Parent Guarantee Agreement, in each case (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders of each Series), and the Company shall have caused to be

delivered to each holder of Notes an opinion of nationally recognized independent counsel, or other independent counsel reasonably satisfactory to the Required Holders of each Series, to the effect that all agreements or instruments effecting such assumption and affirmation are enforceable in accordance with their terms and comply with the terms hereof;

(c) if the Predecessor Corporation is Petro Holdings, the Successor Corporation shall have Consolidated Net Worth equal to or greater than the Consolidated Net Worth of Petro Holdings immediately prior to such consolidation or merger;

(d) if the Predecessor Corporation is Petro Holdings, Petro Holdings shall have delivered to the holders of the Notes satisfactory evidence that, giving effect to the consummation of such consolidation or merger, the Notes will be accorded a rating of "BBB" or better by Fitch IBCA, Inc. or another rating agency designated by the Company and not objected to by the Required Holders of any Series; and

(e) immediately after giving effect to such transaction:

(i) no Default or Event of Default would exist, and

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(ii) the Successor Corporation would be permitted by the provisions of Section 10.1.2(a)(v) hereof to incur at least \$1.00 of additional Debt owing to a Person other than a Subsidiary of the Successor Corporation.

No such conveyance, transfer or lease of substantially all of the assets of a Predecessor Corporation shall have the effect of releasing such Predecessor Corporation or any Successor Corporation from its liability under this Agreement or the Notes.

Section 10.1.8. Transactions with Affiliates. Petro Holdings will not and will not permit any of its Subsidiaries to enter into directly or indirectly any transaction (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than Petro Holdings or another of its Wholly-Owned Subsidiaries), except in the ordinary course and pursuant to the reasonable requirements of Petro Holding's or such Subsidiary's business and upon fair and reasonable terms no less favorable to Petro Holdings or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate.

Section 10.2. Star Partners and its Subsidiaries.

Section 10.2.1. Restricted Payments and Restricted Investments.

(a) Limitation. Star Partners will not declare, make or incur any liability to make any Restricted Payment, and Star Partners will not, and will not permit any of its Subsidiaries to, make or authorize any Restricted Investment unless immediately after giving effect to such action:

(i) the ratio of Consolidated Operating Cash Flow to Consolidated Interest Expense of Star Partners is greater than 1.75 to 1.0 for its Four-Quarter Period then most recently ended; and

(ii) no Default or Event of Default would exist.

(b) Time of Payment. Star Partners will not, nor will it permit any of its Subsidiaries to, authorize a Restricted Payment that is not payable within 60 days of authorization, but Star Partners or its Subsidiaries shall be permitted to make a Restricted Payment that was permitted under paragraph (a) of this Section at the time of its declaration notwithstanding that it would not be permitted to be declared on the date of payment.

Section 10.2.2. Merger, Consolidation, etc. Star Partners will not consolidate or merge with any other corporation or convey, transfer or lease substantially all of its assets in a single transaction or series of

transactions to any Person, provided that the foregoing restriction does not apply to the consolidation or merger of Star Partners with, or the conveyance, transfer or

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lease of substantially all of the assets of Star Partners in a single transaction or series of transactions to, any Person so long as:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of Star Partners as an entirety, as the case may be (the "Successor Entity"), shall be a solvent corporation or limited partnership that is organized and existing under the laws of the United States of America, any State thereof or the District of Columbia;

(b) if Star Partners is not the Successor Entity, such Person shall have executed and delivered to each holder of Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement, the Other Agreements, the Parent Guarantee Agreement and the other Basic Documents to which Star Partners is a party (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders of each Series), and Star Partners shall have caused to be delivered to each holder of Notes an opinion of nationally recognized independent counsel, or other independent counsel reasonably satisfactory to the Required Holders of each Series, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof;

(c) immediately after giving effect to such transaction no Default or Event of Default would exist.

No such conveyance, transfer or lease of substantially all of the assets of Star Partners shall have the effect of releasing Star Partners or any Successor Entity from its liability under this Agreement or the Parent Guarantee Agreement.

Section 11. Events of Default.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal 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 Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) Petro Holdings defaults in the performance of or compliance with any term contained in Section 10.1 or Star Partners defaults in the performance of or compliance with any term contained in Section 10.2; or

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(d) any Constituent Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) or any other Basic Document to which such Constituent Company is a party and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer of such Constituent Company obtaining actual knowledge of such default and (ii) such Constituent Company receiving written notice of such default from



any holder of a Note; or

(e) any representation or warranty made in writing by or on behalf of any Constituent Company or by any officer of any Constituent Company in any Basic Document or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) Star Partners or any Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least \$2,000,000 beyond any period of grace provided with respect thereto, or (ii) Star Partners or any Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an aggregate outstanding principal amount of at least \$2,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or (iii) as a consequence of the occurrence or continuation of any event or condition (other than (A) the passage of time or the right of the holder of Indebtedness to convert such Indebtedness into equity interests, (B) in connection with an exchange or refinancing permitted under Section 10.1.2(a)(ii) or, in the case of Star Propane, pursuant to similar provisions in its financing agreements, and (C) the voluntary prepayment of the Debt described as items 4 through 7, inclusive, of Schedule 5.15), (x) Star Partners or any Subsidiary has become obligated to purchase or repay Indebtedness before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least \$2,000,000, or (y) one or more Persons have the right to require Star Partners or any Subsidiary so to purchase or repay such Indebtedness; or

(g) Star Partners or any Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with

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Petro Holdings, Inc.

Petroleum Heat and Power Co., Inc.

respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by Star Partners or any of its Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of Star Partners or any of its Subsidiaries, or any such petition shall be filed against Star Partners or any of its Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of \$250,000 are rendered against one or more of Star Partners and its Subsidiaries and which judgments are not, within 30 days after entry thereof, bonded, discharged or stayed pending appeal; or

(j) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a

waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified Star Partners or any ERISA Affiliate of Star Partners that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$7,000,000, (iv) Star Partners or any ERISA Affiliate of Star Partners shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) Star Partners or any ERISA Affiliate of Star Partners withdraws from any Multiemployer Plan, or (vi) Star Partners or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of Star Partners or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect on any Constituent Company; or

(k) Any Guarantor repudiates or contests its obligations or liabilities under the Guarantee Agreement to which it is a party, any Guarantee Agreement is held to be unenforceable in whole or in part against any Guarantor by any court of competent

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jurisdiction, or the Lien of any Security Document is held to be invalid or unperfected in whole or in part by any court of competent jurisdiction.

As used in Section 11(j), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in section 3 of ERISA.

#### Section 12. Remedies on Default, ETC.

Section 12.1. Acceleration. (a) If an Event of Default with respect to any Constituent Company described in paragraph (g) or (h) of Section 11 has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, any holder or holders of 51% or more of the principal amount of the Notes of either Series at the time outstanding may at any time at its or their option, by notice or notices to the Company, declare all the Notes of such Series then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder of Notes at the time outstanding affected by such Event of Default may at any time, at its option, by notice or notices to the Company, declare all the Notes held by it to be immediately due and payable.

Upon any Note's becoming due and payable under this Section 12.1, whether automatically or by declaration, such Note will forthwith mature and the entire unpaid principal amount of such Note, plus (i) all accrued and unpaid interest thereon and (ii) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, 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 any 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.

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Section 12.3. Rescission. At any time after any Notes of either Series have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the holders of not less than 51% in principal amount of the Notes of such Series then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes of such Series, all principal of and Make-Whole Amount, if any, on any Notes of such Series that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes of such Series, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes of such Series. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, etc. 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 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. Without limiting the obligations of the Constituent Companies under Section 15, the Constituent Companies jointly and severally agree to pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

Section 13. Registration; Exchange; Substitution of Notes.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in

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writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) of the same Series in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1(a). Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee of a Note, or purchaser of a participation therein, shall, by its acceptance of such Note be deemed to make the same representations to the Company regarding the Note or participation as you and the Other Purchasers have made pursuant to Section 6.2, provided that such entity may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the purchase by such entity of any Note will not constitute a non-exempt prohibited transaction under section 406(a) of ERISA.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least \$50,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note of the same Series as such lost, stolen, destroyed or mutilated Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

#### Section 14. Payments on Notes.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in New York, New York at the principal office of HSBC Bank USA in such jurisdiction.

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Section 14.2. Home Office Payment. So long as you or your nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below your name in Schedule A, or by such other method or at such other address as you shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, you shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. The

Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by you under this Agreement and that has made the same agreement relating to such Note as you have made in this Section 14.2.

Section 15. Expenses, etc.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Constituent Companies jointly and severally agree to pay all costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required, local or other counsel) incurred by you and each Other Purchaser or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement, the Notes or the other Basic Documents (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under the Notes and the other Basic Documents or in responding to any subpoena or other legal process or informal investigative demand issued in connection with the Notes or the other Basic Documents, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of any Constituent Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated by the Basic Documents. The Constituent Companies jointly and severally agree to pay, and will save you and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by you).

Section 15.2. Survival. The obligations of the Constituent Companies under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of the Basic Documents, and the termination of the Basic Documents.

Section 16. Survival of Representations and Warranties; Entire Agreement.

All representations and warranties contained herein shall survive the execution and delivery of the Basic Documents, the purchase or transfer by you of any Note or portion thereof

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or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of you or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of any Constituent Company pursuant to this Agreement shall be deemed representations and warranties of such Constituent Company under this Agreement. Subject to the preceding sentence, the Basic Documents embody the entire agreement and understanding between you and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. Amendment and Waiver.

Section 17.1. Requirements. The Basic Documents may be amended, and the observance of any term thereof may be waived (either retroactively or prospectively), with (and only with) the written consent of the Required Holders of each Series and any other necessary parties, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5 or 6 hereof, or any defined term (as it is used therein), will be effective as to you unless consented to by you in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12 or 17.

Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Constituent Companies will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions of the Basic Documents. The Constituent Companies will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Constituent Companies will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof or of any other Basic Document unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding whether or not such holder consented to such waiver or amendment.

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Section 17.3. Binding Effect, etc. Any amendment, supplement or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between any Constituent Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes of a Series then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes of a Series then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 18. Notices.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to you or your nominee, to you or it at the address specified for such communications in Schedule A, or at such other address as you or it shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to any Constituent Company, to such Constituent Company at its address set forth at the beginning hereof to the attention of President, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

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Section 19. Reproduction of Documents.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by you at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to you, may be reproduced by you by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and you may destroy any original document so reproduced. Each of the Constituent Companies 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 you in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit any Constituent Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 20. Miscellaneous.

Section 20.1. Intercreditor Agreement; Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not. Without limiting the foregoing, pursuant to Section 21(a) of the Intercreditor Agreement, by your execution hereof and of the Intercreditor Agreement Joinder substantially in the form attached hereto as Exhibit 20.1 (the "Intercreditor Agreement Joinder") you agree, and each subsequent holder of a Note by its acceptance thereof agrees, to be bound by the terms of the Intercreditor Agreement.

Section 20.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 20.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 20.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision)

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be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is

prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 20.5. Counterparts. 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. Each counterpart may consist of a number of copies hereof, each signed by fewer than all, but together signed by all, of the parties hereto.

Section 20.6. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

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Note Purchase Agreement

If you are in agreement with the foregoing, please sign the form of agreement on the accompanying counterpart of this Agreement and return it to the Company, whereupon the foregoing shall become a binding agreement between you and the Company.

Very truly yours,

Star Gas Partners, L.P.

By: Star Gas LLC, its General Partner

By  
Name:  
Title:

Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

By  
Name:  
Title:

Accepted as of the date thereof.

[Variation]

By  
Name:  
Title:

[By \_\_\_\_\_  
Name:  
Title:]

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Information Relating to Commitments and Purchasers

Purchaser	Commitment	
	Series A	Series B
The Guardian Life Insurance Company of America		\$ 5,000,000
The Guardian Life Insurance Company of America		\$ 5,000,000
The Guardian Life Insurance Company of America		\$ 5,000,000
The Guardian Insurance & Annuity Company, Inc.	\$ 500,000	
Fort Dearborn Life Insurance Company	\$ 500,000	
Teachers Insurance and Annuity Association of America	\$ 15,000,000	
Massachusetts Mutual Life Insurance Company	\$ 4,000,000	
Massachusetts Mutual Life Insurance Company	\$ 3,500,000	
Massachusetts Mutual Life Insurance Company	\$ 1,250,000	
Massachusetts Mutual Life Insurance Company	\$ 1,000,000	
Massachusetts Mutual Life Insurance Company	\$ 750,000	
C.M. Life Insurance Company	\$ 1,250,000	
MassMutual Asia Limited	\$ 250,000	
John Hancock Life Insurance Company	\$ 6,500,000	
John Hancock Life Insurance Company	\$ 2,000,000	
John Hancock Life Insurance Company	\$ 1,000,000	
John Hancock Variable Life Insurance Company	\$ 500,000	
The Ohio National Life Insurance Company		\$ 10,000,000
United of Omaha Life Insurance Company	\$ 6,000,000	
Companion Life Insurance Company	\$ 1,000,000	
Phoenix Life Insurance Company	\$ 3,000,000	
Phoenix Life Insurance Company		\$ 3,000,000
PHL Variable Insurance Company	\$ 1,000,000	
First Unum Life Insurance Company	\$ 6,000,000	
The Equitable Life Assurance Society of the United States	\$ 6,000,000	
Federal Kemper Life Assurance Company-FA	\$ 6,000,000	
Delta Life & Annuity Company	\$ 3,500,000	
The Ohio Casualty Insurance Company	\$ 2,500,000	
Security Financial Life Insurance Co.		\$ 2,000,000
Totals	\$ 73,000,000	\$ 30,000,000

Schedule A  
(to Note Purchase Agreement)

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Note Purchase Agreement

Names and Addresses of Purchasers

The Guardian Life Insurance Company of America  
7 Hanover Square  
New York, New York 10004-2616  
Attention: Thomas M. Donohue, Investment Department 20-D  
Fax Number: (212) 919-2656/2658

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.73% Series B Senior Secured Notes due 2013, PPN 716600 L#6, principal, premium or interest") to:

The Chase Manhattan Bank  
FED ABA #021000021  
CHASE/NYC/CTR/BNF  
A/C 900-9-000200  
Reference A/C #G05978, Guardian Life

And the name and CUSIP for which payment is being made

Notices

All notices of payments, on or in respect of the Notes and written confirmation of each such payment to:

The Guardian Life Insurance Company of America  
7 Hanover Square  
New York, New York 10004-2616  
Attention: Investment Accounting Dept. 17-B  
Fax Number: (212) 598-7011

All notices and communications other than those in respect to payments to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: CUDD & CO.

Taxpayer I.D. Number: 13-6022143

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Names and Addresses of Purchasers

The Guardian Insurance & Annuity Company, Inc.  
c/o The Guardian Life Insurance Company of America  
7 Hanover Square  
New York, New York 10004-2616  
Attention: Thomas M. Donohue, Investment Department 20-D  
Fax Number: (212) 919-2656/2658

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@8, principal, premium or interest") to:

The Chase Manhattan Bank  
FED ABA #021000021  
CHASE/NYC/CTR/BNF  
A/C 900-9-000200  
Reference A/C #G53637, GIAC - Guardian Tradition  
And the name and CUSIP for which payment is being made

Notices

All notices of payments, on or in respect of the Notes and written confirmation of each such payment to:

The Guardian Insurance & Annuity Company, Inc.  
c/o The Guardian Life Insurance Company of America  
7 Hanover Square  
New York, New York 10004-2616  
Attention: Investment Accounting Dept. 17-B  
Fax Number: (212) 598-7011

All notices and communications other than those in respect to payments to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: CUDD & CO.

Taxpayer I.D. Number: 13-6022143

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Star Gas Partners, L.P.  
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Names and Addresses of Purchasers

Fort Dearborn Life Insurance Company  
c/o Guardian Asset Management Corp.  
Fixed Income Securities  
7 Hanover Square -20D  
New York, New York 10004-2616  
Attention: Thomas M. Donohue  
Fax Number: (212) 919-2656/2658

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@ 8, principal, premium or interest") to:

Bank One  
ABA #044000037  
For further credit to Bank One  
Account #980401787  
Attention: A/C #2600218703 Ft. Dearborn Life Insurance Company - Guardian  
MVA

Notices

Address for all notices relating to payments:

Fort Dearborn Life Insurance Company  
c/o The Guardian Life Insurance Company of America  
Attention: Investment Accounting Department 17-B  
7 Hanover Square  
New York, New York 10004-2616  
Fax Number: (212) 598-7011

All other notices and communications to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: Bank One & Co.

Taxpayer I.D. Number: 36-2598882

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

John Hancock Life Insurance Company  
John Hancock Place  
200 Clarendon Street  
Boston, Massachusetts 02117

Payments

All payments on account of the Notes or other obligations in accordance with the provisions thereof shall be made by bank wire transfer of immediately available funds for credit, not later than 12 noon, Boston time, to:

Fleet Boston  
ABA #011000390  
Boston, Massachusetts 02110  
Account of: John Hancock Life Insurance Company  
Private Placement Collection Account  
Account Number 541-55417  
On Order of: [Name of Issuer and PPN Number]  
[Full name, interest rate and maturity date of the Notes or other obligations]

Notices

Contemporaneous with the above wire transfer, advice setting forth (1) the full name, interest rate and maturity date of the Notes or other obligations; (2) allocation of payment between principal and interest and any special payment; and (3) name and address of Bank (or Trustee) from which wire transfer was sent, shall be faxed and mailed to:

John Hancock Life Insurance Company  
200 Clarendon Street  
Boston, Massachusetts 02117  
Attention: Investment Accounting Division, B-3  
Fax: (617) 572-0628

All notices with respect to prepayments, both scheduled and unscheduled, whether partial or in full, and notice of maturity shall also be faxed and mailed as set forth immediately above.

All other communications which shall include, but not be limited to, financial statements and certificates of compliance with financial covenants, shall be faxed and mailed to:

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Star Gas Partners, L.P. Note Purchase Agreement  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

John Hancock Life Insurance Company  
200 Clarendon Street  
Boston, Massachusetts 02117  
Attention: Bond and Corporate Finance Group, T-57  
Fax: (617) 572-1605

A copy of any notices relating to change in issuer's name, address or principal place of business or location of collateral and a copy of any legal opinions shall be faxed and mailed to:

John Hancock Life Insurance Company  
200 Clarendon Street  
Boston, Massachusetts 02117  
Attention: Investment Law Division, T-30  
Fax: (617) 572-9269

Name in which Notes are to be issued: John Hancock Life Insurance Company

Taxpayer I.D. Number: 04-1414660

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Star Gas Partners, L.P. Note Purchase Agreement  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

John Hancock Life Insurance Company  
John Hancock Place  
200 Clarendon Street  
Boston, Massachusetts 02117

#### Payments

All payments on account of the Notes or other obligations in accordance with the provisions thereof shall be made by bank wire transfer of immediately available funds for credit, not later than 12 noon, Boston time, to:

Investors Bank & Trust Company  
Boston, Massachusetts 02116  
ABA #011001438  
Account Name: Receipts  
Account Number: 796509107  
Reference: S/A 18, Account 99266  
On Order of: [Name of Issuer and PPN Number]  
[Full name, interest rate and maturity date of the Notes or other obligations]

#### Notices

Contemporaneous with the above wire transfer, advice setting forth (1) the full name, interest rate and maturity date of the Notes or other obligations; (2) allocation of payment between principal and interest and any special payment; and (3) name and address of Bank (or Trustee) from which wire transfer was sent, shall be delivered or faxed and mailed to:

Investors Bank & Trust Company  
200 Clarendon Street  
Boston, Massachusetts 02116  
Attention: Jackie Argenzio  
Fax: (617) 572-8302

All notices with respect to prepayments, both scheduled and unscheduled, whether partial or in full, and notice of maturity shall also be faxed and mailed as set forth immediately above.

All other communications which shall include, but not be limited to, financial statements and certificates of compliance with financial covenants, shall be delivered or faxed and mailed to:

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

John Hancock Life Insurance Company  
200 Clarendon Street  
Boston, Massachusetts 02117  
Attention: Bond and Corporate Finance Group, T-57  
Fax: (617) 572-1605

A copy of any notices relating to change in issuer's name, address or principal place of business or location of collateral and a copy of any legal opinions shall be delivered or faxed and mailed to:

John Hancock Life Insurance Company  
200 Clarendon Street  
Boston, Massachusetts 02117  
Attention: Investment Law Division, T-30  
Fax: (617) 572-9269

Name in which Notes are to be issued: John Hancock Life Insurance Company

Taxpayer I.D. Number: 04-1414660

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

John Hancock Variable Life Insurance Company  
John Hancock Place  
200 Clarendon Street  
Boston, Massachusetts 02117

Payments

All payments on account of the Notes or other obligations in accordance with the provisions thereof shall be made by bank wire transfer of immediately available funds for credit, not later than 12 noon, Boston time, to:

Fleet Boston  
ABA #011000390  
Boston, Massachusetts 02110  
Account of: John Hancock Life Insurance Company  
Private Placement Collection Account  
Account Number 541-55417  
On Order of: [Name of Issuer and PPN Number]  
[Full name, interest rate and maturity date of the Notes or other obligations]

Notices

Contemporaneous with the above wire transfer, advice setting forth (1) the full name, interest rate and maturity date of the Notes or other obligations; (2) allocation of payment between principal and interest and any special payment; and (3) name and address of Bank (or Trustee) from which wire transfer was sent, shall be faxed and mailed to:

John Hancock Variable Life Insurance Company  
200 Clarendon Street  
Boston, Massachusetts 02117  
Attention: Investment Accounting Division, B-3  
Fax: (617) 572-0628

All notices with respect to prepayments, both scheduled and unscheduled, whether partial or in full, and notice of maturity shall also be faxed and mailed as set forth immediately above.

All other communications which shall include, but not be limited to, financial statements and certificates of compliance with financial covenants, shall be faxed and mailed to:

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

John Hancock Life Insurance Company  
200 Clarendon Street  
Boston, Massachusetts 02117  
Attention: Bond and Corporate Finance Group, T-57  
Fax: (617) 572-1605

A copy of any notices relating to change in issuer's name, address or principal place of business or location of collateral and a copy of any legal opinions shall be faxed and mailed to:

John Hancock Life Insurance Company  
200 Clarendon Street  
Boston, Massachusetts 02117  
Attention: Investment Law Division, T-30  
Fax: (617) 572-9269

Name in which Notes are to be issued: John Hancock Variable Life Insurance Company

Taxpayer I.D. Number: 04-2664016

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Star Gas Partners, L.P. Note Purchase Agreement  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Names and Addresses of Purchasers

Teachers Insurance and Annuity  
Association of America  
730 Third Avenue  
New York, New York 10017-3206

Payments

All payments on or in respect of the Notes shall be made in immediately available funds at the opening of business on the due date by electronic funds transfer through the Automated Clearing House System to:

Chase Manhattan Bank  
ABA #021-000-021  
Account of: Teachers Insurance and Annuity Association of America  
Account Number 900-2-000200  
For further credit to the TIAA Account Number: G07040  
Reference: PPN#/Issuer/Mat. Date/Coupon Rate/P&I Breakdown

Notices

Contemporaneous with the above electronic funds transfer, advice setting forth (1) the full name, private placement number and interest rate of the Notes; (2) allocation of payment between principal, interest, premium and any special payment; and (3) name and address of Bank (or Trustee) from which wire transfer was sent, shall be delivered, mailed or faxed to:

Teachers Insurance and Annuity Association of America  
730 Third Avenue  
New York, New York 10017-3206  
Attention: Securities Accounting Division  
Telephone: (212) 916-6004  
Fax: (212) 916-6955

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Star Gas Partners, L.P. Note Purchase Agreement  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

All other notices and communications shall be delivered or mailed to:

Teachers Insurance and Annuity Association of America  
730 Third Avenue  
New York, New York 10017-3206  
Attention: Securities Division

Telephone: (212) 916-6372 (Cynthia Bush)  
(212) 916-9000 (General Number)  
Fax: (212) 916-6582 (Team Fax Number)

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 13-1624203

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Star Gas Partners, L.P. Note Purchase Agreement  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Names and Addresses of Purchasers

Massachusetts Mutual Life Insurance  
Company  
c/o David L. Babson & Company Inc.  
1295 State Street  
Springfield, Massachusetts 01111  
Attention: Securities Investment Division

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@8, principal, premium or interest") to:

Citibank, N.A.  
111 Wall Street  
New York, New York 10043  
ABA #021000089  
Re: Description of security, principal and interest split  
For credit to the accounts listed below:

Principal Amount of Notes	Account Name	Account Number
\$4,000,000	MassMutual Long-Term Pool	4067-3488
\$3,500,000	MassMutual Spot Priced Contract	3890-4953
\$ 750,000	MassMutual Structured Settlement Fund	4065-5423

In each case with telephone advice of payment to the Securities Custody and Collection Department of David L. Babson & Company Inc. at (413) 744-5104 or (413) 744-5718.

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments to be addressed Attention: Securities Custody and Collection Department, F 381.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 04-1590850

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Star Gas Partners, L.P. Note Purchase Agreement  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Names and Addresses of Purchasers



Massachusetts Mutual Life Insurance  
 Company  
 c/o David L. Babson & Company Inc.  
 1295 State Street  
 Springfield, Massachusetts 01111  
 Attention: Securities Investment Division

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@8, principal, premium or interest") to:

Chase Manhattan Bank, N.A.  
 4 Chase MetroTech Center  
 New York, New York 10081  
 ABA #021000021  
 Re: Description of security, principal and interest split

For credit to the accounts listed below:

Principal Amount of Notes	Account Name	Account Number
\$1,250,000	MassMutual IMF Non-Traditional	910-2509073
\$1,000,000	MassMutual Pension Management	910-2594018

In each case with telephone advice of payment to the Securities Custody and Collection Department of David L. Babson & Company Inc. at (413) 744-5104 or (413) 744-5718.

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments to be addressed Attention: Securities Custody and Collection Department, F 381.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 04-1590850

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Star Gas Partners, L.P. Note Purchase Agreement  
 Petro Holdings, Inc.  
 Petroleum Heat and Power Co., Inc.

Names and Addresses of Purchasers

C.M. Life Insurance Company  
 c/o Massachusetts Mutual Life Insurance Company  
 c/o David L. Babson & Company Inc.  
 1295 State Street  
 Springfield, Massachusetts 01111  
 Attention: Securities Investment Division

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@8, principal, premium or interest") to:

Citibank, N.A.  
 111 Wall Street  
 New York, New York 10043  
 ABA #021000089  
 For Segment 43 - Universal Life Account Number 4068-6561

Re: Description of security, principal and interest split

With telephone advice of payment to the Securities Custody and Collection Department of David L. Babson & Company Inc. at (413) 744-5104 or (413) 744-5718.

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments to be addressed Attention: Securities Custody and Collection Department, F 381.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 06-1041383

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Star Gas Partners, L.P. Note Purchase Agreement  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Names and Addresses of Purchasers

Massmutual Asia Limited  
c/o David L. Babson & Company Inc.  
1295 State Street  
Springfield, Massachusetts 01111  
Attention:  
Securities Investment Division

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@8, principal, premium or interest") to:

Citibank, N.A  
111 Wall Street  
New York, New York 10043  
ABA #021000089  
Account Number 30413797  
Re: Description of security, principal and interest split

With telephone advice of payment to the Securities Custody and Collection Department of David L. Babson & Company Inc. at (413) 744-5104 or (413) 744-5718.

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments to be addressed Attention: Securities Custody and Collection Department, F 381.

Name of Nominee in which Notes are to be issued: None

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Star Gas Partners, L.P. Note Purchase Agreement  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Names and Addresses of Purchasers

The Ohio National Life Insurance Company

P. O. Box 237  
Cincinnati, Ohio 45201  
Attention: Investment Department  
Telefacsimile: (513) 794-4506  
Overnight Delivery Address:  
One Financial Way  
Cincinnati, Ohio 45242

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.73% Series B Senior Secured Notes due 2013, PPN 716600 L#6, principal, premium or interest") to:

Firststar Bank, N.A. (ABA #042-0000-13)  
Fifth and Walnut Streets  
Cincinnati, Ohio 45202

for credit to: The Ohio National Life Insurance Company  
Account Number 910-275-7

Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 31-0397080

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Star Gas Partners, L.P. Note Purchase Agreement  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Names and Addresses of Purchasers

United of Omaha Life Insurance Company  
Mutual of Omaha Plaza  
Omaha, Nebraska 68175-1011  
Attention: 4-Investment Loan Administration

Payments

All principal and interest payments on the Notes shall be made by wire transfer of immediately available funds to:

Chase Manhattan Bank  
ABA #021-000-021  
Private Income Processing

for credit to: United of Omaha Life Insurance Company  
Account Number 900-9000200  
a/c G07097  
PPN: 716600 L@8  
Interest Amount: \_\_\_\_\_  
Principal Amount: \_\_\_\_\_

Notices

All notices of payments, on or in respect of the Notes and written confirmation of each such payment, corporate actions and reorganization notifications to:

The Chase Manhattan Bank  
4 New York Plaza-11th Floor  
New York, New York 10004  
Attention: Income Processing-J. Pipperato  
a/c: G07097

All other notices and communications (i.e., quarterly/annual reports, tax filings, modifications, waivers regarding the indenture) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 47-0322111

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

Companion Life Insurance Company  
c/o Mutual of Omaha Insurance Company  
Mutual of Omaha Plaza  
Omaha, Nebraska 68175-1011  
Attention: 4 - Investment Loan Administration

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

Chase Manhattan Bank  
ABA #021000021  
Private Income Processing

for credit to: Companion Life Insurance Company  
Account Number 900-9000200  
a/c G07903  
PPN: 716600 L@8  
Interest Amount: \_\_\_\_\_  
Principal Amount: \_\_\_\_\_

Notices

All notices of payments, on or in respect of the Notes and written confirmation of each such payment, corporate actions and reorganization notifications to:

The Chase Manhattan Bank  
4 New York Plaza-11th Floor  
New York, New York 10004  
Attention: Investment Processing-J. Pipperato  
a/c: G07903

All other notices and communications (i.e., quarterly/annual reports, tax filings, modifications, waivers regarding the indenture) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 13-1595128

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

Phoenix Life Insurance Company  
c/o Phoenix Investment Partners  
56 Prospect Street  
P. O. Box 150480  
Hartford, Connecticut 06115-0480  
Attention: Private Placements Department  
Fax Number: (860) 403-7248

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

ABA #021 000 021  
Chase Manhattan Bank, N.A  
New York, New York 10022

Account Number: 900 9000 200  
Account Name: Income Processing  
Reference: G05520, Phoenix Home, PPN=716600 L@8, OBI=Petroleum Heat and Power Co., Inc., RATE=8.05%, DUE=2006 (INCLUDE Company name, principal and interest breakdown and premium, if any)

Notices

All notices and communications, including financial statements, notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 06-0493340

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

Phoenix Life Insurance Company  
c/o Phoenix Investment Partners  
56 Prospect Street  
P. O. Box 150480  
Hartford, Connecticut 06115-0480  
Attention: Private Placements Department  
Fax Number: (860) 403-7248

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

ABA #021 000 021  
Chase Manhattan Bank, N.A  
New York, New York 10022

Account Number: 900 9000 200  
Account Name: Income Processing  
Reference: G05123, Phoenix Home, PPN=716600 L#6, OBI=Petroleum Heat and Power Co., Inc., RATE=8.73%, DUE=2013 (INCLUDE Company name, principal and interest breakdown and premium, if any)

Notices

All notices and communications, including financial statements, notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 06-0493340

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

PHL Variable Insurance Company  
c/o Phoenix Investment Partners  
56 Prospect Street  
P. O. Box 150480  
Hartford, Connecticut 06115-0480  
Attention: Private Placements Department  
Fax Number: (860) 403-7248

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds to:

ABA #021 000 021  
Chase Manhattan Bank, N.A  
New York, New York 10022

Account Number: 900 9000 200  
Account Name: Income Processing  
Reference: G09163, Phoenix Home, PPN=716600 L@8, OBI=Petroleum Heat and Power Co., Inc., RATE=8.05%, DUE=2006 (INCLUDE Company name, principal and interest breakdown and premium, if any)

Notices

All notices and communications, including financial statements, notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 06-1045829

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

First Unum Life Insurance Company  
c/o Provident Investment Management, LLC  
Private Placements  
One Fountain Square  
Chattanooga, Tennessee 37402  
Telephone: (423) 755-1172  
Fax: (423) 755-3351

Payments

All payments on or in respect of the Notes to be by bank wire transfer of

Federal or other immediately available funds to:

CUDD & CO.  
c/o The Chase Manhattan Bank  
New York, New York  
ABA #021 000 021  
SSG Private Income Processing  
A/C #900-9-000200  
Custodial Account Number G08289

Please reference: Petroleum Heat and Power Co., Inc.  
PPN 716600 L@8  
8.05%  
Due 2006  
Principal=\$ \_\_\_\_\_  
Interest=\$ \_\_\_\_\_

Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: CUDD & CO.

Taxpayer I.D. Number for CUDD & CO.: 13-6022143

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

The Equitable Life Assurance Society  
of the United States  
c/o Alliance Capital Management Corporation  
1345 Avenue of the Americas, 37th Floor  
New York, New York 10105  
Attention: Robert Bayer, Vice President of  
Alliance Capital Management Corp. and an  
Investment Officer of The Equitable Life Assurance  
Society of the United States  
Telephone: (212) 969-6776

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@8, principal, premium or interest") to:

The Chase Manhattan Bank, N.A.  
1251 Avenue of the Americas  
New York, New York 10020  
ABA #021-000021  
Account of: The Equitable Life Assurance Society of the United States  
Account Number: 037-2-417394

Notices

All notices of payment, on or in respect of the Notes, and written confirmation of each such payment to be addressed:

c/o Alliance Capital Management Corporation  
500 Plaza Drive, 6th Floor  
Secaucus, New Jersey 07094  
Attention: Cosmo Valente  
Telephone: (201) 319-4880

All notices and communications other than those in respect to payments to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 13-5570651

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

Federal Kemper Life Assurance Company-FA  
c/o Zurich Scudder Investments, Inc.  
222 South Riverside Plaza  
Chicago, Illinois 60606-5808  
Attention: Private Placements

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@ 8, principal, premium or interest") to:

HARE & Co - Account No. 399889  
at  
The Bank of New York  
ABA #021000018  
BNF  
IOC 566  
Attention: Security Income Collection

Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: HARE & Co

Taxpayer I.D. Number: 04-6046830

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

Delta Life & Annuity Company  
c/o AmerUs Capital Management  
699 Walnut Street, Suite 300  
Des Moines, Iowa 50309  
Attention: Tamara Harmon  
Telephone: (515) 362-3527  
Facsimile: (515) 362-3587

Payments



All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@8, principal, premium or interest") to:

The Bank of New York  
New York, New York  
ABA #021000018  
BNF: IOC566  
Attention: P&I Department  
Reference: Delta Life & Annuity Account 088733, PPN Number 716600 L@8

All notices and communications with respect to payments and written confirmation of each such payment, to be addressed:

Delta Life & Annuity Company  
c/o AmerUs Capital Management  
699 Walnut Street, Suite 300  
Des Moines, Iowa 50309  
Attention: Denise Waldron  
Telephone: (515) 362-3509  
Facsimile: (515) 283-3439

All other notices and communications to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: HARE & CO.

Taxpayer I.D. Number for Hare & Co.: 13-6062916

Taxpayer I.D. Number for Delta Life: 71-0599205

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

#### Names and Addresses of Purchasers

The Ohio Casualty Insurance Company  
9450 Seward Road  
Fairfield, Ohio 45014  
Attention: Greg J. Schmidt, Investments

#### Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.05% Series A Senior Secured Notes due 2006, PPN 716600 L@8, principal, premium or interest") to:

CHASE NYC/CUST  
ABA #021000021  
A/C #900-9-000200  
Attention: Income Collection  
FAO: A/C G 06431, Ohio Casualty  
Re: PPN: 716600 L@8

#### Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments and written confirmation of each such payment, to be addressed as follows:

The Ohio Casualty Insurance Company  
9450 Seward Road  
Fairfield, Ohio 45014  
Attention: Jane A. Schriever, Asset Administration

Name of Nominee in which Notes are to be issued: Cudd & Co.

Taxpayer I.D. Number for Cudd & Co.: 13-6022143

Taxpayer I.D. Number for Ohio Casualty: 31-0396250

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Names and Addresses of Purchasers

Security Financial Life Insurance Co.  
4000 Pine Lake Road  
P. O. Box 82248  
Lincoln, Nebraska 68501-2248

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Petroleum Heat and Power Co., Inc., 8.73% Series B Senior Secured Notes due 2013, PPN 716600 L# 6, principal, premium or interest") to:

Wells Fargo Bank, Nebraska, N.A.  
1248 "O" Street  
Lincoln, Nebraska 68508  
ABA #104-000-058

Account of: Security Financial Life  
Account Number 79-40-797-624

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments and written confirmation of each such payment to be addressed:

Security Financial Life Insurance Co.  
4000 Pine Lake Road  
P. O. Box 82248  
Lincoln, Nebraska 68516  
Attention: Investment Division  
Fax: (402) 434-9599  
Phone: (402) 434-9500

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 47-0293990

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Defined Terms

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the express requirements of this Agreement.

Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall

be applicable whether the action in question is taken directly or indirectly by such Person.

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Acquisition Facility" means Facility C under the Credit Agreement for acquisitions and capital expansions in a maximum principal amount of \$50,000,000 at any time outstanding.

"Affiliate" means, at any time, and with respect to any Person, (a) any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person, and (b) any Person beneficially owning or holding, directly or indirectly, 10% or more of any class of voting or equity interests of any Constituent Company or any Subsidiary or any corporation of which the Constituent Companies and their Subsidiaries beneficially own or hold, in the aggregate, directly or indirectly, 10% or more of any class of voting or equity interests. As used in this definition, "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of a Constituent Company.

"Agent" means Bank of America National Trust and Savings Association, as administrative agent for the Banks under the Credit Agreement.

"Asset Disposition" means any Transfer except:

- (a) any
  - (i) Transfer from a Subsidiary to Petro Holdings or a Wholly-Owned Subsidiary;
  - (ii) Transfer from Petro Holdings to a Wholly-Owned Subsidiary that is a Guarantor; and
  - (iii) Sale-and-Leaseback Transaction entered into by Petro Holdings or one of its Subsidiaries within 180 days following the acquisition or construction

Schedule B  
(to Note Purchase Agreement)

Star Gas Partners, L.P. Note Purchase Agreement  
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by Petro Holdings or such Subsidiary of the property subject to such Sale-and-Leaseback Transaction,

so long as immediately before and immediately after the consummation of any such Transfer and after giving effect thereto, no Default or Event of Default exists; and

(b) any Transfer made in the ordinary course of business and involving only property that is either (i) inventory held for sale or (ii) equipment, fixtures, supplies or materials no longer required in the operation of the business of Petro Holdings or any of its Subsidiaries or that is obsolete.

"Banks" means the Agent and the other banks as are at the time of reference parties to the Credit Agreement.

"Basic Documents" means this Agreement, the Other Agreements, the Guarantee Agreements, the Intercreditor Agreement, the Intercreditor Agreement Joinder, the other Security Documents and the Notes.

"Business Day" means for the purposes of Section 8.7, Section 11(b) and Section 20.2, any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"Capital Lease" means a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Lease Obligation" means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

"Closing" is defined in Section 3.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Petroleum Heat and Power Co., Inc., a Minnesota corporation.

"Consolidated Interest Expense" of any Person for any period means the sum (without duplication) of (i) all interest deducted (including the interest component of Capitalized Lease Obligations) net of up to \$3,000,000 of interest income received in any Four Quarter Period (or a ratable portion for any other period) in determining its Consolidated Net Income, together with all interest capitalized or deferred during such period and not deducted in determining

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Consolidated Net Income for such period, and (ii) all Debt issuance cost, discount and expense amortized.

"Consolidated Net Income" means, with reference to any Person for any period, the net income (or loss) of such Person and its Subsidiaries for such period (taken as a cumulative whole), as determined in accordance with GAAP, after eliminating all offsetting debits and credits between such Person and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of such Person and its Subsidiaries in accordance with GAAP, provided that there shall be excluded:

(a) the income (or loss) of any other Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with such Person or a Subsidiary of such Person, and the income (or loss) of any such Person, substantially all of the assets of which have been acquired in any manner, realized by such other Person prior to the date of acquisition,

(b) the income (or loss) of any other Person (other than a Subsidiary of such Person) in which such Person or any Subsidiary of such Person has an ownership interest, except to the extent that any such income has been actually received by such Person or its Subsidiary in the form of cash dividends or similar cash distributions, it being understood that all amounts actually received by such Person shall be included in Consolidated Net Income,

(c) the undistributed earnings of any Subsidiary of such Person to the extent that the declaration or payment of dividends or similar distributions by such 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 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, conversion, exchange or other disposition of capital assets (such term to include, without limitation, (i) all non-current assets and, without duplication, (ii) the following, whether or not current: all fixed assets, whether tangible or intangible, all inventory sold in conjunction with the disposition of fixed assets, and all Securities),

(f) any gains resulting from any write-up of any assets (but not any loss resulting from any write-down of any assets),

(g) any net gain from the collection of the proceeds of life insurance policies,

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(h) any gain arising from the acquisition of any Security, or the extinguishment, under GAAP, of any Debt, of such Person or any Subsidiary of such Person,

(i) any net income or gain (but not any net loss) during such period from (i) any change in accounting principles in accordance with GAAP, (ii) any prior period adjustments resulting from any change in accounting principles in accordance with GAAP, (iii) any extraordinary items, or (iv) any discontinued operations or the disposition thereof,

(j) any deferred credit representing the excess of equity in any Subsidiary of such Person at the date of acquisition over the cost of the investment in such Subsidiary,

(k) in the case of a successor to such Person 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, and

(l) any portion of such net income that cannot be freely converted into United States Dollars.

"Consolidated Net Worth" means, for any Person at any time,

(a) the total assets of such Person and its Subsidiaries which would be shown as assets on a consolidated balance sheet of such Person and its Subsidiaries as of such time prepared in accordance with GAAP, after eliminating all amounts properly attributable to minority interests, if any, in the stock and surplus of its Subsidiaries, minus

(b) the total liabilities of such Person and its Subsidiaries which would be shown as liabilities on a consolidated balance sheet of such Person and its Subsidiaries as of such time prepared in accordance with GAAP.

"Consolidated Operating Cash Flow" of any Person for any period means the sum of (i) Consolidated Net Income of such Person for such period plus, to the extent deducted in arriving at such Consolidated Net Income; (ii) (w) depreciation, depletion, amortization, and all other non-cash expenses of such Person for such period; (x) income tax expense of such Person for such period; (y) interest expense of such Person for such period; and (z) in the case of fiscal year of the Constituent Companies ending September 30, 1999, so much of the costs associated with the Restructuring Transactions, the Company's "corporate identity program" and internal restructuring costs as shall not exceed \$20,000,000 in the aggregate, all determined for such Person and its Subsidiaries in accordance with GAAP.

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"Consolidated Pro Forma Operating Cash Flow" of any Person for any period means Consolidated Operating Cash Flow of such Person for such period determined on a Pro Forma Basis.

"Consolidated Pro Forma Interest Expense" of any Person for any period means Consolidated Interest Expense of such Person for such period determined on a Pro Forma Basis.

"Consolidated Pro Forma Total Debt" means, as of any date (the "determination date"), the amount of Debt outstanding on the determination date of Petro Holdings and its Subsidiaries (excluding Debt outstanding under the Working Capital Facility as of the determination date but including the High Balance during the Low Period) determined on a consolidated basis in accordance with GAAP on a Pro Forma Basis. For purposes of this definition:

"High Balance" during any period shall mean the highest unpaid principal amount of the Working Capital Facility at any time during such period.

"Low Period" means the period of 45 consecutive days during which the average of the High Balances on each such day was the lowest of any period of 45 consecutive days within the period of 410 days preceding the determination date.

"Consolidated Total Assets" means, as of any date of determination, the total assets of Petro Holdings and its Subsidiaries which would be shown as assets on a consolidated balance sheet of Petro Holdings as of such time, prepared in accordance with GAAP.

"Credit Agreement" means (i) the Credit Agreement dated as of March 25, 1999 among the Company, the Agent, the Banks and The Chase Manhattan Bank, as issuer of certain letters of credit, as amended and restated by the Second Restated Credit Agreement, and (ii) any other agreement entered into by the Company in replacement thereof or substitution therefor.

"Debt" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

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(e) Swaps of such Person; and

(f) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (e) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (f) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Debt Prepayment Application" means, with respect to any Transfer of property, the application by Petro Holdings or its Subsidiaries of cash in an amount equal to the Net Proceeds Amount with respect to such Transfer to pay Senior Debt of Petro Holdings (other than Senior Debt owing to Petro Holdings, any of its Subsidiaries or any Affiliate and Senior Debt in respect of any revolving credit or similar credit facility providing Petro Holdings or any of its Subsidiaries with the right to obtain loans or other extensions of credit from time to time, except to the extent that in connection with such payment of Senior Debt the availability of credit under such credit facility is permanently

reduced by an amount not less than the amount of such proceeds applied to the payment of such Senior Debt), provided that in the course of making such application Petro Holdings shall offer to prepay each outstanding Note in accordance with Section 8.2 in a principal amount which, when added to the Make-Whole Amount applicable thereto, equals the Ratable Portion for such Note. If any holder of a Note fails to accept such offer of prepayment, then, for purposes of the preceding sentence only, Petro Holdings nevertheless will be deemed to have paid Senior Debt in an amount equal to the Ratable Portion for such Note. "Ratable Portion" for any Note means an amount equal to the product of (x) the Net Proceeds Amount being so applied to the payment of Senior Debt multiplied by (y) a fraction the numerator of which is the outstanding principal amount of such Note and the denominator of which is the aggregate principal amount of Senior Debt of Petro Holdings and its Subsidiaries.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means as to the Notes of each Series that rate of interest that is the greater of (i) 2% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes of such Series or (ii) 4.5% over the rate of interest publicly announced by Bank of America in Charlotte, North Carolina as its "reference" rate.

"Disposition Value" means, at any time, with respect to any property

(a) in the case of property that does not constitute Subsidiary Stock, the book value thereof, valued at the time of such disposition in good faith by Petro Holdings, and

(b) in the case of property that constitutes Subsidiary Stock, an amount equal to that percentage of book value of the assets of the Subsidiary that issued such stock as is

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equal to the percentage that the book value of such Subsidiary Stock represents of the book value of all of the outstanding capital stock of such Subsidiary (assuming, in making such calculations, that all Securities convertible into such capital stock are so converted and giving full effect to all transactions that would occur or be required in connection with such conversion) determined at the time of the disposition thereof, in good faith by Petro Holdings.

"Distribution" means, in respect of any corporation, association or other business entity:

(a) dividends or other distributions or payments on capital stock or other equity interest of such corporation, association or other business entity (except distributions in such stock or other equity interest); and

(b) the redemption or acquisition of such stock or other equity interests or of warrants, rights or other options to purchase such stock or other equity interests (except when solely in exchange for such stock or other equity interests) unless made, contemporaneously, from the net proceeds of a sale of such stock or other equity interests.

"Environmental Laws" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

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

amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with any Constituent Company under section 414 of the Code.

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchanged Senior Notes" means the following Notes of the Company: \$62,697,000 aggregate original principal amount 9% Senior Secured Notes due October 1, 2002 and \$2,140,000 aggregate original principal amount 10.25% Senior Secured Notes due January 15, 2001.

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"Fair Market Value" means, at any time and with respect to any property, the sale value of such property that would be realized in an arm's-length sale at such time between an informed and willing buyer and an informed and willing seller (neither being under a compulsion to buy or sell).

"First Intercreditor Agreement Supplement" means the First Supplement dated as of October 1, 2000, substantially in the form attached hereto as Exhibit 1(c)-2.

"Four-Quarter Period" means with respect to any Person any period of four consecutive fiscal quarters of such Person.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guarantee Agreements" is defined in Section 1.

"Guarantors" is defined in Section 1.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet

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condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of any other Person to make payment of the Indebtedness or obligation; or

(d) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

In any computation of the Indebtedness or other liabilities of the obligor under any Guaranty, the Indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

The term "holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of mandatorily redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) all liabilities appearing on its balance sheet in accordance with GAAP in respect of Capital Leases;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

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(e) all its liabilities 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);

(f) Swaps of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Indebtedness of any Person shall include all obligations of such Person of the

character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 2% of the aggregate principal amount of the Notes of either Series then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Intercreditor Agreement" is defined in Section 1(c).

"Intercreditor Agreement Joinder" is defined in Section 20.1.

"Investment" of any Person means any investment, made in cash or by delivery of property, by such Person or any of its Subsidiaries (i) in any other Person, whether by acquisition of stock, Indebtedness or other obligation or Security, or by loan, Guaranty, advance, capital contribution or otherwise, or (ii) in any property.

"Letter of Credit Facility" means Facility B under the Credit Agreement in a maximum amount of \$20,000,000 at any time outstanding for letters of credit supporting Debt incurred in connection with (w) performance bonds or letters of credit issued in the ordinary course of business or reimbursement obligations in respect thereof, (x) obligations in respect of Swaps, (y) obligations (including reimbursement obligations in respect of letters of credit) related to workmen's compensation insurance and (z) bank overdrafts, provided that no such overdraft shall remain outstanding for a period of more than three Business Days.

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, 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, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Make-Whole Amount" is defined in Section 8.7.

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"Material" means with respect to any Constituent Company material in relation to the business, operations, affairs, financial condition, assets, properties, or prospects of such Constituent Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means with respect to any Constituent Company a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of such Constituent Company and its Subsidiaries taken as a whole, or (b) the ability of such Constituent Company to perform its obligations under the Basic Documents, or (c) the validity or enforceability of the Basic Documents.

"Meenan Acquisition" means the purchase by Petro, Inc. of (i) all of the limited partnership interests in Meenan Oil Co., L.P., a Delaware limited partnership, (ii) all of the capital stock of Meenan Oil Co., Inc., a Delaware corporation (and the sole general partner of Meenan Oil Co. L.P. and majority shareholder of Blueray Systems, Inc.), and (iii) directly or indirectly, all of the shares of capital stock of Blueray Systems, Inc., a Delaware corporation.

"Memorandum" is defined in Section 5.3.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"Net Proceeds" means, with respect to capital stock, with respect to any period, cash proceeds (net of all costs and out-of-pocket expenses in connection therewith, including, without limitation, placement, underwriting and brokerage

fees and expenses), received by Petro Holdings and its Subsidiaries during such period, from the sale of all capital stock (other than Redeemable capital stock) of Petro Holdings, including in such net proceeds:

(a) the net amount paid upon issuance and exercise during such period of any right to acquire any capital stock, or paid during such period to convert a convertible debt Security to capital stock (but excluding any amount paid to Petro Holdings upon issuance of such convertible debt Security); and

(b) any amount paid to Petro Holdings upon issuance of any convertible debt Security issued after April 1, 1999, and thereafter converted to capital stock during such period.

"Net Proceeds Amount" means, with respect to any Transfer of any Property by any Person, an amount equal to the difference of

(a) the aggregate amount of the consideration (valued at the Fair Market Value of such consideration at the time of the consummation of such Transfer) received by such Person in respect of such Transfer, minus

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(b) all ordinary and reasonable out-of-pocket costs and expenses actually incurred by such Person in connection with such Transfer.

"1999 Senior Notes" means the following Notes of the Company: the Exchanged Senior Notes, the \$11,000,000 aggregate original principal amount 7.56% Series A Senior Secured Notes, due April 1, 2003, \$8,000,000 aggregate original principal amount 7.61% Series B Senior Secured Notes, due April 1, 2004, \$10,000,000 aggregate original principal amount 7.71% Series C Senior Secured Notes, due April 1, 2005, \$3,000,000 aggregate original principal amount 7.82% Series D Senior Secured Notes, due April 1, 2006, \$38,000,000 aggregate original principal amount 7.97% Series E Senior Secured Notes due April 1, 2007 and \$20,000,000 aggregate original principal amount 8.27% Series F Senior Secured Notes due April 1, 2014.

"Notes" is defined in Section 1.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of a Constituent Company whose responsibilities extend to the subject matter of such certificate.

"Other Agreements" is defined in Section 2.

"Other Purchasers" is defined in Section 2.

"Parent Guarantee Agreement" is defined in Section 1.

"Parent Guarantors" is defined in Section 1.

"Parity Debt" means Senior Debt of the Company that (i) (x) is outstanding on the date hereof or (y) is incurred within the limitations of Section 10.1.2(a) (i), (iii) or (v); (ii) is issued under and secured by the Intercreditor Agreement and the other Security Documents and is supported by the Guarantees; and (iii) does not have the benefit of any other security or guarantees.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Petro Holdings" means Petro Holdings, Inc., a Minnesota corporation.

"Petro, Inc." means Petro, Inc. a Delaware corporation and a Wholly-Owned Subsidiary of the Company.

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"Plan" means an "employee benefit plan" (as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by any Constituent Company or any ERISA Affiliate or with respect to which such Constituent Company or any ERISA Affiliate may have any liability.

"Preferred Stock" means any class of capital stock of a corporation that is preferred over any other class of capital stock of such corporation as to the payment of dividends or the payment of any amount upon liquidation or dissolution of such corporation.

"Priority Debt" means the sum of (i) all Debt secured by Liens permitted by Section 10.1.3(k) and (ii) all Debt of Subsidiaries permitted by Section 10.1.2(b) (z).

The terms "property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"Pro Forma Basis" means the adjustment of any item of income or expense of any Person for any period as follows:

(1) if such Person or any of its Subsidiaries has incurred, repaid, discharged or defeased any Debt since the beginning of such period, Consolidated Operating Cash Flow and Consolidated Interest Expense of such Person for such period will be calculated after giving effect on a pro forma basis to (A) the incurrence of any Debt as if such Debt had been incurred on the first day of such period, (B) the discharge of any other Debt repaid, repurchased, defeased or otherwise discharged as if such discharge had occurred on the first day of such period, and (C) the interest income realized by such Person and its Subsidiaries on the proceeds of such Debt, to the extent not yet applied at the date of determination, assuming such proceeds earned interest at the rate of 5% per annum from the date such proceeds were received through such date of determination,

(2) if since the beginning of such period such Person or any of its Subsidiaries will have made any Asset Disposition, Consolidated Operating Cash Flow for such period will be reduced by an amount equal to Consolidated Operating Cash Flow (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to Consolidated Operating Cash Flow (if negative), directly attributable thereto for such period, and Consolidated Interest Expense for such period will be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Debt of such Person or any of its Subsidiaries repaid, repurchased, defeased or otherwise discharged with respect to such Person and its continuing Subsidiaries in connection with such Asset Dispositions for such period (or, if the capital stock of any of its Subsidiaries is sold, the Consolidated Interest Expense for such period directly attributable to the Debt of such Subsidiary to the extent such Person and its continuing Subsidiaries are no longer liable for such Debt after such sale),

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(3) if since the beginning of such period such Person or any of its Subsidiaries (by merger or otherwise) will have made an Investment in any Subsidiary (or any Person which becomes a Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a

transaction causing a calculation to be made hereunder, which constitutes all or substantially all of the assets of an operating unit of a business, Consolidated Interest Expense for such period will be calculated after giving pro forma effect thereto (including the incurrence of any Debt) as if such Investment or acquisition occurred on the first day of such period and

(4) Consolidated Net Income will be calculated without reduction for expenses incurred in connection with the Restructuring Transactions.

For purposes of this definition, whenever pro forma effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Debt incurred in connection therewith, such pro forma calculations will be determined in good faith by the Senior Financial Officer of such Person; provided, however, that such officer shall assume (i) the historical sales and gross profit margins associated with such assets for the most recent consecutive 12-month period ended prior to the date of purchase for which financial statements are available (provided that the first month of such period will be no more than 18 months prior to such date of purchase), less estimated post-acquisition loss of customers (not to be less than 5%) and (ii) other expenses as if such assets had been owned by such Person since the first day of such period. If any Debt bears a floating rate of interest and is being given pro forma effect, the interest on such Debt will be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period.

"Property Reinvestment Application" means, with respect to any Transfer of property, the application of an amount equal to the Net Proceeds Amount with respect to such Transfer to the acquisition by Petro Holdings or any of its Subsidiaries of operating assets of Petro Holdings or any of its Subsidiaries to be used in the principal business of such Person.

"PTE" is defined in Section 6.2.

"QPAM Exemption" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

"Redeemable" means, with respect to the capital stock of any Person, each share of such Person's capital stock that is:

(a) redeemable, payable or required to be purchased or otherwise retired or extinguished, or convertible into Debt of such Person (i) at a fixed or determinable date, whether by operation of sinking fund or otherwise, (ii) at the option of any Person other than such Person, or (iii) upon the occurrence of a condition not solely within the control of such Person; or

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(b) convertible into other Redeemable capital stock.

"Remaining Average Life" is defined in Section 8.7.

"Required Holders" of any Series means, at any time, the holders of at least 66-2/3% in principal amount of the Notes of such Series at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of a Constituent Company with responsibility for the administration of the relevant portion of this Agreement.

"Restricted Investments" of any Person means all Investments except the following:

(a) property to be used in the ordinary course of business of such Person and its Subsidiaries including Investments acquired for hedging purposes and not for speculative purposes (and not necessarily hedging for

GAAP purposes) (i) for purposes of Section 10.1.4 applicable to Petro Holdings and its Subsidiaries, to hedge home heating oil prices, provided that the number of gallons of home heating oil hedged (on a net basis) shall not exceed the greater of (x) 200 million gallons of home heating oil, and (y) the number of gallons of home heating oil that equals the number of gallons of home heating oil that Petro Holdings and its Subsidiaries has sold, based on maximum or fixed pricing, and (ii) for purposes of Section 10.2.1 applicable to Star Partners and its Subsidiaries (other than Petro Holdings and its Subsidiaries), to hedge commodity prices for commodities sold by such Person and its Subsidiaries;

(b) current assets arising from the sale of goods and services in the ordinary course of business of such Person and its Subsidiaries;

(c) Investments in one or more Wholly-Owned Subsidiaries of such Person or any other Person that concurrently with such Investment becomes a Wholly-Owned Subsidiary of such first Person or merged into or consolidated with such first Person or a Wholly-Owned Subsidiary of such first Person;

(d) Investments existing on the date of the Closing and disclosed in Schedule 10.1.4;

(e) Investments in United States Governmental Securities, provided that such obligations mature within 365 days from the date of acquisition thereof;

(f) Investments in certificates of deposit or banker's acceptances issued by an Acceptable Bank, provided that such obligations mature within 365 days from the date of acquisition thereof;

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(g) Investments in commercial paper given the highest rating by a credit rating agency of recognized national standing and maturing not more than 270 days from the date of creation thereof;

(h) Investments in Repurchase Agreements;

(i) Investments in tax-exempt obligations of any state of the United States of America, or any municipality of any such state, in each case rated "AA" or better by S&P, "Aa2" or better by Moody's or an equivalent rating by any other credit rating agency of recognized national standing, provided that such obligations mature within 365 days from the date of acquisition thereof; and

(j) Investments in acquisitions of business entities or assets comprising lines of business or business entities for which such first Person pays only in common stock or other common equity of such Person.

As of any date of determination, each Restricted Investment of such Person shall be valued at the greater of:

(x) the amount at which such Restricted Investment is shown on the books of such Person or any of its Subsidiaries (or zero if such Restricted Investment is not shown on any such books); and

(y) either

(i) in the case of any Guaranty of the obligation of any other Person, the amount which such first Person or any of its Subsidiaries has paid on account of such obligation less any recoupment by such first Person or such Subsidiary of any such payments, or

(ii) in the case of any other Restricted Investment, the excess of (x) the greater of (A) the amount originally entered on the books of such Person or any of its Subsidiaries with respect thereto and (B) the cost thereof to such Person or its Subsidiary over (y) any return of capital (after income taxes applicable thereto) upon such

Restricted Investment through the sale or other liquidation thereof or part thereof or otherwise.

As used in this definition of "Restricted Investments":

"Acceptable Bank" means any bank or trust company (i) which is organized under the laws of the United States of America or any State thereof, (ii) which has capital, surplus and undivided profits aggregating at least \$500,000,000, and (iii) whose long-term unsecured debt obligations (or the long-term unsecured debt obligations of the bank

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holding company owning all of the capital stock of such bank or trust company) shall have been given a rating of "A" or better by S&P, "A2" or better by Moody's or an equivalent rating by any other credit rating agency of recognized national standing.

"Acceptable Broker-Dealer" means any Person other than a natural person (i) which is registered as a broker or dealer pursuant to the Exchange Act and (ii) whose long-term unsecured debt obligations shall have been given a rating of "A" or better by S&P, "A2" or better by Moody's or an equivalent rating by any other credit rating agency of recognized national standing.

"Moody's" means Moody's Investors Service, Inc.

"Repurchase Agreement" means any written agreement

(a) that provides for (i) the transfer of one or more United States Governmental Securities in an aggregate principal amount at least equal to the amount of the Transfer Price (defined below) to such Person or any of its Subsidiaries from an Acceptable Bank or an Acceptable Broker-Dealer against a transfer of funds (the "Transfer Price") by such Person or such Subsidiary to such Acceptable Bank or Acceptable Broker-Dealer, and (ii) a simultaneous agreement by such Person or such Subsidiary, in connection with such transfer of funds, to transfer to such Acceptable Bank or Acceptable Broker-Dealer the same or substantially similar United States Governmental Securities for a price not less than the Transfer Price plus a reasonable return thereon at a date certain not later than 365 days after such transfer of funds,

(b) in respect of which such Person or such Subsidiary shall have the right, whether by contract or pursuant to applicable law, to liquidate such agreement upon the occurrence of any default thereunder, and

(c) in connection with which such Person or such Subsidiary, or an agent thereof, shall have taken all action required by applicable law or regulations to perfect a Lien in such United States Governmental Securities.

"S&P" means Standard & Poor's Ratings Group, a Division of The McGraw Hill Companies, Inc.

"United States Governmental Security" means any direct obligation of, or obligation guaranteed by, the United States of America, or any agency controlled or supervised by or acting as an instrumentality of the United States of America pursuant to authority granted by the Congress of the United States of America, so long as such obligation or guarantee shall have the benefit of the full faith and credit of the United

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States of America which shall have been pledged pursuant to authority granted by the Congress of the United States of America.

"Restricted Payment" of any Person means

(a) any Distribution in respect of such Person or any Subsidiary of such Person (other than on account of capital stock or other equity interests of a Subsidiary of such Person owned legally and beneficially by such Person or another Subsidiary of such Person), including, without limitation, any Distribution resulting in the acquisition by such Person of Securities which would constitute treasury stock, and

(b) any payment, repayment, redemption, retirement, repurchase or other acquisition, direct or indirect, by such Person or any Subsidiary of such Person of, on account of, or in respect of, the principal of any Subordinated Debt (or any installment thereof) prior to the regularly scheduled maturity date thereof (as in effect on the date such Subordinated Debt was originally incurred).

For purposes of this Agreement, the amount of any Restricted Payment made in property shall be the greater of (x) the Fair Market Value of such property (as determined in good faith by the board of directors (or equivalent governing body) of the Person making such Restricted Payment) and (y) the net book value thereof on the books of such Person, in each case determined as of the date on which such Restricted Payment is made.

"Restructuring Transactions" means a series of related transactions consummated on or about April 1, 1999 pursuant to which (i) the Company became a 99.99% owned subsidiary of Petro Holdings; (ii) Petro Holdings became an indirect wholly-owned subsidiary of Star Partners; (iii) Star/Petro (an indirect Subsidiary of Star Partners and the direct parent of Petro Holdings) became an additional obligor under Star Propane's 8.04% First Mortgage Notes and 7.17% First Mortgage Notes; and (iv) Star Gas LLC replaced Star Gas Corporation as the sole general partner of Star Partners and Star Propane, all as more fully described in the annual report of Star Partners on Form 10-K for its fiscal year ended September 30, 1999 in footnote 2 to consolidated financial statements.

"Sale-and-Leaseback Transaction" means a transaction or series of transactions pursuant to which Petro Holdings or any Subsidiary of Petro Holdings shall sell or transfer to any Person (other than Petro Holdings or a Subsidiary of Petro Holdings) any property, whether now owned or hereafter acquired, and, as part of the same transaction or series of transactions, Petro Holdings or any Subsidiary of Petro Holdings shall rent or lease as lessee, or similarly acquire the right to possession or use of, such property or one or more properties which it intends to use for the same purpose or purposes as such property.

"Second Intercreditor Agreement Supplement" means the Second Supplement dated as of June 1, 2001, substantially in the form attached hereto as Exhibit 1(c)-3.

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"Second Restated Credit Agreement" means the Second Amended and Restated Credit Agreement dated as of June 15, 2001 among the Company, the Agent and the Banks.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Security" has the meaning set forth in section 2(a)(1) of the Securities Act.

"Security Documents" is defined in the Intercreditor Agreement.



"Senior Debt" means Debt which Petro Holdings or any of its Subsidiaries is permitted to have outstanding at any time under the provisions of the Agreement, except Subordinated Debt. Senior Debt, however, shall not include (a) Indebtedness or amounts owed for compensation to employees, or for goods or materials purchased in the ordinary course of business, or for services or (b) Indebtedness of the Company to a Subsidiary or Affiliate for money borrowed or advances from such Subsidiary or Affiliate.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of a Constituent Company.

"Series" of Notes means the Series A Notes or the Series B Notes.

"Series A Notes" and "Series B Notes" are defined in Section 1.

"Source" is defined in Section 6.2.

"Star Gas LLC" means Star Gas LLC, a Delaware limited liability company and the general partner of Star Partners and Star Propane.

"Star Partners" means Star Gas Partners, L.P., a Delaware limited partnership.

"Star Partners Public Offering" means the \$60 million public offering of limited partner interests in Star Partners under Star Partners' existing \$200 million shelf registration statement, the proceeds of which offering will be indirectly contributed to Petro, Inc., to be used to pay the purchase price to be paid by Petro, Inc. in the Meenan Acquisition.

"Star/Petro" means Star/Petro, Inc., a Minnesota corporation.

"Star Propane" means Star Gas Propane, L.P., a Delaware limited partnership.

"Subordinated Debt" with respect to the Company means any Debt of the Company which is subordinate to the Notes and with respect to each Guarantor means any Debt of such Guarantor which is subordinate to the obligations of such Guarantor under the Guarantee Agreement to which it is a party.

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Note Purchase Agreement

Petro Holdings, Inc.

Petroleum Heat and Power Co., Inc.

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Any reference to a "Subsidiary" is a reference to a Subsidiary of the Constituent Company suggested by the context. Star Propane shall be deemed to be a Subsidiary of Star Partners so long as Star Partners owns a majority of the limited partnership interests in Star Propane and Star Gas LLC is the sole general partner of Star Propane.

"Subsidiary Guarantee Agreement" is defined in Section 1.

"Subsidiary Guarantor" is defined in Section 1.

"Subsidiary Stock" means, with respect to any Person, the stock (or any options or warrants to purchase stock or other Securities exchangeable for or convertible into stock) of any Subsidiary of such Person.

"Successor Corporation" is defined in Section 10.1.7.

"Successor Entity" is defined in Section 10.2.2.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"Transfer" means, with respect to any Person, any transaction in which such Person sells, conveys, transfers or leases (as lessor) any of its property, including, without limitation, Subsidiary Stock. For purposes of determining the application of the Net Proceeds Amount in respect of any Transfer, the Company may designate any Transfer as one or more separate Transfers each yielding a separate Net Proceeds Amount. In any such case, the Disposition Value of any property subject to each such separate Transfer shall be determined by ratably

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allocating the aggregate Disposition Value of all property subject to all such separate Transfers to each such separate Transfer on a proportionate basis.

"2000 Senior Notes" means the following Notes of the Company: \$10,000,000 aggregate original principal amount 8.83% Series A Senior Secured Notes due November 1, 2004; \$10,000,000 aggregate original principal amount 8.88% Series B Senior Secured Notes due November 1, 2005; and \$20,000,000 aggregate original principal amount 9.07% Series C Senior Secured Notes due November 1, 2010.

"Weighted Average Life to Maturity" of any Debt means the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) the principal amount of such Debt into (ii) the sum of the products obtained by multiplying (a) the principal component of each mandatory prepayment, sinking fund or installment with respect to such Debt by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the date of determination and the scheduled due date of such mandatory prepayment, sinking fund or installment with respect to such Debt.

"Wholly-Owned Subsidiary" means, at any time as to any Constituent Company, any Subsidiary of such Constituent Company 100% of all of the equity interests (except directors' qualifying shares) and voting interests of which are owned by any one or more of such Constituent Company and such Constituent Company's other Wholly-Owned Subsidiaries at such time. Notwithstanding the foregoing, the Company shall be deemed to be a Wholly-Owned Subsidiary of Star Partners and Petro Holdings so long as Petro Holdings owns at least 99% of all of the equity interests and voting interests in the Company.

"Working Capital Facility" means Facility A under the Credit Agreement providing for loans for working capital.

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Subsidiaries of the Constituent Companies and Ownership of Subsidiary Stock

1. Star Partners' Subsidiaries

NAME	JURISDICTION OF FORMATION	OWNERSHIP %
-----		

Star Gas Propane, L.P.	Delaware Partnership	99.99%
Total Gas & Electric Co.	Florida Corporation	72.7%

2. Star Partners' Affiliates

NAME	JURISDICTION OF INCORPORATION	100% OWNED BY
Star/Petro, Inc.	Minnesota	Star Gas Propane, L.P.
Stellar Propane Service Corp.	New York	Star/Petro, Inc.
Petro Holdings, Inc.	Minnesota	Star/Petro, Inc.
Winico, Inc.	Ohio	Star/Petro, Inc.
Jark, Inc.	Ohio	Star/Petro, Inc.
Ohio Gas & Appliance Co., Inc.	Ohio	Star/Petro, Inc.
Petroleum Heat and Power Co., Inc.	Minnesota	Petro Holdings, Inc.
Ortep of Connecticut, Inc.	Connecticut	Petroleum Heat and Power Co., Inc.
Ortep of Pennsylvania, Inc.	Pennsylvania	Petroleum Heat and Power Co., Inc.
Ortep of New Jersey, Inc.	New Jersey	Petroleum Heat and Power Co., Inc.
Maxwhale Corp.	Minnesota	Petroleum Heat and Power Co., Inc.
Star Gas Corporation	Delaware	Petroleum Heat and Power Co., Inc.
Petro, Inc.	Delaware	Petroleum Heat and Power Co., Inc.
Petro Crystal Corp.	New York	Petroleum Heat and Power Co., Inc.
Marex Corporation	Maryland	Petro, Inc.
A.P. Woodson Company	Washington, D.C.	Petro, Inc.
Syluba, Inc.	New York	Petro, Inc.

3. Star Partners' Senior Officers

Irik P. Sevin	Chief Financial Officer
William Powers	Executive Vice President
Joseph Cavanaugh	Executive Vice President
George Leibowitz	Chief Financial Officer
Richard Ambury	Vice President/Treasurer
James Bottiglieri	Vice President
Audrey L. Sevin	Secretary

Schedule 5.4  
(to Note Purchase Agreement)

Star Gas Partners, L.P.	Note Purchase Agreement
Petro Holdings, Inc.	
Petroleum Heat and Power Co., Inc.	

4. Petro Holdings' Senior Officers and Directors

Officers

Irik P. Sevin	Chairman and CEO
James Bottiglieri	Vice President
George Leibowitz	Treasurer
Audrey L. Sevin	Secretary
William G. Powers, Jr.	President and COO
C. Justin McCarthy	Vice President

Directors

Irik P. Sevin  
Audrey L. Sevin

5. The Company's Senior Officers and Directors

Officers

Irik P. Sevin	Chairman and Chief Executive Officer
William G. Powers, Jr.	President and COO
C. Justin McCarthy	Vice-President
James Bottiglieri	Vice-President
Angelo Catania	Vice-President
Mathew Ryan	Vice-President
John D. Ryan	Vice-President
Peter B. Terenzio	Vice-President
George Leibowitz	Treasurer

Audrey L. Sevin

Secretary

Directors

Irik P. Sevin  
Audrey L. Sevin

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

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6. Star Gas LLC Senior Officers and Directors

Officers

Irik P. Sevin	Chief Executive Officer
William Powers/Joseph P. Cavanaugh	Office of the President
William Powers	Executive Vice-President
Joseph Cavanaugh	Executive Vice-President
George Leibowitz	Chief Financial Officer
Mathew Ryan	Vice-President (Supply)
Richard Ambury	Vice-President/Treasurer
James Bottiglieri	Vice-President/Controller
Audrey L. Sevin	Secretary

Directors

Paul Biddelman  
Irik P. Sevin  
Audrey L. Sevin  
I. Joseph Massoud  
Stephen Russell  
Thomas Edelman  
William Nicoletti

7. Star Propane Senior Officers

Officers

Joseph Cavanaugh	President and CEO
Richard Ambury	Vice President - Finance
Bill Corbin	Vice President - Operations
Edwin Miller	Vice President - Safety and Compliance
Audrey L. Sevin	Secretary

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

8. Total Gas & Electric, Inc. Senior Officers and Directors

Officers

Bill Kinneary	Chairman and Chief Executive Officer
Phillip Baratz	President
Richard Ambury	Vice-President
George Leibowitz	Treasurer
Audrey L. Sevin	Secretary

Directors

Irik P. Sevin  
Bill Kinneary  
Phillip Baratz  
Richard Rudin

Star/Petro Senior Officers and Directors



Indebtedness of Star Partners And its Subsidiary Star Propane

1.	9% Senior Secured Notes Due October 1, 2002	\$ 57,170
2.	10.25% Senior and Subordinated Notes Due January 15, 2001	2,000
3.	Senior Secured Notes	90,000
	a. \$11,000,000 7.56% Series A Senior Secured Notes due 2003	
	b. \$8,000,000 7.61% Series B Senior Secured Notes due 2004	
	c. \$10,000,000 7.71% Series C Senior Secured Notes due 2005	
	d. \$3,000,000 7.82% Series D Senior Secured Notes due 2006	
	e. \$38,000,000 7.97% Series E Senior Secured Notes due 2007	
	f. \$20,000,000 8.27% Series F Senior Secured Notes due 2014	
4.	Senior Secured Notes	40,000
	a. \$10,000,000 8.83% Series A Senior Secured Notes due 2004	
	b. \$10,000,000 8.88% Series A Senior Secured Notes due 2005	
	c. \$20,000,000 9.07% Series C Senior Secured Notes due 2010	
5.	9-3/8% Subordinated Debentures due 2006	666
6.	10-1/8% Subordinated Notes due 2003	1,261
7.	12-1/4% Subordinated Debentures due 2005	1,088
8.	Private Acquisition Notes	4,120
9.	Bank Acquisition Facility Borrowings	30,000
10.	Bank Working Capital Facility Borrowing	\$ 8,000
		-----
		\$ 234,305
		-----

Indebtedness of Star Partners Subsidiary Total Gas & Electric Co.

		Amount in 000's
		-----
1.	Borrowings under Bank Acquisition Facility	\$ 2,000
2.	Various Acquisition Notes Payable	\$ 563
3.	Bank Working Capital Facility Borrowing	\$ 9,210
		-----
		\$ 11,773
		-----

Schedule 5.15  
(to Note Purchase Agreement)

Existing Investments

None

Schedule 10.1.4  
(to Note Purchase Agreement)

[Form of Note]

Petroleum Heat and Power Co., Inc.

[ ]/1/% Series [ ] Senior Secured Note Due August 1, [ ]/2/

No. [ ] [Date]  
\$[ ] PPN[ ]/3/

For Value Received, the undersigned, Petroleum Heat and Power Co., Inc. (herein called the "Company"), a corporation organized and existing under the laws of the State of Minnesota, hereby promises to pay to [ ], or registered assigns, the principal sum of [ ] Dollars On August 1, [ ]/2/, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of [ ]/1/% per annum from the date hereof, payable semiannually, on the first day of each February and August in each year, commencing with February 1, 2002, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of

principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreements referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) [ ]/4/% or (ii) 4.5% over the rate of interest publicly announced by Bank of America from time to time in Charlotte, North Carolina, as its "reference" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of HSBC Bank USA in New York, New York.

This Note is one of several series of promissory notes (herein called the "Notes") issued pursuant to separate Note Purchase Agreements, each dated as of July 30, 2001 (as from time to time amended, the "Note Agreements"), between the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, to have made the representation set forth in Section 6.2 of the Note Agreements, provided that such holder may (in reliance upon information provided by the Company, which shall not be unreasonably withheld) make a representation to the effect that the

- 
- /1/ 8.05% in the Series A Notes and 8.73% in the Series B Notes.
  - /2/ 2006 in the Series A Notes and 2013 in the Series B Notes.
  - /3/ 716600 L#8 in the Series A Notes and 716600 L#6 in the Series B Notes.
  - /4/ 10.05% in the Series A Notes and 10.73% in the Series B Notes.

Exhibit 1(a)  
(to Note Purchase Agreement)

Star Gas Partners, L.P. Note Purchase Agreement  
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purchase by such holder of any Note will not constitute a non-exempt prohibited transaction under section 406(a) of ERISA.

This Note is a registered Note and, as provided in the Note Agreements, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note and the other Notes are, together with certain other Indebtedness (as defined in the Note Agreements) of the Company, secured by the Intercreditor and Trust Agreement dated as of March 25, 1999, as supplemented from time to time (as so supplemented, the "Intercreditor Agreement") among the Company, HSBC Bank USA (the "Trustee") and the other parties thereto and the Security Documents referred to therein. Reference is made to the Intercreditor Agreement, a copy of which is on file with the Trustee, for a description of the security afforded thereby. The Notes also have the benefit of the Guarantee Agreements (as defined in the Note Agreements).

This Note is subject to [required and]/1/ optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Agreements, but not otherwise.

If an Event of Default, as defined in the Note Agreements, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any applicable Make-Whole Amount (as defined in the Note Agreements)) and with the effect provided in the Note Agreements.

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/1/ Included only in Series of Notes subject to mandatory prepayments.

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
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This Note shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

Petroleum Heat and Power Co., Inc.

By

Name:  
Title:

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Provisions of Intercreditor Agreement and Security Documents To Be Amended

Section 1(c) of the Intercreditor Agreement:

"Parity Debt" means indebtedness of Petro Holdings or the Company incurred in accordance with Section 10.1.2(a) (i), (iii) or (v) of the Note Exchange Agreements, Section 10.1.2(a) (i), (iii) or (v) of the New Note Agreements, Section 8.2.2(a) (iv) of the Credit Agreement and corresponding provisions of the other Parity Debt Agreements and secured by the Security Documents pursuant to Section 10.1.3(1) of the Note Exchange Agreements, Section 10.1.3(1) of the New Note Agreements, Section 5.10 of the Credit Agreement and the corresponding provisions of the Parity Debt Agreements.

"Required Parity Debt Holders" means any holder or holders of 66-2/3% or more of the aggregate principal amount of the Parity Debt at the time outstanding.

"Requisite Percentage" means either of the following: (a) the holders of more than 66-2/3% in aggregate principal amount of the Exchanged Senior Notes, the New Notes, the Commitments (or, if an Event of Default (as defined in the Credit Agreement) exists or the Company is otherwise prohibited from being able to make draws under the Credit Agreement, the Obligations and the Letter of Credit Exposure) and the Parity Debt, collectively at the time outstanding or (b) the Required Exchanged Senior Note Holders, the Required New Note Holders, the Required Parity Debt Holders and the Required Lenders.

Section 4(c) (i) of the Intercreditor Agreement:

(c) Sale or Other Disposition of Collateral. All proceeds received by the Trustee on account of the sale, transfer or other disposition of any of the Collateral by Petro Holdings, the Company or any Subsidiary in accordance with Section 4.12 of the Company Security Agreement or Section 4.12 of the Petro Holdings Security Agreement, shall be applied as follows:

(i) such proceeds shall be held by the Trustee, provided that such proceeds shall, unless a Default or Event of Default exists, be paid over to Petro Holdings, the Company or such Subsidiary, as the case may be, or as such entity may direct in writing upon receipt by the Trustee of an Officer's Certificate certifying that the Company, Petro Holdings or such Subsidiary, as the case may be, has applied such proceeds in accordance with the provisions of Section 8.2.8(b) of



the Credit Agreement, the last paragraph of Section 10.1.6 of the Note Exchange Agreements, Section 10.1.6 of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements and so long as no Default or Event of Default exists; and

Exhibit 1(e)  
(to Note Purchase Agreement)

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Section 8 of the Intercreditor Agreement:

Section 8. Amendments, etc., of Security Documents.

In any case where the agreement or consent of the Trustee is required to any amendment, modification, cancellation or termination of any of the Security Documents, or in any case where the Trustee is required to give any consent, waiver or approval under any of the Security Documents, the Trustee shall agree or consent to such amendment, modification, cancellation or termination, or give such consent, waiver or approval, with (but only with) the prior written consent of the Requisite Percentage, provided that the Trustee shall not, without the prior written consent of all Secured Parties, agree to (a) any change in the definition of Requisite Percentage or the definition of Parity Debt, (b) any change in the manner in which the proceeds of any Security, including, without limitation, any proceeds received under any Guarantee Agreement are distributed, (c) release all or substantially all of the Security or release all or substantially all of the guarantors, or (d) any change in this section.

Section 21(b) of the Intercreditor Agreement:

(b) This Agreement may be changed, waived, discharged or terminated (other than by operation of Section 17) only by an instrument in writing signed by the Obligors, by the Trustee and by the Requisite Percentage, provided that this Agreement shall not be changed, waived, discharged or terminated in such a manner that (i) the definition of Parity Debt or Requisite Percentage is changed, (ii) the manner in which proceeds of any Security, including, without limitation the proceeds from any Guarantee Agreement, are distributed is changed, (iii) all or substantially all of the Security is released or all or substantially all of the guarantors is released, or (iv) this Section or Section 8 is changed or modified in any respect, without the prior written consent of all of the Secured Parties and further provided that the consent of the Trustee and the Obligors shall not be required for the amendment of any of the provisions hereof which relate solely to the arrangements among the Secured Parties.

In connection with any change, waiver, discharge or termination, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, a certificate signed by the Requisite Percentage and an opinion of counsel, each stating that the execution of any such change, waiver, discharge or termination is authorized or permitted by this Agreement and that all conditions precedent, if any, to the execution and delivery thereof have been satisfied. Subject to the preceding sentence, the Trustee shall not sign any change, waiver, discharge or termination if the same would adversely affect the rights, duties, liabilities or immunities of the Trustee, unless the Secured Parties shall have agreed to indemnify the Trustee for any such adverse affects.

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Star Gas Partners, L.P.  
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Section 5(a)(vi) of the Form of Supplemental Agreement Attached as Exhibit E to the Intercreditor Agreement:

(vi) appropriate duly executed termination statements (Form UCC-3) signed by all persons disclosed on current financing statements

as secured parties in the jurisdictions referred to in clause (v) above in form for filing under the UCC of such jurisdictions (except with respect to liens permitted under Section 8.2.3 of the Credit Agreement, Section 10.1.3 of the Note Exchange Agreements, Section 10.1.3 of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements);

Section 1.01 of the Company Security Agreement:

"Parity Debt Agreements" has the meaning specified in the Intercreditor Agreement, as amended from time to time.

"Parity Debt" shall mean (a) the Company's obligations in respect of the due and punctual payment of the principal of and interest on the Loans and all amounts drawn under the Letters of Credit, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (b) all fees, expenses, indemnities and expense reimbursement obligations of the Company under the Credit Agreement, the L/C-Related Documents or any other Loan Document, (c) all other obligations, monetary or otherwise, of the Company or any other Loan Party under any Loan Document to which it is a party and any other document executed and delivered in connection therewith or herewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs and expenses or otherwise, in each case, whether now owing or hereafter existing, and whether or not currently contemplated, due or to become due, direct or contingent, joint, several or independent, secured or unsecured and whether matured or unmatured, (d) the principal of and premium, if any, and interest on the Senior Notes, the New Notes and debt outstanding under the Parity Debt Agreements, (e) all other obligations (monetary or otherwise) of the Company or any other Loan Party under the Note Exchange Agreements, the New Note Agreements, the Parity Debt Agreements, the Senior Notes, the New Notes, debt outstanding under the Parity Debt Agreements and the Security Documents whether now owing or hereafter existing, and whether or not currently contemplated, due or to become due, direct or contingent, joint, several or independent, secured or unsecured and whether matured or unmatured and (f) all indebtedness of the Company and its Subsidiaries (i) permitted to be incurred under Section 8.2.2(a)(iv) of the Credit Agreement, Section 10.1(2)(a)(i), (iii) or (v) of the Note Exchange Agreements, Section 10.1(2)(a)(i), (iii) or (v) of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements and (ii) permitted to be secured in accordance with Section 5.10 of the Credit Agreement, Section 10.1.3(1) of the Note Exchange Agreements, Section 10.1.3(1) of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements.

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

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"Secured Obligations" of any Grantor shall mean, (a) in the case of the Company, all Parity Debt, (b) in the case of all other Grantors, all amounts now and hereafter payable by any such Grantor under the Subsidiaries Guarantee Agreement, and (c) in the case of any Grantor, all expenses (including reasonable counsel fees and expenses) incurred in enforcing any rights of the Trustee and the Secured Parties against such Grantor under this Agreement.

Section 4.09 of the Company Security Agreement:

Section 4.09. Limitation on Liens on Collateral. No Grantor will create, permit or suffer to exist, but will defend the Collateral and each Grantor's rights with respect thereto against and take such other action as is necessary to remove, any security interest, encumbrance, claim or other Lien in respect of the Collateral other than the security interests created hereunder and the Liens permitted under Section 8.2.3 of the Credit Agreement, Section 10.1.3 of the Note Exchange Agreements, Section 10.1.3 of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements.

Section 4.12 of the Company Security Agreement:

Section 4.12. Limitations on Dispositions of Collateral. Unless an Event of Default shall have occurred and be continuing, each Grantor may sell, transfer, lease or otherwise dispose of any of the Collateral, or attempt, offer or

contract to do so to the extent not expressly prohibited by Sections 8.2.7 and 8.2.8 of the Credit Agreement, Sections 10.1.6 and 10.1.7 of the Note Exchange Agreements, Sections 10.1.6 and 10.1.7 of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements upon which occurrence, the Trustee shall grant a release thereof from the Lien of this Agreement in accordance with Section 2.06 hereof; provided that nothing contained herein shall limit the security interests granted in the Proceeds thereof and provided further that, to the extent required by the Intercreditor Agreement, such Grantor, if at the time of such sale, transfer or other disposition, such Grantor would not have been permitted to sell, transfer or otherwise dispose of such Collateral pursuant to Section 8.2.7 of the Credit Agreement, Section 10.1.6 of the Note Exchange Agreements, Section 10.1.6 of the New Note Agreements or the corresponding provisions of the Parity Debt Agreements without a subsequent application of the proceeds of such sale to acquisition of assets or the prepayment of outstanding indebtedness in accordance with Section 8.2.8(b)(2) of the Credit Agreement, the last paragraph of Section 10.1.6 of the Note Exchange Agreements, the last paragraph of Section 10.1.6 of the New Note Agreements or the corresponding provisions of the Parity Debt Agreements, then concurrently with such Grantor sale, transfer or other disposition, such Grantor shall have deposited such Proceeds with the Trustee. The inclusion of Proceeds of the Collateral under the security interests granted hereby shall not be deemed a consent by the Trustee to any sale or disposition of any Collateral other than as permitted by this Section 4.12.

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Sections 5.01(a)(i) and (ii) of the Company Security Agreement:

Section 5.01. Right To Receive Distributions on Pledged Collateral and Investment Property; Voting. (a) So long as no Event of Default shall have occurred and be continuing:

(i) Each Grantor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Securities and Investment Property or any part thereof for any purpose permitted by the terms of this Agreement, the Credit Agreement, the Note Exchange Agreements, the New Note Agreements and the corresponding provisions of the Parity Debt Agreements.

(ii) Each Grantor shall be entitled to receive and retain any and all dividends, interest and principal paid in cash on the Pledged Securities and Investment Property to the extent and only to the extent that such cash dividends, interest and principal are permitted by, and otherwise paid in accordance with, the terms and conditions of the Credit Agreement, the Note Exchange Agreements, the New Note Agreements, the Parity Debt Agreements and applicable laws. Other than pursuant to the first sentence of this paragraph (a)(ii), all principal, all noncash dividends, interest and principal, and all dividends, interest and principal paid or payable in cash or otherwise in connection with a partial or total liquidation or dissolution, return of capital, capital surplus or paid-in surplus, and all other distributions made on or in respect of Pledged Securities or Investment Property, whether paid or payable in cash or otherwise, whether resulting from a subdivision, combination or reclassification of the outstanding Capital Stock of the issuer of any Pledged Securities or Investment Property or received in exchange for Pledged Securities or Investment Property or any part thereof, or in redemption thereof, or as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer may be a party or otherwise, shall be and become part of the Collateral, and, if received by a Grantor, shall not be commingled by such Grantor with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Trustee and shall be forthwith delivered to the Trustee in the form in which received (with any necessary endorsement).

Irrevocable Proxy (Form attached as Exhibit B to Company Security Agreement).

The form of proxy attached as Exhibit B to the Company Security Agreement will be amended by adding a reference to the Parity Debt Agreements and the debt outstanding thereunder to the enumeration of the instruments that must be

satisfied before the proxy can be revoked, and the outstanding proxies will be replaced with new proxies in that form.

Section 1.01 of Holdings Security Agreement:

"Parity Debt Agreements" has the meaning specified in the Intercreditor Agreement, as amended from time to time.

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"Parity Debt" shall mean (a) the Company's obligations in respect of the due and punctual payment of the principal of and interest on the Loans and all amounts drawn under the Letters of Credit, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (b) all fees, expenses, indemnities and expense reimbursement obligations of the Company under the Credit Agreement, the L/C Related Documents or any other Loan Document, (c) all other obligations, monetary or otherwise, of the Company or any other Loan Party under any Loan Document to which it is a party and any other document executed and delivered in connection therewith or herewith, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs and expenses or otherwise, in each case, whether now owing or hereafter existing, and whether or not currently contemplated, due or to become due, direct or contingent, joint, several or independent, secured or unsecured and whether matured or unmatured, (d) the principal of and premium, if any, and interest on the Senior Notes, the New Notes and debt outstanding under the Parity Debt Agreements, (e) all other obligations (monetary or otherwise) of the Company or any other Loan Party under the Note Exchange Agreements, the New Note Agreements, the Parity Debt Agreements, the Senior Notes, the New Notes, debt outstanding under the Parity Debt Agreements and the Security Documents whether now owing or hereafter existing, and whether or not currently contemplated, due or to become due, direct or contingent, joint, several or independent, secured or unsecured and whether matured or unmatured and (f) all indebtedness of the Company and its Subsidiaries (i) permitted to be incurred under Section 8.2.2(a)(iv) of the Credit Agreement, Section 10.1.2(a)(i), (iii) or (v) of the Note Exchange Agreements, Section 10.1.2(a)(i), (iii) or (v) of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements and (ii) permitted to be secured in accordance with Section 5.10 of the Credit Agreement, Section 10.1.3(1) of the Note Exchange Agreements, Section 10.1.3(1) of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements.

Section 4.09 of Holdings Security Agreement:

Section 4.09. Limitation on Liens on Collateral. The Grantor will not create, permit or suffer to exist, but will defend the Collateral and the Grantor's rights with respect thereto against and take such other action as is necessary to remove, any security interest, encumbrance, claim or other Lien in respect of the Collateral other than the security interests created hereunder and the Liens permitted under Section 8.2.3 of the Credit Agreement, Section 10.1.3 of the Note Exchange Agreements, Section 10.1.3 of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements.

Section 4.12 of Holdings Security Agreement:

Section 4.12. Limitations on Dispositions of Collateral. Unless an Event of Default shall have occurred and be continuing, the Grantor may sell, transfer or otherwise dispose of any of the Collateral, or attempt, offer or contract to do so to the extent not expressly prohibited by Sections 8.2.7 and 8.2.8 of the Credit Agreement, Sections 10.1.6 and 10.1.7 of the Note

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
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Exchange Agreements, Sections 10.1.6 and 10.1.7 of the New Note Agreements and the corresponding provisions of the Parity Debt Agreements upon which occurrence, the Trustee shall grant a release thereof from the Lien of this Agreement in accordance with Section 2.06 hereof; provided that nothing contained herein shall limit the security interests granted in the Proceeds thereof and provided further that, if at the time of such sale, transfer or other disposition, the Grantor would not have been permitted to sell, transfer or otherwise dispose of such Collateral pursuant to Section 8.2.7 of the Credit Agreement, Section 10.1.6 of the Note Exchange Agreements, Section 10.1.6 of the New Note Agreements or the corresponding provisions of the Parity Debt Agreements without a subsequent application of the proceeds of such sale to acquisition of substantially similar assets or the prepayment of outstanding indebtedness in accordance with Section 8.2.8(b)(2) of the Credit Agreement, the last paragraph of Section 10.1.6 of the Note Exchange Agreements, the last paragraph of Section 10.1.6 of the New Note Agreements or the corresponding provisions of the Parity Debt Agreements, then concurrently with such sale, transfer or other disposition, the Grantor shall have deposited such Proceeds with the Trustee. The inclusion of Proceeds of the Collateral under the security interests granted hereby shall not be deemed a consent by the Trustee to any sale or disposition of any Collateral other than as permitted by this Section 4.12.

Sections 5.01(a)(i) and (ii) of Holdings Security Agreement:

Section 5.01. Right To Receive Distributions on Pledged Collateral and Investment Property; Voting. (a) So long as no Event of Default shall have occurred and be continuing:

(i) The Grantor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Pledged Securities and Investment Property or any part thereof for any purpose permitted by the terms of this Agreement, the Credit Agreement, the Note Exchange Agreements, the New Note Agreements and the corresponding provisions of the Parity Debt Agreements.

(ii) The Grantor shall be entitled to receive and retain any and all dividends, interest and principal paid in cash on the Pledged Securities and Investment Property to the extent and only to the extent that such cash dividends, interest and principal are permitted by, and otherwise paid in accordance with, the terms and conditions of the Credit Agreement, the Note Exchange Agreements, the New Note Agreements, the Parity Debt Agreements and applicable laws. Other than pursuant to the first sentence of this paragraph (a)(ii), all principal, all noncash dividends, interest and principal, and all dividends, interest and principal paid or payable in cash or otherwise in connection with a partial or total liquidation or dissolution, return of capital, capital surplus or paid-in surplus, and all other distributions made on or in respect of Pledged Securities or Investment Property, whether paid or payable in cash or otherwise, whether resulting from a subdivision, combination or reclassification of the outstanding Capital Stock of the issuer of any Pledged Securities or Investment Property or received in exchange for Pledged Securities or Investment Property or any part thereof, or in redemption thereof, or

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as a result of any merger, consolidation, acquisition or other exchange of assets to which such issuer may be a party or otherwise, shall be and become part of the Collateral, and, if received by the Grantor, shall not be commingled by the Grantor with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Trustee and shall be forthwith delivered to the Trustee in the form in which received (with any necessary endorsement).

Irrevocable Proxy (Form Attached as Exhibit B to Holdings Security Agreement).

The form of proxy attached as Exhibit B to the Holdings Security Agreement will be amended by adding a reference to the Parity Debt Agreements and the debt outstanding thereunder to the enumeration of the instruments that must be

satisfied before the proxy can be revoked, and the outstanding proxies will be replaced with new proxies in that form.

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Form of Opinion of Special Counsel  
to the Company

The closing opinion of Phillips Nizer Benjamin Krim & Ballon LLP, counsel for the Company, which is called for by Section 4.6 of the Note Agreements, shall be dated the Closing Date and addressed to the Purchasers, shall be satisfactory in scope and form to the Purchasers and shall be to the effect that:

We have acted as counsel to Star Gas Partners, L.P., a Delaware limited partnership ("Star Partners"), Petro Holdings, Inc., a Minnesota corporation ("Petro Holdings"), Petroleum Heat and Power Co., Inc., a Minnesota corporation (the "Company," and together with Star Partners and Petro Holdings, the "Constituent Companies"), in connection with the execution and delivery of the Note Agreements and the Notes. This opinion letter is delivered pursuant to Section 4.6 of the Note Agreements. Unless otherwise defined herein, or the context otherwise requires, capitalized terms used in this opinion letter shall have the meanings assigned to them in the Note Agreements.

We have examined (i) the Basic Documents including without limitation, the Intercreditor Agreement Joinder dated as of August 13, 2001 among the Constituent Companies, Petro, Inc., a Delaware corporation, Ortep of Connecticut, Inc., a Connecticut corporation, Maxwhale Corp., a Minnesota corporation, Petro/Crystal Corp., a New York corporation, Ortep of New Jersey, Inc., a New Jersey corporation, Ortep of Pennsylvania, Inc., a Pennsylvania corporation, Marex corporation, a Maryland corporation, A.P. Woodson Company, a District of Columbia corporation, Star Gas Corporation, a Delaware corporation, Sy Luba Inc., a New York corporation, the Purchasers and HSBC Bank USA, a New York banking corporation and trust company ("Trustee") (the "Intercreditor Agreement Joinder"), (ii) the Equity Purchase Agreement dated as of July 31, 2001 by and among Petro, Inc., and Meenan Oil Co., Inc., a Delaware corporation, Meenan Oil Co., L.P., a Delaware limited partnership, Blueray Systems, Inc., a Delaware corporation, and Region Oil Plumbing, Heating and Cooling, Inc., a New Jersey corporation (the "Equity Purchase Agreement") and related documents entered into in connection with the Acquisition (as defined in the Equity Purchase Agreement), (iii) the cross receipt dated the date hereof (as defined in and issued pursuant to the Underwriting Agreement dated as of August 9, 2001 among Star Gas Partners, L.P., Star Gas Propane L.P., Star Gas LLC, Star/Petro, Inc. and UBS Warburg, A.G. Edwards & Sons, Inc., Lehman Brothers, Dain Rauscher Wessels, First Union Securities, Inc. and CIBC World Markets), (iv) the cross receipt and affirmation dated as of August 13, 2001 among Petro, Inc. and Meenan Oil Co., Inc., Meenan Oil Co., L.P., Blueray Systems, Inc. and Region Oil Plumbing, Heating and Cooling, Inc. and (v) originals or copies, certified or otherwise identified to our satisfaction, of such other documents, corporate records, certificates of public officials and other instruments as we have deemed necessary or advisable for purposes of this opinion.

As used herein:

(a) "UCC" means Articles 1, 8 and 9 of the Uniform Commercial Code in New York as in effect on the date hereof and where such Articles refer to jurisdictions other than the State of

Exhibit 4.6(a)  
(to Note Purchase Agreement)

Star Gas Partners, L.P.  
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Petroleum Heat and Power Co., Inc.  
Note Purchase Agreement

New York, "UCC" shall mean the Uniform Commercial Code as in effect in the applicable jurisdiction.

(b) the term "security interest" shall have the meaning ascribed thereto in the UCC.

As to various questions of fact relevant to such opinions, we have relied, without independent verification, upon certificates of public officials, certificates of officers of the Constituent Companies (including the certificates delivered to you pursuant to Section 4.5 of the Note Agreements), the representations and warranties of the Constituent Companies in the Note Agreements, the Perfection Certificates dated March 29, 1999 (the "Perfection Certificate") as supplemented by an Officer's Certificate dated as of October 25, 2000 and an Officer's Certificate dated as of the date hereof and attached hereto (together, the "Officer's Certificates") and other information supplied to us by the Constituent Companies, including a compliance certificate from the officer of the Company, attached hereto, pursuant to Sections 7.1 and 7.2 of the Note Agreements, which, among other things, certifies facts related to the indebtedness incurred in connection with the issuance of the Notes ("Compliance Certificate"). With respect to our opinion in paragraph 18, we have relied upon a search report prepared by Nationwide Information Services, Inc. during May-June, 2001.

For purposes of the opinions expressed below, we have assumed (i) the authenticity of all documents submitted to us as originals, (ii) the conformity to the originals of all documents submitted as certified or photostatic copies and the authenticity of the originals, (iii) the due authorization, execution and delivery of all documents, including without limitation, the Intercreditor Agreement Joinder, by all parties other than the Constituent Companies and the Subsidiaries and the validity and binding effect thereof on all parties other than the Constituent Companies and the Subsidiaries, (iv) that all the Purchasers have executed the Intercreditor Joinder Agreement, and (iv) each of the Purchasers and the Trustee is qualified to do business in the State of New York to the extent necessary to avail itself of the courts in the State of New York.

Based upon the foregoing, we are of the opinion that:

1. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and has the corporate power and the corporate authority to execute and deliver the Basic Documents to which it is a party and to issue the Notes.

2. Star Partners is a limited partnership duly formed, validly existing and in good standing under the laws of the State of Delaware and has the power and authority to execute and deliver the Basic Documents to which it is a party.

3. Petro Holdings is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and has the corporate power and the corporate authority to execute and deliver the Basic Documents to which it is a party.

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4. Each Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has the corporate power and the corporate authority to execute and deliver the Basic Documents to which it is a party.

5. The Basic Documents to which it is a party have been duly authorized by all necessary corporate or partnership action on the part of each Constituent Company, have been duly executed and delivered by each Constituent Company and constitute the legal, valid and binding contracts of each Constituent Company enforceable in accordance with their terms.

6. The Notes have been duly authorized by all necessary corporate action on the part of the Company, and the Notes being delivered on the date hereof have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms.

7. The Basic Documents to which each Subsidiary is a party have been duly authorized by all necessary corporate or partnership action on the part of

such Subsidiary, have been duly executed and delivered by such Subsidiary and constitute the legal, valid and binding contracts of such Subsidiary enforceable in accordance with their terms.

8. The issuance, sale and delivery of the Notes under the circumstances contemplated by the Note Agreements do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

9. Each Constituent Company has full power and authority and is duly authorized to conduct the activities in which it is now engaged and (in the case of Petro Holdings and the Company) is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

10. Star Gas LLC is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware and has the power and authority to perform its obligations as general partner of Star Partners and Star Propane.

11. Each Subsidiary of Star Partners is a corporation or partnership legally existing and in good standing under the laws of its jurisdiction of incorporation or formation and (in the case of each Subsidiary that is a corporation) is duly licensed or qualified and is in good standing in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary, except where the failure to be so qualified could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. As set forth in the stock book of each Subsidiary, all of the

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Star Gas Partners, L.P.

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Petroleum Heat and Power Co., Inc.

issued and outstanding shares of capital stock or partnership interests of each such Subsidiary have been duly issued, are fully paid and non-assessable and are owned as indicated in Schedule 5.4 to the Note Agreements.

12. The issuance and sale of the Notes and the execution, delivery and performance by the Company of the Basic Documents to which it is a party do not conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any lien or encumbrance other than the lien of the Security Documents upon any of the property of the Company pursuant to the provisions of the Certificate of Incorporation or By-laws of the Company or any agreement or other instrument known to us to which the Company is a party or by which the Company may be bound.

13. The execution, delivery and performance by each of the Parent Guarantors of the Basic Documents to which it is a party do not conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any lien or encumbrance other than the lien of the Security Documents upon any of the property of either Parent Guarantor pursuant to its governing documents (in the case of Star Partners) or pursuant to the provisions of its Certificate of Incorporation or By-laws (in the case of Petro Holdings) or (in the case of either Parent Guarantor) any agreement or other instrument known to us to which such Parent Guarantor is a party or by which such Parent Guarantor may be bound.

14. The execution, delivery and performance by each Subsidiary of the Basic Documents to which it is a party do not conflict with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any lien or encumbrance (other than the lien of the Security Documents) upon any of the property of any Subsidiary pursuant to its governing documents or any agreement or other instrument known to us to which such Subsidiary is a party or by which such Subsidiary may be bound.



15. No approval, consent or withholding of objection on the part of, or filing, registration or qualification with, any governmental body, federal, state or local, is necessary in connection with the execution and delivery by any Constituent Company of the Basic Documents to which it is a party.

16. No approval, consent or withholding of objection on the part of, or filing, registration or qualification with, any governmental body, Federal, state or local, is necessary in connection with the execution and delivery by any Subsidiary of the Basic Documents to which it is a party.

17. No mortgage, documentary, excise, stamp, or similar taxes are payable in connection with the execution, delivery, or recording of the Note Agreements or the other Basic Documents or the issuance and sale of the Notes, or the granting of the pledges, liens and security interests contemplated thereby. We assume that the statutory recording and filing fees

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Star Gas Partners, L.P.  
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and taxes required to be paid upon the recording and filing of the Security Documents and the UCC-1 financing statements contemplated thereby have been paid.

18. Subject to the assumptions and exceptions set forth in this opinion letter, the Pledge and Security Agreement dated as of March 25, 1999 among the Company, the Subsidiaries party thereto and the Trustee and the Pledge and Security Agreement dated as of March 25, 1999 between Petro Holdings and the Trustee (the "Security Agreements") create a continuing enforceable security interest in the Collateral (as defined in the Security Agreements) in favor of the Secured Parties (as defined in the Security Agreements). The Secured Parties have a perfected security interest in such of the Collateral as to which a security interest may be perfected by filing under Article 9 of the UCC.

19. Subject to Section 8-511 of the UCC, the security interest created by the Security Agreements in rights of each Grantor in such of the Collateral (as defined in the Security Agreements) as consists of a security entitlement will be perfected (a) upon the Article 8 Intermediary's indicating by book entry that such security entitlement has been credited to the Trustee's securities account in the State of New York so that the Trustee becomes the entitlement holder or (b) upon the execution of a Securities Control Agreement (as defined in the Security Agreements), which agreement is subject to New York law among such Grantor, the Trustee and such intermediary. Assuming that the Trustee at the time of such perfection has no notice of any adverse claim with respect to such Collateral, or any offset against such Collateral, and that each Grantor has neither entered into any other Securities Control Agreement with any other party, with respect to, or granted such Intermediary a security interest in, such Collateral, then, at the time of such perfection, such security interest will be of first priority.

20. The security interest created by the Security Agreements in each Grantor's rights in such of the Collateral as consists of instruments or money will be perfected upon delivery of such instruments or money to the Trustee in the State of New York. Assuming that at the time of such delivery (a) such instruments or money do not constitute identifiable cash proceeds against which a third party has a claim, (b) the Trustee has no knowledge of any adverse claim against such Collateral, (c) the Trustee has no right of offset against such money or instruments, (d) such instruments are properly indorsed to the Trustee and (e) the Trustee maintains continuous possession of such money or instruments in New York, then, at the time of such perfection, such security interest will be of first priority.

21. The security interest created by the Security Agreements in each Grantor's rights in such of the Collateral as consists of certificated securities in bearer form will be perfected upon delivery (as defined in Section 8-301(a)(1)) of the UCC) of such certificated securities to the Trustee in the State of New York. Assuming the Trustee at the time of such delivery has no right of offset against the Collateral or notice of any adverse claim, and maintains continuous possession and control (as defined in Section 8-106(a) of

the UCC) of such Collateral in New York, then, at the time of such perfection, such security interest will be of first priority.

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
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Note Purchase Agreement

22. The security interest created by the Security Agreements in each Grantor's rights in such of the Collateral as consists of certificated securities in registered form will be perfected upon either (a) delivery of such certificated securities to the Trustee in the State of New York, endorsed to the Trustee or in blank by an effective endorsement, or registered in the name of the Trustee, upon original issue or registration of transfer by the issuer, or (b) delivery of such certificated securities in the State of New York specially endorsed to the Trustee by an effective endorsement. Assuming that the Trustee, at the time of such delivery, has no right of offset against such Collateral or notice of any adverse claim and maintains continuous possession of such Collateral in New York, then, at the time of such perfection, such security interest will be of first priority.

23. The security interest created by the Security Agreements in each Grantor's rights in such of the Collateral as consists of Deposit Accounts (as defined in Section 9-102(a)(29) of the UCC will be perfected upon the due execution of a Blocked Account Agreement by the bank with which the relevant Deposit Account is maintained, the Trustee and applicable Grantor, granting the Trustee "control" pursuant to Section 9-104 of the UCC over the Blocked Account (as defined in the Blocked Account Agreement) and will remain perfected by control so long as the Trustee maintains "control" over the Blocked Accounts as provided in the Blocked Account Agreement, provided that either the Blocked Accounts are maintained in New York or remain subject to New York law. All terms used but not defined in this paragraph 23 shall have the meanings ascribed to them in the Intercreditor Agreement.

24. To the best of our knowledge, there are no actions, suits or proceedings pending or, without independent inquiry, threatened against any of the Constituent Companies or the Subsidiaries or involving the assets of any of the Constituent Companies or the Subsidiaries, which could, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect.

25. None of the Constituent Companies is an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

26. None of the Constituent Companies 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," within the meaning of the Public Utility Holding Company Act of 1935, as amended. None of the Constituent Companies is subject to any law or regulation that limits its ability to incur the Indebtedness.

27. The Company is not engaged in the business of extending credit for the purpose of buying or carrying margin stock, and no proceeds of any Notes will be used for a purpose which violates, or would be inconsistent with, F.R.S. Board of Regulations U, T or X.

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Star Gas Partners, L.P.  
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28. The Notes will be Parity Debt (as defined in the Intercreditor Agreement and pursuant to the Intercreditor Joinder Agreement) entitled to the benefits of the Security Documents and the Intercreditor Agreement. In rendering the opinion set forth in this paragraph 28, we have relied on a Compliance Certificate from the officer of the Company, attached hereto, which certifies that the indebtedness incurred in connection with the issuance of the Notes will

be incurred in accordance with Section 10.1.2(a)(v) of the Note Exchange Agreements, Section 10.1.2(a)(v) of the Note Agreements and Section 8.2.2(a)(iv) of the Credit Agreement.

29. The closings under the Underwriting Agreement, the Note Agreements and the Equity Purchase Agreement have all occurred.

With respect to the opinion set forth in paragraph 19 above, we note that the applicability of certain provisions of the United States Regulations turns on whether the applicable state has adopted Article 8 as defined therein. Other than with respect to 31 C.F.R. Part 357 and 12 C.F.R. Part 912, the United States Regulations do not provide a mechanism for determining whether a particular state has adopted Article 8. The Department of the Treasury, however, has published a notice, 62 Fed. Reg. 61912 (1997), that it has determined that the State of New York has adopted Article 8 for purposes of 31 C.F.R. Part 357, and the other United States Regulations are based on, and are to be interpreted harmoniously with, 31 C.F.R. Part 357. In addition, pursuant to 12 C.F.R. ss.912.9(b), the determination of the Department of Treasury applied to 12 C.F.R. Part 912. We also note that specified government officials may have the power to waive the provisions of the United States Regulations. For purposes of this opinion, we have assumed that there is no such waiver.

The opinions herein expressed are limited in all respects solely to the matters governed by the internal laws of the State of New York, the federal laws of the United States of America, the Delaware Revised Uniform Limited Partnership Act, the Minnesota Business Corporation Act and the corporate laws of the states of organization of the Subsidiaries. Our opinion as to the existence and good standing of Star Gas LLC is based solely upon a good standing certificate dated July 23, 2001 certified by the Secretary of State of the State of Delaware. Our opinion as to the existence and good standing of Star Partners is based solely upon a good standing certificate dated July 25, 2001 certified by the Secretary of State of the State of Delaware. Our opinion as to the existence and good standing of each of the Company and Petro Holdings is based solely upon good standing certificates dated July 26, 2001 certified by the Secretary of State of the State of Minnesota. Our opinion as to the existence and good standing of each of the Subsidiaries is based solely upon good standing certificates certified by the relevant states.

To the extent that we render any opinion concerning the law of any state other than New York or to the specific state statutes referenced above, we have relied on a loose leaf compilation of the UCC laws of the several states entitled "Secured Transactions Guide" published by Commerce Clearing House, Inc. (5 Volumes), supplemented in July 2001 and a loose leaf compilation entitled "Corporation Statutes" published by Prentice Hall (8 Volumes), supplemented in July 2001.

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
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Note Purchase Agreement

Our opinion does not take account of, and we express no opinion with respect to, (i) any requirement of law which may be applicable to the transactions contemplated by the Note Agreements to which you are a party by reason of your legal or regulatory status or by reason of other facts particularly pertaining to you, or (ii) any approval or consent which you may be required to obtain from any third party.

The opinions expressed above are subject to the following qualifications:

(a) limitations imposed by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally, including, without limitation, laws relating to fraudulent transfers or conveyances, preferences and equitable subordination including, without limitation, the effect of the Federal Bankruptcy Code, as amended, or any other federal or state insolvency or similar law on the Basic Documents or the transactions contemplated thereby;

(b) general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether such enforceability is considered in a proceeding in

equity or at law), as well as the possible award by courts of monetary relief in lieu of specific performance of contractual provisions;

(c) the qualification that certain provisions of any such Basic Document might be unenforceable in whole or in part if such enforcement would be against public policy under the circumstances or would otherwise be limited by applicable state law, but in our opinion, such laws will not materially interfere with the practical realization of the benefits or security intended to be provided by the Basic Documents;

(d) the possible requirement that actions taken, or not taken, by parties to any document be taken or not taken in good faith;

(e) any overriding duty of the Secured Parties to act as to every aspect of the disposition of Collateral, or realization thereon, in a commercially reasonable matter;

(f) the unenforceability under certain circumstances of provisions imposing forfeitures;

(g) the possible unenforceability under certain circumstances of provisions purporting to release or exculpate any party from liability for its acts or omissions, or purporting to impose a duty upon any party to indemnify any other party when the claimed damages result from the gross negligence or willful misconduct of the party seeking such indemnity;

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Star Gas Partners, L.P.  
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(h) the enforceability of certain indemnification provisions in the Basic Documents may be limited by public policy considerations;

(i) limitations imposed by the UCC, as adopted in any applicable jurisdiction, relating to or affecting remedies provided under the Basic Documents;

(j) the effect of general rules of contract law, including, without limitation, the rule that a choice of one remedy may be a bar to another remedy if the remedies are inconsistent and the other party has materially changed its position in reliance on the choice;

(k) the effect of general rules of tort law and of Section 9-609 of the UCC which limit the right of a creditor to use force or to cause a breach of the peace in the enforcement of the creditor's rights; and

(l) our opinion concerning the validity and enforceability of any security interest assumes that the Grantors of the security interest receive value from the Secured Parties, that the Trustee and the Secured Parties acquire their interest in the Collateral in good faith and without notice of any adverse claim, that the Grantors have good title to the Collateral, and is subject to the following qualifications:

(i) continuation statements must be filed pursuant to the provisions of Section 9-515 and the transition rules set forth in Article 9, Part 7 of the UCC ("Transition Rules"), to maintain the perfection of the security interests evidenced by the UCC-1 financing statements, referred to in paragraph 18 hereof.

(ii) in the case of proceeds, continuation of perfection and priority of the Secured Parties' liens and security interests therein are limited to the extent set forth in Section 9-315 of the UCC; and

(iii) in the case of property which becomes Collateral after the date hereof, Section 552 of the Federal Bankruptcy Code limits the extent to which property acquired by a debtor after the commencement of a case under the Federal Bankruptcy Code may be subject to a security interest arising from a security agreement entered into by the debtor before the commencement of such case.

We express no opinion as to (a) the priority of any security interest purported to be created by any agreement, filing or otherwise, except as provided in paragraphs 19, 20, 21, 22 and 23 (b) any Grantor's rights in or title to any Collateral, or (c) perfection of any lien on nominal amounts of securities of publicly-traded companies held for the purpose of obtaining financial information.

We call to your attention the following:

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Star Gas Partners, L.P.  
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Note Purchase Agreement

(a) A court may on its own motion dismiss an action on the ground of forum non conveniens;  
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(b) The right to proceeds of the Collateral is subject to limitations set forth in the UCC;

(c) Buyers and pledgees of the Collateral may, in certain circumstances specified in the UCC, acquire the Collateral free of the Secured Parties' security interest, and, under certain circumstances set forth in the Federal Bankruptcy Code, buyers and pledgees may acquire interests in the Collateral free and clear of and/or superior in right to the Secured Parties' security interest;

(d) To the extent that the Collateral includes Deposit Accounts (as defined in the Security Agreements), we express no opinion as to the perfection of a security interest in such Deposit Accounts except as provided in paragraphs 19, 20, 21, 22 and 23;

(e) To the extent that the Collateral includes proceeds of any pledged property governed by Article 8 of the UCC, we express no opinion with regard to the perfection of a security interest in such proceeds by filing or otherwise;

(f) For purposes of this opinion with respect to perfection in paragraphs 18, 19, 20, 21, 22 and 23, the definition of Collateral does not include any Assets or Equity Interests (as such terms are defined in the Equity Purchase Agreement). For purposes of this opinion all references to "Grantors," "Subsidiaries" or "Constituent Companies" herein shall not include any Companies (as defined in the Equity Purchase Agreement).

(g) To the extent that any of the Collateral includes one or more copyrights, we express no opinion with regard to the perfection of any pledge of any copyright that is not recorded in the U.S. Copyright Office;

(h) To the extent that any of the Collateral consists of a license or contract, we express no opinion as to whether it may be pledged or assigned without the consent of the other party; and

(i) Our opinions as to the perfection of a security interest in a Trademark is subject to the condition that the security interest be recorded in the U.S. Patent and Trademark Office within three (3) months after the date of the grant of the security interest and the perfection thereof will not be complete until such recordation in accordance with Title 15, U.S Code, Section 1060.

(j) Our opinion with respect to paragraph 29 is being delivered contemporaneously with the closing for the Acquisition (as defined in the Equity Purchase Agreement), the closing for the public offering of 3,250,000 common units of

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limited partnership interests of Star Partners to be purchased by the Underwriters named in and pursuant to the terms of an Underwriting Agreement dated the date hereof and the closing for the purchase of the Notes, as provided in Section 3 of the Note Agreements. For purposes of this paragraph, and paragraph 29, "closing" means the contemporaneous (1) affirmation by counsel to each of the parties to the Cross Receipt executed by the Underwriters and Star Partners that each has delivered the items specified therein, (2) affirmation by counsel to the Purchasers listed on Schedule I hereto that the Notes have been delivered and the Purchasers are simultaneously wiring the purchase price therefor in accordance with Section 3 of the Note Agreements and (3) affirmation by (i) the Buyer (as defined in the Equity Purchase Agreement) that upon receipt of the funds required to be paid to Star Partners pursuant to the Underwriting Agreement and the funds required to be paid to Petroleum Heat and Power Co., Inc. by the Purchasers of the Notes it will promptly pay to the Sellers (as defined in the Equity Purchase Agreement) all amounts ("Closing Payments") required to be paid by the Buyer at the Closing (as defined in the Equity Purchase Agreement) and (ii) by the Sellers that upon receipt of the Closing Payments they will deliver the Equity Interests (as defined in the Equity Purchase Agreement) to the Buyer.

Without limiting the generality of the foregoing, we express no opinion as to the validity or enforceability of any provisions of the Basic Documents relating to waivers, subrogation rights, rights of subordination, penalties, charges, powers of attorney, self-help remedies, the establishment of evidentiary standards, discharge of defenses, liquidated damages, disclosures, delay or omission of enforcement of rights or remedies, severability, or marshalling of assets.

This opinion letter is predicated solely upon laws and regulations in existence as of the present date and as they presently apply, and to the facts as they presently exist. We assume no obligation to revise or supplement this opinion letter should the present laws be changed by legislative action, judicial decision or otherwise.

The qualification of any opinion herein by use of the words "to our knowledge," "known to us" or similar words means the actual knowledge of those attorneys of the undersigned who have represented the Constituent Companies generally or in connection with the transactions contemplated by the Note Agreements. We have relied solely upon the examination and inquiries recited herein and have not undertaken any investigation to determine the existence or absence of such matters, documents or facts and no inference as to our actual knowledge should be drawn from the fact of our representation of the Constituent Companies or otherwise.

This opinion letter is limited to the matters set forth herein and no opinion is intended to be implied or inferred beyond those expressly stated herein. We have not been asked, and we do not undertake to render any opinion with respect to any matters except as expressly set forth herein or to advise you in any matters that may hereafter be brought to our attention.

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Alan Shapiro, a member of this firm, is the Assistant Secretary of each of the Constituent Companies. Knowledge obtained by him in his corporate capacity (other than actual knowledge) may not be imputed to the firm.

This opinion letter is for your benefit only and may not be relied upon by any other person other than HSBC Bank USA (formerly Marine Midland Bank), as Trustee under the Security Agreements, your special counsel or your successors and assigns (including successive holders of the Notes) or quoted by any person intended to rely on it (except that the opinion may be furnished to auditors,

governmental regulators and administrative agencies as is necessary in the ordinary course of business of such addressee). This opinion letter is as of the date hereof and we disclaim any obligation to advise you of any change which hereafter may be brought to our attention.

Very truly yours,

PHILLIPS NIZER BENJAMIN  
KRIM & BALLON LLP

By: \_\_\_\_\_

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

SCHEDULE I  
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Purchasers  
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- THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA
- THE GUARDIAN INSURANCE & ANNUITY COMPANY, INC.
- FORT DEARBORN LIFE INSURANCE COMPANY
- TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA
- MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY
- C.M. LIFE INSURANCE COMPANY
- MASSMUTUAL ASIA LIMITED
- JOHN HANCOCK LIFE INSURANCE COMPANY
- JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY
- THE OHIO NATIONAL LIFE INSURANCE COMPANY
- UNITED OF OMAHA LIFE INSURANCE COMPANY
- COMPANION LIFE INSURANCE COMPANY
- PHOENIX LIFE INSURANCE COMPANY
- PHL VARIABLE INSURANCE COMPANY
- FIRST UNUM LIFE INSURANCE COMPANY
- THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES
- FEDERAL KEMPER LIFE ASSURANCE COMPANY-FA
- DELTA LIFE & ANNUITY COMPANY
- THE OHIO CASUALTY INSURANCE COMPANY
- SECURITY FINANCIAL LIFE INSURANCE CO.

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Star Gas Partners, L.P.  
Petro Holdings, Inc.

Note Purchase Agreement

Petroleum Heat and Power Co., Inc.

To the Purchasers named in Schedule  
A of the Note Purchase Agreements  
dated as of July 30, 2001

Officer's Certificate  
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I, George Leibowitz, the undersigned, do hereby certify that I am the Treasurer of Petroleum Heat and Power Co., Inc., Petro Holdings, Inc., Petro, Inc., Ortep of Connecticut, Inc., Maxwhale Corp., Petro/Crystal Corp., Ortep of New Jersey, Inc., Ortep of Pennsylvania, Inc., Marex Corporation, A.P. Woodson Company, Star Gas Corporation and Sy Luba Inc. (collectively, the "Companies") and hereby further certify that the facts set forth in the Perfection Certificates of the Companies dated March 26, 1999 (the "Perfection Certificates") as supplemented by the Officer's Certificate of the Company dated October 25, 2000 are true and correct as of the date hereof, except as follows:

SECTION 1. LOCATIONS: JURISDICTIONS OF FORMATION

Section 1 is amended to provide for the domestic jurisdiction of each Grantor, the corporate file number, if any, in such jurisdiction and the Federal Employee Identification Number ("FEIN") of each Grantor as follows:

GRANTOR	JURISDICTION	FILE NUMBER	FEIN
Petro Holdings, Inc.	Minnesota	10J-870	06-1538741
Petroleum Heat and Power Co., Inc.	Minnesota	5I-939	06-1183025
Maxwhale Corp.	Minnesota	5P-883	06-1207261
Ortep of Connecticut, Inc.	Connecticut	0043584	06-0857666
Ortep of New Jersey, Inc.	New Jersey	0100241156	06-1127597
Ortep of Pennsylvania, Inc.	Pennsylvania	830187	23-2319071
Petro/Crystal Corp.	New York	N/A	14-1546762
Star Gas Corporation	Delaware	2129737	21-0691788
Petro, Inc.	Delaware	0808113	74-1810078
A.P. Woodson Company	District of Columbia	820555	06-1059668
Marex Corporation	Maryland	D01242627	52-1224796
Sy Luba Inc.	New York	N/A	11-2039315

A Certificate of Dissolution dissolving CBW Realty Corp. of Connecticut was filed with the Secretary of State of Connecticut on December 15, 2000.

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

SECTION 2. LOCATIONS: COLLATERAL

Schedule 2(b) is further supplemented by the addition of the following locations:

Legal Entity

Name/Address

Name/Address



Petro, Inc.	Bayside 1820 Cropsey Avenue Brooklyn, NY 11214	
Sy Luba Inc.	251 Northern Blvd. Great Neck, NY 11021	
Petroleum Heat and Power Co., Inc. (sites where Collateral is stored)	Inland Fuel Terminals 154 Admiral Street P. O. box 1141 Bridgeport, CT 06661	Stuyvesant 642 Southern Blvd. Bronx, NY 10455
	Global Oil Co. 800 South Street P. O. Box 9161 Waltham, MA 02454-9161	Commander Oil Corp. One Commander Square Oyster Bay, NY 11771
	Sprague Energy Corp. Two International Drive Suite 200 Portsmouth, NH 03801	Carbo Industries 1 Bay Boulevard Lawrence, NY 11559
	Castle Port Morris Terminal Inc. 939 East 138/th/ Street Bronx, NY 10454	

SECTION 3. SEARCH REPORTS.

Schedule 3 is supplemented by the addition of the attached summary of search reports prepared by Phillips Nizer Benjamin Krim & Ballon LLP with respect to the collateral of Sy Luba Inc. based on search reports provided by Nationwide Information Services as supplemented by Lexis Document Services.

SECTION 4. UCC FILINGS

In accordance with the provisions of Section 4, a financing statement on Form UCC-1 with respect to Sy Luba Inc. as debtor in substantially the form of Schedule 4 hereto has been

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Star Gas Partners, L.P. Petro Holdings, Inc. Petroleum Heat and Power Co., Inc.	Note Purchase Agreement
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delivered to the Secured Parties for filing in the Uniform Commercial Code filing office of the State of New York.

SECTION 5. SCHEDULE OF FILINGS.

Schedule 5 is supplemented by the addition of the filing of a financing statement with respect to Sy Luba Inc. as follows:

Debtor	Filing Office	Filing Date	File Number
Sy Luba Inc.	New York Secretary of State	07/16/2001	132887

Capitalized terms used in this Certificate which are not defined herein shall have the respective meanings set forth in the Pledge and Security Agreement dated as of March 25, 1999 between Petro Holdings, Inc. and Marine Midland Bank, as Trustee and the Pledge and Security Agreement Dated as of March 25, 1999 among the Grantors named therein and Marine Midland Bank, as Trustee.

[SIGNATURE PAGE FOLLOWS]

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Star Gas Partners, L.P. Petro Holdings, Inc.	Note Purchase Agreement
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Petroleum Heat and Power Co., Inc.

IN WITNESS WHEREOF, the undersigned has caused this certificate to be duly executed and delivered this \_\_\_\_ day of \_\_\_\_\_, 2001.

PETRO HOLDINGS, INC.  
PETROLEUM HEAT AND POWER CO., INC.  
PETRO, INC.  
ORTEP OF CONNECTICUT, INC.,  
MAXWHALE CORP.  
PETRO/CRYSTAL CORP.  
ORTEP OF NEW JERSEY, INC.  
ORTEP OF PENNSYLVANIA, INC.  
MAREX CORPORATION  
A.P. WOODSON COMPANY  
STAR GAS CORPORATION  
SY LUBA INC.

George Leibowitz  
Treasurer

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

SCHEDULE 3

Debtor	Jurisdiction	Filing Date	Filing No.	Secured Party	Comments
Sy Luba Inc.	New York Secretary of State	06/02/95	112155	Transamerica Commercial Finance Corporation [Awaiting termination confirmation information]	Collateral: inventory Amendment filed 02/18/97 (033650) - amends collateral Amendment filed 02/18/97 (033672) - amends collateral Amendment filed 04/03/00 (066453) - amends Secured Party address Continuation filed 04/03/00 (66454)
Sy Luba Inc.	New York Secretary of State	07/16/2001	132887	HSBC Bank USA, as Trustee	Blanket lien
Sy Luba Inc.	Nassau County, NY	10/26/92	92-14555	General Electric Capital Corporation [Lien still on file, but paid off and lien is not perfected. Terminated at state level, but not in Nassau County]	Collateral: inventory Continuation filed 10/07/96
Sy Luba Inc.	Nassau County, NY	04/17/00	UC00007026	Transamerica Commercial Finance Corp. [Awaiting termination confirmation information]	Collateral: inventory
Sy Luba Heating and Air Conditioning Inc.	New York Secretary of State				NO RECORD
Sy Luba Heating and Air Conditioning Inc.	Nassau County, NY				NO RECORD

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

COMPLIANCE CERTIFICATE

Financial Statement Date: June 30, 2001  
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Reference is made to the certain Intercreditor and Trust Agreement dated as of March 25, 1999, among Star Gas Partners, L.P. ("Star Partners"), Petro Holdings, Inc. ("Petro Holdings"), Petroleum Heat and Power Co., Inc. (the "Company" or "Borrower") and its Subsidiaries, Marine Midland Bank ("Trustee"), certain Purchasers and Banks, Bank of America National Trust and Savings Association (as "Agent" and "Issuer"), and Chase Manhattan Bank ("Chase"), as amended by a First Supplement dated as of October 1, 2000 among Star Partners, Petro Holdings, the Company and its Subsidiaries and various parties, and a Second Supplement dated as of June 1, 2001 among Star Partners, Petro Holdings, the Company, and its Subsidiaries (as supplemented, the "Intercreditor Agreement"), and pursuant to a Second Amended and Restated Credit Agreement dated as of June 15, 2001, among the Company and various financial institutions and Bank of America, N.A. (as "Agent"), and other parties, as amended by a First Amendment dated as of June 30, 2001 among the Company and various financial institutions, Bank of America, N.A., ("Credit Agreement"), in connection with the issuance of Notes under the Note Purchase Agreements, including that certain Note Purchase Agreement, dated as of July 30, 2001, among the Company, Star Partners, Petro Holdings and several financial institutions (the "Lenders"). All Capitalized terms not defined herein shall be those referenced in the Intercreditor Agreement.

Intending that Phillips Nizer Benjamin Krim & Ballon LLP will rely upon this Compliance Certificate in rendering a legal opinion to the purchasers of the Notes (as identified in Schedule A to the Note Purchase Agreement) and pursuant to Section 7.1 and 7.2 of the Note Purchase Agreement, the undersigned hereby certifies to Phillips Nizer Benjamin Krim & Ballon LLP and to the purchasers of the Notes under the Note Purchase Agreement, that as of the date hereof that he is the Responsible Officer (as defined in the Note Purchase Agreement) of the Borrower and Star Partners, and that, as such, he is authorized to execute and deliver this Certificate to the Lenders, the Issuer, Chase and the Agent on the behalf of the Borrower and Star Partners, and that:

1. The incurrence of any indebtedness incurred in connection with the issuance of the Notes under the Note Purchase Agreement complies with the requirements of Section 10.1.2(a)(v) of the Note Exchange Agreements, Section 10.1.2(a)(v) of the New Note Agreements and Section 8.2.2(a)(iv) of the Credit Agreement, all as more fully explained in the attached Schedule 2.

2. Attached as Schedule 1 hereto are (a) a true and correct copy of the unaudited consolidated (and in the case of Petro Holdings, consolidating) balance sheets of the Petro Holdings, the Borrower and the Subsidiaries as at the end of the Fiscal Quarter ended June 30, 2001 and (b) the related consolidated (and, as to statements of income and cash flows, if applicable and to the extent that such are being prepared appropriate, consolidating) statements

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Star Gas Partners, L.P.  
Petro Holdings, Inc.  
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Note Purchase Agreement

of income, surplus, cash flows and stockholders' equity of the Petro Holdings, the Borrower and the Subsidiaries for such period and for the period from the beginning of the current Fiscal Year to the end of such fiscal 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 such financial statements, present 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.

3. As of the date hereof, no Default or Event of Default has occurred and is continuing.

4. The following financial covenant analyses and other information set forth on Schedule 2 attached hereto are true and accurate on and as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this certificate as of June 30, 2001.

PETROLEUM HEAT AND POWER CO., INC.

By: \_\_\_\_\_  
 Name: James J. Bottiglieri  
 Title: Vice President

STAR GAS PARTNERS, L.P.  
 By: Star Gas LLC, its managing general partner

By: \_\_\_\_\_  
 Name: George Leibowitz  
 Title: Chief Financial Officer

E-4.6(a)-20

Star Gas Partners, L.P.  
 Petro Holdings, Inc.  
 Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

SCHEDULE 1  
 -----

PETRO HOLDINGS, INC. AND SUBSIDIARIES

Consolidating Balance Sheets

	June 30, 2001					
	Material Subsidiaries	Petroleum Heat & Power Co., Inc.	Petro Holdings	Eliminations	Consolidated	September 30, 2000
<b>Assets</b>						
-----						
<b>Current assets:</b>						
Cash	\$ 140	\$ --	\$ 922	\$ --	\$ 1,062	\$ 6,288
Investments	--	862	--	--	862	862
Accounts receivable	65,671	--	16,066	--	81,737	51,475
Inventories	9,714	--	3,278	--	12,992	21,637
Prepaid expenses	13,998	1,269	957	--	16,224	11,146
Notes receivable and other current assets	629	--	37	--	666	1,994
	-----	-----	-----	-----	-----	-----
Total current assets	90,152	2,131	21,260	--	113,543	93,402
	-----	-----	-----	-----	-----	-----
Property, plant and equipment - net	38,247	--	7,335	--	45,582	39,026
Long-term portion of accounts receivable	5,638	--	1,312	--	6,950	7,282
<b>Intangible assets</b>						
Customer lists	72,167	--	25,632	--	97,799	88,042
Deferred charges	109,153	2,301	43,877	--	155,331	147,708
	-----	-----	-----	-----	-----	-----
	181,320	2,301	69,509	--	253,130	235,750
	-----	-----	-----	-----	-----	-----
Investment in subsidiary	--	(5,157)	(30,118)	35,275	--	--
Other assets	307	--	--	--	307	319
	-----	-----	-----	-----	-----	-----
	\$ 315,664	\$ (725)	\$ 69,298	\$ 35,275	\$ 419,512	\$ 375,779
	=====	=====	=====	=====	=====	=====
<b>Liabilities and Stockholders' Equity (Deficiency)</b>						
-----						
<b>Current liabilities:</b>						
Current debt	\$ --	\$ 13,181	\$ --	\$ --	\$ 13,181	\$ 7,669
Working capital borrowings	--	8,000	--	--	8,000	17,000
Accounts payable	11,041	--	1,486	--	12,527	12,272
Customer credit balances	8,407	--	1,428	--	9,835	26,101
Unearned service contract revenue	12,406	--	3,897	--	16,303	15,654
Due to / (from) affiliates	260,102	(213,411)	(46,691)	--	--	--
Accrued expenses	28,865	4,285	2,011	--	35,161	36,882
	-----	-----	-----	-----	-----	-----
Total current liabilities	320,821	(187,945)	(37,869)	--	95,007	115,578
	-----	-----	-----	-----	-----	-----
Supplemental benefits and other long-term liabilities	--	118	--	--	118	399

Pension plan obligation	--	4,096	--	4,096	4,096
Long-term debt	--	213,124	--	213,124	186,397
Stockholders' equity (deficiency):					
Common stock	--	--	2	2	2
Additional paid-in capital	--	--	140,274	140,274	127,074
Retained earnings (deficit)	(5,076)	(30,118)	(33,028)	(33,028)	(57,767)
Accumulated other comprehensive income (loss)	(81)	-	(81)	81	(81)
Total stockholders' equity (deficiency)	(5,157)	(30,118)	107,167	35,275	107,167
	\$ 315,664	\$ (725)	\$ 69,298	\$ 35,275	\$ 419,512
	=====	=====	=====	=====	=====

E-4.6(a)-21

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

PETRO HOLDINGS, INC. AND SUBSIDIARIES  
Consolidated Statements of Operations

(In thousands)	Nine Months Ended June 30, 2000 -----	Nine Months Ended June 30, 2001 -----
Net sales	\$ 503,270	\$ 681,872
Costs and expenses		
Cost of sales	345,201	489,064
Selling, general and administrative expenses	70,535	84,432
Direct delivery expense	24,940	31,790
Amortization of customer lists	7,355	8,798
Depreciation of plant and equipment	4,396	5,858
Amortization of deferred charges	4,567	5,438
Provision for supplemental benefits	51	34
Operating income	46,225	56,458
Other income (expense):		
Interest expense	(14,679)	(17,804)
Amortization of debt issuance cost	(258)	(290)
Interest income	1,697	2,353
Other	8	(21)
Income before income taxes	32,993	40,696
Income taxes	300	1,550
Cumulative change for adoption of SFAS #133	-	(2,093)
Net income	\$ 32,693	\$ 41,239
	=====	=====

E-4.6(a)-22

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

PETRO HOLDINGS, INC. AND SUBSIDIARIES  
Consolidated Statements of Operations

(In thousands)	Three Months Ended June 30, 2000	Three Months Ended June 30, 2001
	-----	-----
Net sales	\$ 95,302	\$ 117,197
Costs and expenses:		
Cost of sales	73,248	90,782
Selling, general and administrative expenses	22,433	26,841
Direct delivery expense	5,044	6,370
Amortization of customer lists	2,528	3,003
Depreciation of plant and equipment	1,553	2,147
Amortization of deferred charges	1,605	1,856
Provision for supplemental benefits	18	11
Operating loss	(11,127)	(13,813)
Other income (expense):		
Interest expense	(4,855)	(5,605)
Amortization of debt issuance cost	(91)	(98)
Interest income	783	1,065
Other	(6)	(13)
Loss before income taxes	(15,296)	(18,464)
Income taxes	25	25
Net loss	\$ (15,321)	\$ (18,489)
	=====	=====

E-4.6(a)-23

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

E-4.6(a)-24

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

PETRO HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Nine Months Ended June 30, 2001

	Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings/ (Deficit)	Other Comprehensive Loss	Total
	No. of Shares	Amount	No. of Shares	Amount				
	-----	-----	-----	-----	-----	-----	-----	-----
Balance at 9/30/00	1	\$ 1	11	\$ 1	\$127,074	\$(57,767)	\$ -	\$ 69,309
Net income						41,239		41,239
SFAS #133 Accounting Principle change							(81)	(81)
Equity contribution from Star Gas Propane, L.P.					13,200			13,200
Distributions to Star Gas Partners						(16,500)		(16,500)
								-----

Balance at 6/30/01 1 \$ 1 11 \$ 1 \$140,274 \$(33,028) \$ (81) \$107,167

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E-4.6(a)-25

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

PETRO HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)	Nine Months Ended June 30,	
	-----	
Cash flows from (used in) operating activities:		
-----		
Net income	\$ 32,693	\$ 41,239
Adjustments to reconcile net income to net cash used in operating activities:		
Other comprehensive loss	-	(81)
Amortization of customer lists	7,355	8,798
Depreciation of plant and equipment	4,396	5,858
Amortization of deferred charges	4,567	5,438
Amortization of debt issuance costs	258	290
Provision for losses on accounts receivable	1,101	2,672
Provision for supplemental benefits	51	33
Other	(20)	21
Change in Operating Assets and Liabilities, net of effects of acquisitions:		
Increase in accounts receivable	(30,486)	(32,602)
Decrease in inventory	4,450	8,645
Decrease (increase) in other current assets	945	(5,203)
Decrease in other assets	76	12
Decrease in receivable from Star Gas Partners	-	1,453
Increase in accounts payable	1,184	255
Decrease in customer credit balances	(17,235)	(16,266)
Increase in unearned service contract revenue	326	649
Decrease in accrued expenses	(7,761)	(1,721)
	-----	-----
Net cash used in operating activities	1,900	19,490
	-----	-----
Cash flows from (used in) investing activities:		
-----		
Acquisitions	(15,334)	(35,294)
Capital expenditures	(1,752)	(8,059)
Net proceeds from sales of fixed assets	55	47
	-----	-----
Cash flows from (used in) financing activities:		
-----		
Debt borrowings	19,529	42,985
Acquisition facility repayments	-	(4,000)
Debt repayment	(1,239)	(6,746)
Credit facility borrowings	55,000	86,000
Equity contribution from Star Gas Propane, L.P.	2,994	13,200
Credit facility repayments	(48,000)	(95,000)
Dividend distributions to Star Gas	(15,178)	(16,500)
Other	(951)	(1,349)
	-----	-----
Net cash provided by financing activities	12,155	18,590
	-----	-----
Net decrease in cash	(2,976)	(5,226)
Cash at beginning of period	4,270	6,288
	-----	-----
Cash at end of period	\$ 1,294	\$ 1,062
	=====	=====

E-4.6(a)-26

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

E-4.6(a)-27

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Schedule 2

Section 10.1.2 Incurrence of Debt.

- (a) Neither Petro Holdings nor the Company will, directly or indirectly, create, incur, assume, guarantee, or otherwise become directly or indirectly liable with respect to, any debt other than:
- (v) Debt of the Company or Petro Holdings in addition to that permitted under clauses (i) through (iv) above, provided that on the date the Company or Petro Holdings becomes liable with respect to any such Debt and immediately after giving effect thereto and the concurrent retirement of any other Debt,
- (x) the ratio of Consolidated Pro Forma Total Debt to Consolidated Pro Forma Operating Cash Flow for the Four-Quarter Period then most recently ended at least 30 days prior to the date of determination would not exceed 4.5 to 1.0,
- (y) the ratio of Consolidated Pro Forma Operating Cash Flow to Consolidated Pro Forma Interest Expense is at least 2.25 to 1.0 for the Four-Quarter Period then most recently ended at least 30 days prior to the date of determination, and

Ratio of Consolidated Pro Forma Total Debt to  
Consolidated Pro Forma Operating Cash Flow  
-----

(000's)

Consolidated Pro Forma Operating Cash Flow:  
-----

LTM 6/30/01	\$ 65,953
Armstrong acquisition	560
LTM 3/31/01 Meenan	19,637
	-----
Total	\$ 86,150
	=====

E-4.6(a)-28

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Consolidated Pro Forma Total Debt:  
-----

June 30, 2001	\$ 226,305
Armstrong acquisition	2,000
Senior note issuance	103,000
Meenan standby letters of credit	7,000
	-----
Subtotal	338,305

Less: Bank acquisition facility repaid with

Proceeds of debt offering	(32,000)
	-----

Total	\$ 306,305
-------	------------



Ratio	3.55x
Requirement	4.50x

E-4.6(a)-29

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Page 2

Ratio of Consolidated Pro Forma Operating Cash Flow  
to Consolidated Pro Forma Interest Expense  
-----

Consolidated pro forma operating cash flow from above -----	\$ 86,150 =====
--	--------------------

Consolidated pro forma interest expense:  
-----

LTM 6/30/01	\$ 20,509
Armstrong acquisition	160
Senior note issuance	8,496
Meenan working capital interest	1,300
	-----
Subtotal	30,465

Less: Interest on bank acquisition facility repaid with proceeds	(2,560)
Interest income at 5% on \$11 million of unapplied borrowings	(550)
	-----

Total	\$ 27,355 =====
-------	--------------------

Ratio	3.15x =====
-------	----------------

Required	2.25x =====
----------	----------------

E-4.6(a)-30

Star Gas Partners, L.P.  
Petro Holdings, Inc.  
Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Schedule 2

Section 8.2.2 Indebtedness.

(a) Holdings and the Borrower will not, nor will they 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, without duplication, the following:

(iv) additional secured Indebtedness of Holdings, the Borrower and the Material Subsidiaries in excess of Indebtedness permitted by clauses (i) and (ii) above, if (A) Holdings, the Borrower and the

-----  
 Material Subsidiaries are in compliance with the covenant on pro forma Consolidated Cash Flow to Interest Expense Ratio set forth in Section

-----  
 8.2.4(b) (including the Indebtedness to be incurred and the repayment

-----  
 of any Indebtedness being refinanced), (B) Holdings, the Borrower and the Material Subsidiaries are in compliance with the pro forma Leverage Ratio covenant set forth in Section 8.2.4(a), (C) in the case of

-----  
 Indebtedness (other than Borrower notes) incurred in connection with Capitalized Lease Liabilities, the obligations incurred do not exceed the fair market value of such property or assets (as determined in good faith by the Board of Directors of the Borrower), (D) to the extent such Indebtedness is pari passu with the other Senior Debt, the creditors in respect of such additional Indebtedness shall have become parties to the Increrator Agreement and the Increrator Agreement shall have been amended, if necessary, to reflect such additional Indebtedness and otherwise shall be in form and substance satisfactory to the Agent and the Lenders, (E) to the extent such Indebtedness is subordinate to the Senior Debt, such Indebtedness constitutes Permitted Subordinated Debt, and (F) no Default or Event of Default would exist after incurring such Indebtedness.

Leverage Ratio

-----

(000's)

Consolidated Cash Flow:

-----

LTM 6/30/01	\$65,953
Armstrong acquisition	560
LTM 3/31/01 Meenan	19,637
	-----
Total	\$86,150
	=====

Funded Debt:

-----

June 30, 2001	\$226,305
Armstrong acquisition	2,000
Senior note issuance	103,000
	-----
Subtotal	331,305

E-4.6(a)-31

Star Gas Partners, L.P.  
 Petro Holdings, Inc.  
 Petroleum Heat and Power Co., Inc.

Note Purchase Agreement

Less: Bank acquisition facility repaid with proceeds of debt offering	(32,000)
	-----
Total	\$299,305
	=====
Ratio	3.47x
	=====
Requirement	4.00x
	=====

Ratio of Consolidated Cash Flow to Interest Expense

Consolidated Cash Flow from above:	\$86,150
-----	
LTM 6/30/01	\$20,509
Armstrong acquisition	160
Senior note issuance	8,496
Meenan working capital interest	1,300
-----	
Subtotal	30,465
Less: Interest on bank acquisition facility repaid with proceeds	(2,560)
Interest income at 5% on 411 million of unapplied borrowings	(550)
-----	
Total	\$27,355
=====	
Ratio	3.15x
=====	
Requirement	2.50x
=====	

E-4.6(a)-32

Form of Opinion of Special Counsel  
to the Purchasers

The closing opinion of Chapman and Cutler, special counsel to the Purchasers, called for by Section 4.6 of the Note Agreements on the Closing Date, shall be dated the Closing Date and addressed to the Purchasers, shall be satisfactory in form and substance to the Purchasers and shall cover the matters referred to in paragraphs 1, 2, 3, 5, 6 and 8 of Exhibit 4.6(a).

The opinion of Chapman and Cutler shall also state that the opinion of Phillips Nizer Benjamin Krim & Ballon LLP is satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Purchasers are justified in relying thereon and shall cover such other matters relating to the sale of the Notes as the Purchasers may reasonably request. With respect to matters of fact upon which such opinion is based, Chapman and Cutler may rely on appropriate certificates of public officials and officers of the Company.

Exhibit 4.6(b)  
(to Note Purchase Agreement)

Intercreditor Agreement Joinder

Dated: August \_\_, 2001

To: HSBC Bank USA (formerly known as Marine Midland Bank), as Trustee

Whereas, the Intercreditor and Trust Agreement, dated as of March 25, 1999 (as it may be amended, supplemented, restated or otherwise modified from time to time the "Intercreditor Agreement"), was entered into among Star Gas Partners, L.P. ("Star Partners"), a Delaware limited partnership, Petro Holdings, Inc. ("Petro Holdings"), a Minnesota corporation, Petroleum Heat and Power Co., Inc. (the "Company"), a Minnesota corporation, certain Subsidiaries (as such term is defined in the Note Exchange Agreements, the New Note Agreements and the Credit Agreement referred to below) party thereto and such other Subsidiaries as shall become parties thereto from time to time in accordance with Section 22 thereof, the Exchanged Senior Note Purchasers listed on Schedule I attached thereto (the "Exchanged Senior Note Holders"), the New Note Purchasers listed on Schedule II attached thereto (the "New Note Holders"),

the Banks listed on Schedule III attached thereto (the "Bank Lenders"), Bank of America National Trust and Savings Association, a national banking association, in its capacity as administrative agent under the Credit Agreement (the "Agent") and as Issuer of certain Letters of Credit, the Chase Manhattan Bank, as issuer of Existing Letters of Credit (in such capacity "Chase") and HSBC Bank Usa (Formerly Known as Marine Midland Bank), a New York banking corporation and trust company, as trustee for the benefit of the Exchanged Senior Note Holders, the New Note Holders, the Bank Lenders, the Agent, the Issuer, Chase and the Parity Lenders (the "Trustee"). Terms used and not otherwise defined herein shall have the respective meanings set forth in the Intercreditor Agreement.

Whereas, the Intercreditor Agreement was entered into for the purpose of setting forth the duties and powers of the Trustee with respect to the Security referred to in Section 2 thereof and the respective rights of the Secured Parties with respect to such Security, and was made for the benefit of the Secured Parties to secure (i) the payment of the principal of and premium, if any, and interest on the Exchanged Senior Notes, the New Notes, the Credit Agreement Loan Exposure, all amounts drawn under the Letters of Credit and the Parity Debt, (ii) the payment of all other obligations of Star Partners, Petro Holdings, the Company and the Subsidiaries (collectively, the "Obligors") to or for the benefit of the Secured Parties under the Note Exchange Agreements, the New Note Agreements, the Exchanged Senior Notes, the New Notes, the Credit Agreement, the Parity Debt Agreements and the Security Documents, and (iii) the due performance of and compliance with all of the terms of and other obligations to or for the benefit of the Secured Parties under the Note Exchange Agreements, the New Note Agreements, the Notes, the Credit Agreement, the Parity Debt Agreements, the Security Documents and the Intercreditor Agreement (collectively, the "Secured Obligations").

Exhibit 20.1  
(to Note Purchase Agreement)

WHEREAS, the Secured Obligations are jointly and severally guaranteed by (i) the Guarantee Agreement dated as of March 25, 1999 from Star Partners and Petro Holdings in favor of the Trustee, and (ii) the Guarantee Agreement dated as of March 25, 1999 from each of the Subsidiaries in favor of the Trustee (collectively the "Guarantee Agreements").

WHEREAS, the Secured Obligations are secured by (i) the Pledge and Security Agreement dated as of March 25, 1999, among the Company, the Subsidiaries referred to therein and the Trustee, granting in favor of the Trustee a first priority security interest in the personal property described therein, and (ii) the Pledge and Security Agreement dated as of March 25, 1999, between Petro Holdings and the Trustee, granting in favor of the Trustee a first priority security interest in the personal property described therein (collectively the "Security Agreements" and, together with the Guarantee Agreements, the "Security Documents").

WHEREAS, the Company, Star Partners and Petro Holdings are entering into the separate and several Note Purchase Agreements, each dated as of July 30, 2001, with certain institutional investors named on Schedule A thereto (collectively, the "Purchasers"), pursuant to which Purchasers will purchase the Company's \$73,000,000 8.05% Series A Senior Secured Notes due August 1, 2006, and \$30,000,000 8.73% Series B Senior Secured Notes due August 1, 2013 (collectively, the "Series 2001 Notes") and the parties are desirous that such Series 2001 Notes qualify as Parity Debt under the Intercreditor Agreement and the Security Documents.

NOW, THEREFORE, the parties, in consideration of good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, do hereby agree as follows:

Each Obligor represents, warrants, agrees and confirms that the Series 2001 Notes shall be considered Parity Debt and that each holder of such Series 2001 Notes shall be entitled to all rights and benefits of a Secured Party under the Intercreditor Agreement and the Security Documents.

Each Purchaser hereby executes and delivers a counterpart to this Intercreditor Agreement Joinder in accordance with Section 21(a) thereof, and agrees to be bound by the terms and provisions of the Intercreditor Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Intercreditor Agreement Joinder to be executed and delivered by their respective representatives thereunto duly authorized as of the date first above written.

STAR GAS PARTNERS, L.P.

By: Star Gas LLC, its General Partner

By

Name: George Leibowitz  
Title: Chief Financial Officer

PETRO HOLDINGS, INC.  
PETROLEUM HEAT AND POWER CO., INC.  
PETRO, INC.  
ORTEP OF CONNECTICUT, INC.  
MAXWHALE CORP.  
PETRO/CRYSTAL CORP.  
ORTEP OF NEW JERSEY, INC.  
ORTEP OF PENNSYLVANIA, INC.  
MAREX CORPORATION  
A.P. WOODSON COMPANY  
STAR GAS CORPORATION  
SY LUBA, INC.

By

Name: George Leibowitz  
Title: Treasurer

Accepted and agreed to as of the first date written above.

HSBC BANK USA (FORMERLY KNOWN AS MARINE MIDLAND BANK), AS TRUSTEE

By

Name:  
Title:

[PURCHASERS]

By

Name:  
Title:

- 
- 1 8.05% in the Series A Notes and 8.73% in the Series B Notes.
  - 2 2006 in the Series A Notes and 2013 in the Series B Notes.
  - 3 716600 L@ 8 in the Series A Notes and 716600 L# 6 in the Series B Notes.
  - 4 10.05% in the Series A Notes and 10.73% in the Series B Notes.
  - 1 Included only in Series of Notes subject to mandatory prepayments.

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT dated as of September 30, 2001 between STAR GAS LLC, a limited liability company organized under the laws of the State of Delaware and doing business at 2187 Atlantic Street, Stamford, Ct. 06902 (the"Company"), and IRIK P. SEVIN, an individual residing at 4 East 72nd Street, New York, NY 10021 ("Executive").

W I T N E S S E T H :

WHEREAS, the Company is the general partner of Star Gas Partners, L.P. ("Partnership"), which through its direct and indirect wholly owned subsidiaries is the largest retail home heating oil supplier and the eighth largest retail propane supplier in the United States;

WHEREAS, the Executive has served variously as President and Chief Executive Officer of the Company and its subsidiaries for more than 20 years;

WHEREAS, the Company wishes to continue to employ Executive as the Chief Executive Officer of the Company and its subsidiaries pursuant to the terms of this Agreement and Executive wishes to continue in such employment;

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. Employment; Position and Responsibilities. During the

-----  
"Term" of this Agreement (as defined in Section 4(a) hereof), the Company agrees to continue to employ Executive, and the Executive agrees to continue to serve, as Chief Executive Officer of the Company and its subsidiaries of the Company subject to the general supervision and pursuant to the orders, advice and direction of the Board of Directors of the Company. In such capacity, Executive shall have authority and responsibility to administer and manage the business of the Company and the subsidiaries of the Company. Executive will be located at the Stamford, CT office of the Company or at such other location in the greater New York area as the Board may designate.

2. Obligations of Executive. During the Term of this

-----  
Agreement, Executive agrees that he will devote substantially all of his time, attention and energies to the business of the Company. Executive shall at all times be subject to, observe and carry out such reasonable rules, regulations, policies, directions and restrictions as the Board shall from time to time establish. Notwithstanding the foregoing, during the term of this Agreement, it shall not be a violation of this Agreement for the Executive to (a) serve on civic or charitable boards or committees; (b) serve as a non-employee member of a board of directors of a business entity which is not competitive with the Company and (c) attend to personal business, so long as such activities do not interfere with the performance of the Executive's responsibilities as a senior executive of the Company in accordance with this Agreement.

3. Compensation.

-----  
3.1 Cash Compensation; Targeted Bonus. Executive's base salary during the Term of this Agreement shall be at the rate of Six Hundred Thousand Dollars (\$600,000) per annum for each fiscal year ended September 30 through September 30, 2002 which shall increase at the rate of Twenty-Five Thousand Dollars (\$25,000) per annum in each succeeding fiscal year during the Term. Executive shall be entitled to receive a bonus targeted at 80% of his annual base salary ("Targeted Bonus"). The Compensation Committee of the Board of Directors of the Company (the "Committee") will review Executive's performance on an annual basis (normally on or about October 15) to determine what percentage of this Targeted Bonus he shall actually receive, taking into account Executive's individual job performance and other factors deemed appropriate by the Committee. The annual base salary shall be paid over the year in a manner consistent with the Company's payment of executive salaries. The

bonus shall be paid to Executive each January following the end of each fiscal year.

3.2 Benefits. Executive shall be entitled to paid annual  
-----

vacation, personal leave and holidays during each calendar year during Executive's employment in accordance with the policies of the Company. Executive will participate in health, welfare (including disability) and defined benefit and defined contribution retirement plans, including but not limited to the pension plan and 401(k) savings plan, that are maintained by the Company on the same basis

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as such benefits are generally available to senior executives of the Company and subject to the right of the Company to change, reduce or terminate such plans or benefits in respect of employees generally. In addition to insurance programs existing on the date of this Agreement, the Company shall purchase and maintain in effect a \$2,000,000 term life insurance policy on the life of the Executive payable to his named beneficiary.

3.3 Reimbursement. Executive will be reimbursed for  
-----

reasonable business and travel expenses and be provided with automobile transportation in accordance with the normal policies of the Company including dues, fees and expenses associated with membership in professional business and civic organizations in which Executive's participation is in the interest of the Company. The benefits and payments described in this Section 3.3 shall not include an income tax gross-up, and Executive will be responsible for any tax on their value.

3.4 Equity Incentives.  
-----

(a) The Executive will earn and Company will issue to the Executive, or if the Company has established a Rabbi Trust to hold equity incentives earned by the Executive, then to such Rabbi Trust, 3,000 Common Units of the Partnership (up to a maximum of 75,000 Common Units for any fiscal year) for each \$.01 that the Company's annual Distributable Cash Flow ("DCF") exceeds the minimum DCF per limited partner unit ("LP Unit") LP Unit as set forth below.

Fiscal Year -----	Minimum DCF Per LP Unit -----	Maximum Units Per Fiscal Year -----
2002	\$2.44	75,000 units
2003	2.52	75,000 units
2004	2.66	75,000 units
2005	2.81	75,000 units
2006	3.00	75,000 units

For periods beyond the initial 5 year term ending in fiscal year 2006, the Minimum DCF Per LP Unit will be agreed upon by the Executive and the Compensation

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Committee consistent with the above, such that Executive will be able to

earn a maximum of 75,000 units per fiscal year.

Common Units earned and issued pursuant to Section 3.4(a) shall vest at the rate of 25% per annum on each October 1 following the date of issuance; provided, however, that all earned and issued Common Units shall become immediately vested upon (i) termination of the Executive's employment by the Company without Cause or termination of the Executive's employment by the Executive for Good Reason (as those terms are defined in Section 4.3), (ii) termination of the Executive's employment following a Change in Control under circumstances such that Section 4.5 governs payments to the Executive or (iii) upon the death or Disability of the Executive (as defined in Section 3.6).

For purposes of this Agreement, the term Distributable Cash Flow shall be determined by the Company's Board of Directors, adjusted to eliminate the impact of acquisitions made after December 31 in the year being calculated.

(b) The Company will issue to the Executive 100,000 Common Units of the Partnership at such time as the average daily last sales price of the Common Units on the exchange on which they are traded is at least \$40 per unit during any 45 day period. These Common Units will be fully vested on issuance.

(c) The obligations of the Company hereinabove contained in this Section 3.4 shall be subject to the requirement that if at any time the Board of Directors of the Company shall determine that the registration, listing or qualification of the Common Units covered hereby upon any securities exchange or under any federal or state law, or the consent or approval of any governmental regulatory body or other person or persons is necessary or desirable as a condition of, or in connection with, the issuance of such Common Units, such Common Units may not be issued unless and until such registration listing, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board of Directors. The Company may require that the Executive shall make such representations and agreements and furnish such information as the Company deems appropriate to assure compliance with the foregoing or any other applicable legal requirements. If the

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Partnership is for any reason prohibited from issuing any Common Units to the Executive, including requirements of the New York Stock Exchange for unitholder approval, the Partnership shall use commercially reasonable efforts to remove such prohibition. If such prohibition is not removed within a period of 120 days from the date the Common Units were to be issued but for such prohibition, the Partnership shall either purchase the necessary Common Units or make a cash payment to the Executive or Rabbi Trust equal in value to the Common Units not so issued based upon the average daily last sales price of the Common Units on the exchange on which they are traded during the preceding 45 day period.

3.5 Supplemental Retirement Benefit. The Executive may voluntarily

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retire at any time after he has attained age 65 ("Retirement"). If the Executive's employment is terminated by reason of his Retirement, the Executive shall be paid a monthly retirement benefit (the "SERP Benefits") for life in an amount equal to, when added to all other retirement benefits paid by the Company to the Executive, 50% of the average annual base and bonus paid to the Executive during the most recent three full years of employment divided by 12. The SERP Benefits shall be in addition to any other benefits provided pursuant to plans, policies and programs maintained by the Company.

3.6 Disability/Death. Upon the death or Disability of the

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Executive, the Executive or in the case of his death, his named beneficiary, or, if none, his estate, shall receive a monthly payment beginning on his death or Disability Termination Date and continuing until age 65 (or in the case of his death until he would have reached age 65) equal to 60% of his then annual base salary plus the prior years bonus divided by 12; provided, however, that each monthly payment shall be reduced by the monthly amount paid to the Executive under other plans maintained by the Company. The terms "Disabled" or "Disability" shall mean the Executive's physical or mental incapacity which renders the Executive incapable, even with a reasonable accommodation by the Company, of performing the essential functions of the duties required of



Executive by this Agreement for one hundred twenty (120) or more consecutive days ("Disability Period"); the term "Disability Termination Date" shall mean the date as of which the Executive's employment with the Company is terminated, either by the Executive or by the Company, following the Disability Period.

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4. Termination.

4.1 Term. The Term of this Agreement (the "Term") shall

commence as of the date hereof and shall continue for a period of five (5) years, provided, however, that this Agreement automatically shall be renewed on each October 1 for successive periods of one year each unless cancelled or terminated by either the Company or the Executive on 90 days advance notice. Notwithstanding the foregoing, this Agreement may be terminated (i) effective immediately by the Company for Cause or by Executive for Good Reason as herein provided (ii) by the Executive or the Company for Disability pursuant to Section 3.6 in which event the date on which notice of termination is given shall be the Termination Date and (iii) shall be terminated upon the death of the Executive.

4.2 (a) Termination by Executive without Good Reason or by

Company for Cause. If the Executive terminates his employment under this

Agreement (other than upon voluntary retirement in accordance with Section 3.5 or upon death or Disability in accordance with Section 3.6) without Good Reason as defined in Section 4.2(c) hereof, or if the Company terminates Executive's employment for Cause, as defined in Section 4.2(b) hereof, the Company shall have no financial obligation to Executive other than to pay Executive's base salary through the Termination Date and Executive's participation in employee benefit plans of the Company shall cease as of such Termination Date. In addition, all unvested Common Units issued pursuant to Section 3.4 shall be forfeited. The Company shall give Executive written notice of a termination for Cause and the termination of the Executive's employment shall be effective on the date that such notice is given.

(b) For purposes of this Agreement, "Cause" shall mean the commission by the Executive of any dishonest, illegal or wrongful act involving fraud, misrepresentation or moral turpitude; any material breach of this Agreement by the Executive; failure of the Executive in any material respect to follow directives or orders of the Board of Directors of the Company; continuing grossly inadequate performance of the Executive's duties; other significant personal or professional misconduct of Executive, which, in the reasonable and good faith judgment of the Board of Directors of the Company, injures or tends to injure the

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reputation of the Company or otherwise adversely affects the interests of the Company; or intentional disloyalty; provided, however, in each such instance, to the extent the Company reasonably and in good faith determines that such conduct is correctable, that the Executive shall be given at least ten (10) days' advance notice to correct same or if such correction may not reasonably be completed within such ten (10) days, then the Executive shall be given sufficient notice to correct same.

(c) For purposes of this Agreement, "Good Reason" shall mean, provided the Executive has not given Cause for termination or become entitled to receive disability benefits as provided in Section 3.6(i): (i) any material breach of this Agreement by the Company; (ii) the assignment to the Executive of any duties materially inconsistent in any material respect with this position, authority, duties and responsibilities, compensation or benefits without the prior consent of the Executive, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly of notice thereof given by the Executive; (iii) the Executive is required to establish a primary work location outside of the consolidated metropolitan statistical area that includes

New York, as defined by the U.S. Bureau of the Census (or any comparable successor area). In respect of events described in the preceding sentence the Executive shall give the Company written notice and 30 days to cure the default, failure or refusal. If such default, failure or refusal is not cured within such 30-day cure period, the Executive may give written notice to the Company of a termination by Executive for Good Reason.

4.3 Termination by Company without Cause or by Executive with  
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Good Reason. Subject to Section 4.4 hereof, if the Company terminates the  
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employment of the Executive without Cause or Executive terminates the Executive's employment with Good Reason, in either event prior to a Change in Control, then, the Company shall pay compensation, issue equity incentives and provide benefits to the Executive as follows:

(i) Within 30 days after the Termination Date the Company will pay the Executive a lump sum equal to the sum of (x) the Executive's annual base salary through the Termination Date, to the extent not theretofore paid, plus a prorated portion of that year's

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Target Bonus through the Termination Date plus (y) an amount equal to the Executive's anticipated annual base salaries plus Targeted Bonuses pursuant to Section 3.1 for the three years following such Termination Date.

(ii) The Company shall continue to provide to Executive the group insurance benefits to the Executive for a period of 24 months after the Termination Date to the extent that such benefits are generally available to senior executives of the Company. Such benefits shall terminate on the date prior to the expiration of such 24-month period on which the Executive shall become entitled to receive benefits from another employer. The Executive shall notify the Company in writing no later than ten (10) days after the date on which the Executive shall be covered by the benefits of another employer. The Company shall be under no obligation to continue to make any such benefit or benefit plan generally available to employees.

(iii) All SERP Benefits payable pursuant to Section 3.5 shall be accelerated in a lump sum payment. This payment shall be calculated based upon the average of the Executive's most recent past three years' annual base salary and bonus and assuming retirement at age 65, death at age 78 and an 8% per annum present value discount rate.

4.4 Disability or Death. If the Executive's employment is  
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terminated due to Disability, the Company shall have no financial obligation to the Executive other than as set forth in Section 3.6. If the Executive's employment is terminated due to his death, the Company shall have no financial obligation to the Executive other than to pay any death benefits to which his legal representative or beneficiaries may be entitled under any employee benefit plan maintained by the Company and the benefits set forth in Section 3.6.

4.5 Change in Control. If (A) the Company terminates  
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the employment of the Executive without Cause prior to a Change in Control, as hereinafter defined, if such termination of employment is a condition of the agreement pursuant to which the Change in Control occurs, or if the Company terminates the employment of the Executive without Cause within two years following a Change in Control, or if the Executive terminates the Executive's employment with Good Reason within two years following a Change in Control or (B) the Executive voluntarily terminates his employment for any reason during the period of 30 days

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following the first anniversary of a Change in Control, then, the payments under Section 4.3 hereof shall not apply but rather the Company shall pay compensation, issue equity incentives and provide benefits to Executive as follows:

(i) Within 30 days after the Termination Date the Company will pay Executive a lump sum equal to the sum of (x) Executive's annual base salary through the Termination Date, to the extent not theretofore paid, plus (y) an amount equal to Executive's anticipated annual base salaries plus Targeted Bonuses and equity incentives pursuant to Section 3 for the three years following the Termination Date.

(ii) The Company shall continue to provide to Executive the group insurance benefits to Executive for a period of 24 months after the Termination Date to the extent that such benefits are generally available to senior executives of the Company. Such benefits shall terminate on the date prior to the expiration of such 24-month period on which Executive shall become entitled to receive benefits from another employer. Executive shall notify the Company in writing no later than ten (10) days after the date on which Executiveshall be covered by the benefits of another employer. The Company shall be under no obligation to continue to make any such benefit or benefit plan generally available to employees.

(iii) The Executive shall be deemed to have earned 325,000 Senior Subordinated Units and the value of such equity incentives shall be immediately paid to the Executive in cash. The value of each Senior Subordinated Unit shall be deemed to be the average daily last sales price of the Senior Subordinated Units on the exchange on which they are traded for the 60 trading days prior to the date of determination.

(iv) All SERP Benefits payable pursuant to Section 3.5 shall be accelerated in a lump sum payment. This payment shall be calculated based upon the average of Executive's past three years' annual base salary and bonus and assuming retirement at age 65, death at age 78 and an 8% per annum present value discount rate.

For the purposes of this Agreement, a "Change of Control" shall mean the occurrence of any one or more of the following:

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(a) the removal of the Company as the general partner of the Partnership by a vote of the unit holders of the Partnership under circumstanceswhere Cause (as defined in the partnership agreement of the Partnership) doesnot exist, and any successor general partner of the Partnership is not an Affiliate (as hereinafter defined) of the Company or controlled by the Executiveand/or any of his Affiliates;

(b) the Partnership shall sell, lease, exchange or transfer (in one transaction or a series of related transactions) substantially all of its assets, except to an entity constituting an Affiliate of the Company or controlled by the Executive and/or his Affiliates;

(c) The Partnership shall consolidate or merge with any other entity as a result of which the continuing or surviving entity is not controlled by the Company or any Affiliate thereof, or by the Executive and/or his Affiliates;

(d) The sale by Star Gas LLC of its general partnership interests to any person or entity not constituting an Affiliate of the Company or controlled by the Executive and/or his Affiliates;

and where: (x) "Affiliate" shall mean any person or entity controlling, controlled by or under common control with the subject referenced; and (y) the term "control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the subject referenced, whether through the ownership of voting securities or bycontract or otherwise.

4.6 Gross up Payment. In the event it shall be determined by the  
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Company's public accounting firm that any payment or distribution (other than payments pursuant to Section 3.3 hereof) by the Company or its affiliated companies to or for the benefit of Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any adjustment required under this Section 4.6 (a "Payment")), would be subject to the excise tax imposed by

Section 4999 of the Internal Revenue Code of 1986, as amended or any amendment, replacement or similar provision thereto, or any interest or penalties are incurred by Executive (other than interest or penalties incurred as a result of Executive's failure promptly to file appropriate tax returns or amended tax returns after notification of such determination by the Company's public accounting

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firm) with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive within 30 days following such determination or such occurrence, as the case may be, an additional payment (a "Gross Up Payment") in an amount such that after payment by Executive of the Excise Tax imposed upon the Gross-Up Payment, Executive will retain an amount equal to the amount he would have retained had no Exercise Tax been imposed.

4.7 The payments to Executive pursuant to Section 4 hereof shall be paid in lieu of any other amount of severance relating to salary or bonus continuation to be received by Executive upon termination of employment of Executive under any severance plan, policy or arrangement of the Company.

5. Confidentiality. During and after the Term of this Agreement and

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for a period of 36 months thereafter, or, if sooner, the date on which information becomes generally known in the industry, Executive covenants and agrees that, other than as required by law, Executive will not disclose to anyone without the Company's written consent, any confidential materials, documents, records or other information of any type whatsoever concerning or relating to the business and affairs of the Company that Executive may have acquired in the course of Executive's employment hereunder, including but not limited to: (i) lists of customers of the Company; and (ii) information relating to methods of doing business (including information concerning operations, technology and systems) in use or contemplated use by the Company and not generally known in the industries in which the Company competes or actually or demonstrably anticipates competing. Notwithstanding the foregoing, the restrictions contained in this Section shall (i) not, during the Term, apply to any disclosures which the Executive believes in good faith are in the best interests of the Company and (ii) lapse if at any time after the Term, the Company fails to make any payment or provide any benefit due to the Executive, and should such failure continue for a period of 30 days after notice specifying such failure.

6. Nonsolicitation.

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6.1 Executive acknowledges that his services and value to the Company are unique, special and extraordinary. Executive covenants and agrees that during the Term of this Agreement, and for a period of 36 months after the Termination Date, Executive will not (i) personally solicit, or encourage others to solicit, employees of the Company to leave the employ of the Company for the purpose of engaging in any employment competitive with the Company or otherwise; or (ii) become directly or indirectly involved in the retail home heating oil or retail propane distribution business in any market in which the Company and its subsidiaries are operating in on the Termination Date. Notwithstanding the foregoing, the provisions of Section 6 shall not be binding upon the Executive, if (i) the payment to the Executive pursuant to Section 4.5(iii) would be \$4,875,000 or less and (ii) the Executive waives the right to receive such payment.

6.2 It is the desire and intent of the parties that the provisions of this Section 6 hereof shall be enforced to the fullest extent permissible under the laws and public policies of the State of New York. If any particular provisions or portions of this Section hereof shall be adjudicated to be invalid or unenforceable, Section 6 shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable, such amendment to apply only in the particular case

and jurisdiction in which such adjudication is made.

7. Governing Law. This Agreement shall be governed by and

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construed and enforced in accordance with the laws of the State of New York, not including its conflict of laws principles. If, under such law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, judicial interpretation binding on the parties, regulation or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not affect the force, effect or validity of the remaining portions hereof.

8. Notices. All notices required to be given under this

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Agreement shall be in writing and shall be deemed effective when received and shall be delivered in person; or by facsimile transmission (with confirmation of receipt); or by mail, postage prepaid, for delivery as

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registered or certified mail; or by overnight carrier service, addressed, (a) in the case of Executive, to Executive at Executive's then current business address with the Company, with a copy to Executive's residential address as reflected above (or such other residential address as Executive may notify the Company from time to time) or, (b) in the case of the Company, to the Company's Vice President - Human Resources or to such other person as the Company may designate in writing to Executive.

9. Resolution of Disputes.

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(a) Executive recognizes that irreparable injury would be caused to the Company, not adequately compensable by money damages, by Executive's violation of any provision of Section 5 or 6 of this Agreement. Executive further agrees that in the event of any such violation or threatened violation the Company or any of its direct or indirect subsidiaries or affiliates, in addition to such other rights and remedies as may exist in its or their favor, may apply to a court of law or equity to enforce the specific performance of such provisions and, without notice to Executive, may apply for an injunction or temporary restraining order against any act which would violate any such provisions. The state and federal courts of the State of New York shall have jurisdiction of any dispute arising out of or relating to this Agreement and each party waives any objection that it may have to laying the venue of any suit, action or proceeding in any such court.

(b) The covenants of Executive contained in Sections 5 and 6 of this Agreement shall be construed as independent of all other provisions contained in this Agreement and shall survive the Term of this Agreement.

(c) If following a change of control the Executive recovers any judgment against the Company for failure to make payment of any amounts or to provide equity incentives due to Executive pursuant to this Agreement, the Company shall pay to Executive as additional compensation an amount equal to 20% of the amount of the judgment and the Company consents that the amount of such additional compensation shall be added to the judgment.

10. Miscellaneous.

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10.1 Executive represents and warrants to the Company that Executive has no contracts or agreements of any nature that Executive has entered into with any other person, firm or corporation that contain any restraints on Executive's present or future services.

10.2 Executive and the Company each acknowledges and agrees that this Agreement constitutes the entire understanding between the Company and Executive relating to the employment of Executive by the Company and any direct or indirect subsidiary or affiliate of the Company, and supersedes all prior written and oral agreements and understandings with respect to the subject matter of this Agreement.

10.3 This Agreement may be amended only by a subsequent written agreement signed by Executive and the Company.

10.4 No waiver by either party of or failure to assert any provision or condition of this Agreement to be performed or right to be exercised shall be deemed a waiver of such or similar or dissimilar provisions and conditions or rights at the same time or any prior or subsequent time.

10.5 This Agreement and all rights and obligations of Executive are personal to Executive and shall not be assignable and any purported assignment in violation hereof shall not be valid or binding on the Company. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company, except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which the Company is not the continuing entity, or the sale or liquidation of all or substantially all of the business or assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the business or assets of the Company and such assignee or transferee assumes all of the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company will require any such successor to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business or assets as aforesaid, which executes and delivers the

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agreement provided for in this Section 10.5 or which otherwise becomes bound by all the terms and provisions of this Agreement or by operation of law.

10.6 "Undisputed Late Obligations" shall bear interest beginning on the Due Date until paid in full at an annual rate of one percent (1.0%) plus the prime rate as declared from time to time by The Chase Manhattan Bank. For purposes hereof, "Undisputed Late Obligations" shall mean any obligation which remains unpaid 5 days after written notice thereof is delivered to the other party in accordance with Section 11 (the "Due Date") for money under this Agreement owing from one party to another, which obligation (i) is not subject to any bona fide dispute or (ii) has been adjudicated by an arbitration panel or court of competent jurisdiction to be due and payable.

10.7 This Agreement may be signed in counterparts.

(The remainder of this page is intentionally left blank)

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the year and day first above written.

STAR GAS LLC

By:

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Paul Biddelman  
Chair of the Compensation Committee

EXECUTIVE:

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Irik P. Sevin

Consent of Independent Auditors

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

We consent to incorporation by reference in the registration statements Nos. 333-75701 and 333-57994 on Form S-3, No. 333-49751 on Form S-4 and Nos. 333-40138, 333-46714 and 333-53716 on Form S-8 of Star Gas Partners, L.P. of our report dated December 20, 2001, relating to the consolidated balance sheets of Star Gas Partners, L.P. and Subsidiaries as of September 30, 2000 and 2001 and the related consolidated statements of operations, comprehensive income, partners' capital and cash flows for each of the years in the three-year period ended September 30, 2001 and related schedule, which report appears in the September 30, 2001 annual report on Form 10-K of Star Gas Partners, L.P.

/s/ KPMG LLP  
Stamford, Connecticut  
December 20, 2001