

PARTNERSHIP GOVERNANCE GUIDELINES

I. Management of the Partnership

The Amended and Restated Agreement of Limited Partnership, as amended (the “Partnership Agreement”) of Star Gas Partners, L.P., a Delaware limited partnership (the “Partnership”), provides that the general partner of the Partnership, Kestrel Heat, LLC, a Delaware limited liability company (the “General Partner”), shall conduct, direct and manage all activities of the Partnership. The limited liability company agreement (the “LLC Agreement”) of the General Partner provides that the business of the General Partner shall be managed by a board of directors (the “Board of Directors” or the “Board”).

The responsibility of the Board is to supervise and direct the management of the Partnership in the interest and for the benefit of the Partnership’s unitholders. To that end, the Board shall have the following duties:

- (1) Overseeing the conduct of the Partnership’s business to evaluate whether the business is being properly managed;
- (2) Reviewing and approving the Partnership’s major financial objectives, plans and actions;
- (3) Assessing major risk factors relating to the Partnership and its performance, and reviewing measures to address and mitigate such risks;
- (4) Regularly evaluating the performance and approving the compensation of the Chief Executive Officer and, with the advice of the Chief Executive Officer, regularly evaluating the performance of key executives; and
- (5) Planning for succession with respect to the position of Chief Executive Officer and monitoring management’s succession planning for other key executives.

The Board of Directors has delegated to the Chief Executive Officer, working with the other executive officers of the General Partner and its affiliates, the authority and responsibility for managing the day-to-day business of the Partnership in a manner consistent with the standards of the General Partner (including these Guidelines), and in accordance with any specific plans, instructions or directions of the Board.

The Chief Executive Officer shall seek the advice and the approval of the Board with respect to actions to be undertaken by the Partnership, including those that would make a significant change in the financial structure or control of the Partnership, the acquisition or disposition of any significant business or the entry of the Partnership into a major new line of business.

II. Composition of the Board

The LLC Agreement of the General Partner provides that the Board of Directors shall be determined from time to time by the sole member of the General Partner (the “Sole Member”).

The Board believes that a desirable target number of Directors is five to nine, allowing, however, for changing circumstances that may warrant a higher or lower number.

It is the policy of the Board of Directors that the Board at all times reflect the following characteristics:

- Each Director shall at all times represent the interests of the unitholders of the Partnership.
- Each Director shall at all times exhibit high standards of integrity, commitment and independence of thought and judgment.
- Each Director shall dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties.
- The composition of the Board shall satisfy the requirements under “Director Independence” below.
- The Board shall encompass a range of talent, skill and expertise sufficient to provide sound and prudent oversight of all of the Partnership’s operations and interests.

III. Director Independence

It is the policy of the Board of Directors that the number of independent Directors that comprise the Board shall at all times equal at least three Directors or such higher number as may be necessary to comply with the applicable federal securities law requirements.

For the purposes of this Policy, “independent director” shall have the meaning set forth in Section 10A(m) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the rules and regulations promulgated thereunder and any applicable stock exchange rules.

The Board shall undertake an annual review of the independence of all non-employee Directors. To assist the Board in making determinations of a non-employee Director’s independence, the Board has adopted the standards set forth on Attachment A to these Guidelines. In advance of the meeting at which this review occurs, each non-management Director shall be asked to provide the Board with full information regarding the Director’s business and other relationships with the Partnership and its affiliates to enable the Board to evaluate the Director’s independence.

Directors have an affirmative obligation to inform the Board of any material changes in their circumstances or relationships that may impact their designation by the Board as “independent.” This obligation includes all business relationships between Directors and the Partnership and its affiliates or members of senior management and their affiliates, whether or not such business relationships are subject to the approval requirement set forth in the following provision.

IV. Business Relationships with Directors

For the purpose of minimizing the risk of actual or perceived conflicts of interest (but without affecting any determination of Director independence pursuant to the preceding provisions), any monetary arrangement between a Director and his or her affiliates (including any member of a Director's immediate family) and the Partnership or any of its affiliates for goods or services shall be subject to approval by the full Board of Directors.

V. Board Leadership

The Chairman of the Board shall be elected by the Directors.

The non-management Directors shall designate one non-management Director to serve as the "Lead Director" to chair the Board's executive sessions. If the Chairman is not also an executive officer of the Company, the Chairman may serve as the Lead Director. In addition, the Lead Director shall advise the Chairman of the Board (if different) and the Committee Chairs with respect to agendas and information needs relating to Board and Committee meetings; provide advice with respect to the selection of Committee Chairs; and perform such other duties as the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities. The Lead Director shall serve for such term as the Board shall determine. The identity of the Lead Director shall be set forth in the Partnership's annual report on Form 10-K, together with a method for interested parties to communicate directly with the Lead Director or with the non-management Directors as a group.

VI. Management Succession and Review

At least once every two years, the Chief Executive Officer of the General Partner shall meet with the non-management Directors to discuss potential successors as Chief Executive Officer. The non-management Directors shall meet in executive session following such presentations to consider such discussions. The Chief Executive Officer shall also have in place at all times a confidential written procedure for the timely and efficient transfer of his or her responsibilities in the event of his or her sudden incapacitation or departure, including recommendations for longer-term succession arrangements.

The Chief Executive Officer shall also review periodically with the non-management Directors or a Committee of the Board of Directors all of whose members are independent directors, the performance of other key executives of the General Partner, as well as potential succession arrangements for such executives. Any waiver of the requirements of the Partnership's *Code of Business Conduct and Ethics* with respect to any executive officers shall be reported to, and be subject to the approval of the Board of Directors or the Chairman of the Audit Committee of the Board of Directors and shall be promptly disclosed to the Partnership's unitholders.

VII. Board Meetings

The Chairman, in consultation with the other members of the Board, shall determine the timing and length of the meetings of the Board. The Board expects that four regular meetings at appropriate intervals are in general desirable for the performance of the Board's responsibilities.

In addition to regularly scheduled meetings, unscheduled Board meetings may be called upon appropriate notice at any time to address specific needs of the Partnership. The General Partner expects that Board members will make every effort to attend all meetings.

The Chairman shall establish the agenda for each Board meeting. Each Director shall be entitled to suggest the inclusion of items on the agenda, request the presence of or a report by any member of senior management, or at any Board meeting raise subjects that are not on the agenda for that meeting. Directors may also contact members of senior management directly.

The agendas for Board meetings shall provide opportunities for the operating heads of the Partnerships operations to make presentations to the Board during the course of the year. At one meeting each year the Board shall be presented the long-term strategic plan for the Partnership and the principal issues that the Partnership expects to face the future. Sufficient time shall be allocated for this presentation to allow for questions by and full discussion with the members of the Board.

At least once during each year, the Board shall meet in regularly scheduled executive session, without the participation of the Chief Executive Officer or other members of management, to review matters concerning the relationship of the Board with the management Directors and other members of management and such other matters as the Lead Director and participating Directors may deem appropriate. The Lead Director shall preside at such executive sessions. The Board shall not take formal actions at such sessions unless requested to do so by the full Board, although the participating Directors may make recommendations for consideration by the full Board. Additional executive sessions may be scheduled from time to time as determined by a majority of the non-management Directors in consultation with the Lead Director and the Chairman of the Board.

VIII. Board Committees

Committees shall be established by the Board from time to time to facilitate and assist in the execution of the Board's responsibilities. Committees may be standing or ad hoc. Generally a Committee shall be constituted to address issues that, because of their complexity, technical nature, level of detail, time requirements and/or sensitivity, cannot be adequately addressed within the normal agenda for Board meetings.

Each Committee shall have a written charter of responsibilities, duties and authorities, which shall periodically be reviewed by the Board. A copy of the written Charter of the Audit Committee is available on the Partnership's website at www.Star-Gas.com. Each Committee shall have the power and authority to carry out the duties and responsibilities contained in such charter. Each Committee shall report to the full Board with respect to its activities, findings and recommendations after each meeting.

Each Committee shall have full power and authority, in consultation with the Chairman of the Board, to retain the services of such advisers and experts, including counsel, as the Committee deems necessary or appropriate with respect to specific matters within its purview, and the Partnership shall provide appropriate funding therefor.

The Chairman of the Board, after consideration of the desires, experience and expertise of individual directors, shall recommend to the Board the assignment of Directors to Committees, including the designation of Committee Chairs.

The Company has a standing Audit Committee. The Audit Committee must be comprised entirely of independent directors.

Because of the Audit Committee's demanding role and responsibilities, and the time commitment attendant to Audit Committee membership, each Audit Committee member must advise the Chairman and/or the Lead Director before accepting membership on the audit committee of another public company if joining that committee would result in the Audit Committee member serving on the audit committees of three public companies, including the Partnership. Following notification from the Audit Committee member, the Board must determine that such simultaneous service would not impair the ability of the Audit Committee member to serve effectively on the Audit Committee.

Each Committee Chair, in consultation with the Chairman of the Board, shall establish agendas and set meetings at the frequency and length appropriate and necessary to carry out the Committee's responsibilities.

Any Director who is not a member of a particular Committee may attend any Committee meeting with the concurrence of the Committee Chair or a majority of the members of the Committee.

IX. Board Materials

Directors shall receive information and data that are important to their understanding of the businesses of the Partnership, in writing, and in sufficient time to prepare for meetings. This material shall be as brief as possible while still providing the desired information; it shall be analytic as well as informational; and it shall include highlights and summaries whenever appropriate. Directors are expected to review such materials in advance of the meetings. Directors may request that the Chairman of the Board or appropriate members of senior management present to the Board information on specific topics relating to the Partnership and its operations.

Directors are encouraged to keep themselves informed with respect to the Partnership's affairs between Board meetings through direct individual contacts with members of senior management. The Chairman of the Board shall, whenever requested, assist in arranging and facilitating such contacts.

X. Board Conduct and Review

Members of the Board of Directors shall act at all times in accordance with the requirements of the Partnership's *Code of Business Conduct and Ethics*, which shall be applicable to each Director. This obligation shall at all times include, without limitation, strict adherence to the Partnership's policies with respect to conflicts of interest, confidentiality, protection of the Partnership's assets, ethical conduct in all business dealings and respect for and compliance with applicable law. Any waiver of the requirements of the *Code of Business*

Conduct and Ethics with respect to any individual Director or executive officer shall be reported to, and be subject to the approval of, the Board of Directors and shall be promptly disclosed to the Partnership's unitholders.

The Board shall conduct an annual review and self-evaluation of its conduct and performance based upon completion by all Directors of an evaluation form that includes, among other things, an assessment of (a) the Board's composition and independence; (b) the Board's access to and review of information from management, and the quality of such information; (c) the Board's responsiveness to unitholder concerns; (d) maintenance and implementation of the Partnership's standards of conduct; and (e) maintenance and implementation of these *Guidelines*. The review shall seek to identify specific areas, if any, in need of improvement or strengthening and shall culminate in a discussion of the results and any actions to be taken.

XI. Selection of New Directors

In accordance with the LLC Agreement of the General Partner, the Sole Member has the right to appoint and remove Directors. It is anticipated that the Board will assist in this process, including identifying and interviewing potential candidates proposed for election.

In selecting new Directors, the Sole Member shall give the highest priority to meeting the standards and qualifications set forth at the beginning of these *Guidelines*. In this connection, the Sole Member shall seek candidates whose service on other Boards will not adversely affect their ability to dedicate the requisite time to service on this Board or any Board committee. Directors should advise the Chairman and/or the Lead Director in advance of accepting an invitation to serve on another for-profit corporate board.

The General Partner shall provide appropriate orientation programs for new Directors, which shall be designed both to familiarize new Directors in developing and maintaining skills necessary or appropriate for the performance of their responsibilities. The Board and management shall similarly work together to develop and implement appropriate continuing education programs for the same purposes.

XII. Director Compensation

All non-management Directors shall receive Directors' fees as their only compensation for Board and/or Board committee service. Non-Management Directors' fees shall be in the form of cash, Partnership securities, including options, restricted units and unit appreciation rights, or combination thereof, as well as any additional benefits regularly given to all non-management Directors. The exact amount and form of non-management Director compensation shall be determined and reviewed annually by the full Board in accordance with the policies and principles that are established by the Board of Directors from time to time. Employee directors do not receive separate consideration for Board service.

XIII. Implementation Guidelines

If the Board ascertains at any time that any of the *Guidelines* set forth herein are not in full force and effect, the Board shall take such action as it deems reasonably necessary to assure full compliance as promptly as practicable.

Attachment A: Independence Standards

A director shall be independent if the director meets each of the following standards and otherwise has no material relationship with the Partnership, either directly, or as a partner, stockholder, or officer of an organization that has a relationship with the Partnership. For purposes of these standards, the "Partnership" means Star Gas Partners, L.P., and its consolidated subsidiaries and Kestrel Heat, LLC, its general partner, collectively.

1. the director is not, and in the past three years has not been, an employee of the Partnership;
2. an immediate family member of the director is not, and in the past three years has not been, employed as an executive officer of the Partnership;
3. (a) neither the director nor a member of the director's immediate family is a current partner of the Partnership's outside auditing firm; (b) the director is not a current employee of the Partnership's outside auditing firm; (c) no member of the director's immediate family is a current employee of the Partnership's outside auditing firm participating in the firm's audit, assurance, or tax compliance (but not tax planning) practice; and (d) neither the director nor a member of the director's immediate family was within the past three years (but is no longer) a partner or employee of the Partnership's outside auditing firm and personally worked on the Partnership's audit within that time;
4. neither the director nor a member of the director's immediate family is, or in the past three years has been, part of an interlocking directorate in which a current executive officer of the Partnership served on the compensation committee of another company at the same time the director or the director's immediate family member served as an executive officer of that company;
5. neither the director nor a member of the director's immediate family has received, during any 12-month period in the past three years, any direct compensation payments from the Partnership in excess of \$100,000, other than compensation for Board service, compensation received by the director's immediate family member for service as a non-executive employee of the Partnership, and pension or other forms of deferred compensation for prior service;
6. the director is not a current executive officer or employee, and no member of the director's immediate family is a current executive officer, of another company that makes payments to or receives payments from the Partnership, or during any of the last three fiscal years has made payments to or received payments from the Partnership, for property or services in an amount that, in any single fiscal year, exceeded the greater of \$1 million or 2% of the other company's consolidated gross revenues;
7. the director is not an executive officer of a non-profit organization to which the Partnership makes or in the past three fiscal years has made, payments (including

contributions) that, in any single fiscal year, exceeded the greater of \$1 million or 2% of the non-profit or organization's consolidated gross revenues

8. the director is not, and during the last fiscal year has not been, a partner in, or a controlling shareholder or executive officer of, a business corporation, non-profit organization, or other entity to which the Partnership was indebted at the end of the Partnership's last full fiscal year in an aggregate amount in excess of 2% of the Partnership's total consolidated assets at the end of such fiscal year;
9. the director is not, and during the last fiscal year has not been, a member of, or of counsel to, a law firm that the Partnership has retained during the last fiscal year or proposes to retain during the current fiscal year; or
10. the director is not, and during the last fiscal year has not been, a partner or executive officer of any investment banking firm that has performed services for the Partnership, other than as a participating underwriter in a syndicate, during the last fiscal year or that the Partnership proposes to have perform services during the current fiscal year.

For purposes of this Attachment A an "immediate family member" means a person's spouse, parents, children, siblings, mother and father-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home.