AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 4, 1998

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

STAR GAS PARTNERS, L.P.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	5984	06-1437793
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

2187 ATLANTIC STREET
P.O. BOX 120011
STAMFORD, CT 06912-0011
(203) 328-7300
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

JOSEPH P. CAVANAUGH
PRESIDENT
2187 ATLANTIC STREET
P.O. BOX 120011
STAMFORD, CT 06912-0011
(203) 328-7300
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

PHILLIPS NIZER BENJAMIN KRIM & BALLON LLP
666 FIFTH AVENUE
28TH FLOOR
NEW YORK, NY 10103-0084
(212) 977-9700
ATTN: ALAN SHAPIRO

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [_]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), please check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES	AMOUNT TO BE	PROPOSED MAXIMUM OFFERING PRICE	PROPOSED MAXIMUM AGGREGATE OFFERING	AMOUNT OF REGISTRATION

TO BE REGISTERED	REGISTERED	PER UNIT(1)	PRICE(1)	FEE
Common Units representing limited partner interests....	1,060,727	$22.125	$23,468,584	$6,923.00

(1) Calculated in accordance with Rule 457(c) on the basis of the average of the high and low sales prices of the Common Units on February 27, 1998, as reported on the Nasdaq National Market.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THE REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

+INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION--DATED MARCH 4, 1998

PROSPECTUS

1,000,000 COMMON UNITS
STAR GAS PARTNERS, L.P.
LIMITED PARTNER INTERESTS

The common units ("Common Units") offered hereby represent limited partner interests in Star Gas Partners, L.P., a Delaware limited partnership (the "Partnership"). The Partnership may offer up to 1,000,000 Common Units from time to time in amounts, at prices and on terms to be determined in light of market conditions at the time of sale and set forth in a Prospectus Supplement. The Partnership was formed in 1995 to acquire and operate the propane business and assets of Star Gas Corporation ("Star Gas" or the "General Partner") and Petroleum Heat and Power Co., Inc. ("Petro"). Star Gas, the general partner of the Partnership, is a wholly-owned subsidiary of Petro.

The Partnership distributes to its partners, on a quarterly basis, all of its Available Cash, which is generally all of the cash receipts of the Partnership less all cash disbursements, as adjusted for reserves. The General Partner has broad discretion in making cash disbursements and establishing reserves. It is the intent of the Partnership, to the extent there is sufficient Available Cash, to distribute to each holder of Common Units at least $0.55 per Common Unit per quarter (the "Minimum Quarterly Distribution") or $2.20 per Common Unit on an annualized basis. During the Subordination Period, which generally will not end prior to January 1, 2001, the Minimum Quarterly Distribution will be made to the holders of Common Units before any distributions will be made on the Subordinated Units of the Partnership.

SEE "RISK FACTORS" BEGINNING ON PAGE 13 OF THIS PROSPECTUS FOR A DISCUSSION OF THE MATERIAL RISKS RELATING TO AN INVESTMENT IN THE COMMON UNITS. THESE RISKS INCLUDE:

- CASH DISTRIBUTIONS ARE NOT GUARANTEED, WILL DEPEND ON THE FUTURE OPERATING PERFORMANCE OF THE PARTNERSHIP AND WILL BE AFFECTED BY THE FUNDING OF RESERVES, EXPENDITURES AND OTHER MATTERS WITHIN THE DISCRETION OF THE GENERAL PARTNER. AS A RESULT, THERE CAN BE NO ASSURANCE THAT THE PARTNERSHIP WILL BE ABLE TO DISTRIBUTE THE MINIMUM QUARTERLY DISTRIBUTION OR ANY OTHER PARTICULAR LEVEL OF CASH DISTRIBUTIONS TO UNITHOLDERS.
- FUTURE PARTNERSHIP PERFORMANCE WILL DEPEND UPON THE SUCCESS OF THE PARTNERSHIP IN MAXIMIZING PROFITS FROM RETAIL PROPANE SALES. PROPANE SALES ARE AFFECTED BY WEATHER PATTERNS, PRODUCT PRICES AND COMPETITION, INCLUDING COMPETITION FROM OTHER ENERGY SOURCES.
- BECAUSE THE RETAIL PROPANE INDUSTRY IS MATURE AND OVERALL DEMAND FOR PROPANE IS EXPECTED TO EXPERIENCE LIMITED GROWTH IN THE FORESEEABLE

FUTURE, THE PARTNERSHIP WILL DEPEND ON ACQUISITIONS AS THE PRINCIPAL MEANS OF GROWTH. THERE CAN BE NO ASSURANCE THAT THE PARTNERSHIP WILL BE ABLE TO COMPLETE FUTURE ACQUISITIONS.

- THE PARTNERSHIP IS SIGNIFICANTLY LEVERAGED AND HAS INDEBTEDNESS THAT IS SUBSTANTIAL IN RELATION TO ITS PARTNERS' EQUITY.
- HOLDERS OF COMMON UNITS HAVE LIMITED VOTING RIGHTS, AND THE GENERAL PARTNER MANAGES AND OPERATES THE PARTNERSHIP.
- THE AVAILABILITY TO A UNITHOLDER OF THE FEDERAL INCOME TAX BENEFITS OF AN INVESTMENT IN THE PARTNERSHIP LARGELY DEPENDS ON THE CLASSIFICATION OF THE PARTNERSHIP AS A PARTNERSHIP FOR THAT PURPOSE. THE PARTNERSHIP WILL RELY ON AN OPINION OF COUNSEL, AND NOT A RULING FROM THE INTERNAL REVENUE SERVICE, ON THAT ISSUE AND OTHERS RELEVANT TO A UNITHOLDER.
- THE TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP ARE COMPLEX.

(continued on following page)

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Common Units may be sold directly by the Partnership to investors, through agents designated from time to time or to or through underwriters or dealers. See "Plan of Distribution." If any agents of the Partnership or any underwriters are involved in the sale of any Common Units in respect of which this Prospectus is being delivered, the names of such agents or underwriters and any applicable commissions or discounts will be set forth in a Prospectus Supplement. The net proceeds to the Partnership from such sale also will be set forth in a Prospectus Supplement.

The Registration Statement of which this Prospectus forms a part, also covers the offering by Star Gas, as selling unitholder (the "Selling Unitholder") of 60,727 Common Units, which may be sold from time to time pursuant to arrangements made by the Selling Unitholder. The Partnership will not receive any of the proceeds from the sale of Common Units by the Selling Unitholder.

The Prospectus may not be used to consummate sales of the Common Units unless accompanied by a Prospectus Supplement.

The date of this Prospectus is , 1998

(continued from page 1)

The Common Units offered hereby represent an aggregate 13.6% limited partner interest in the Partnership. Following the completion of this Offering (assuming that all of the Common Units offered hereby are sold), there will be an aggregate of 4,831,727 Common Units and 2,396,078 subordinated limited partner interests (the "Subordinated Units") outstanding, representing a 65.5% and a 32.5% limited partner interest in the Partnership, respectively. The General Partner will own an aggregate 2% general partner interest in the Partnership and the Operating Partnership as well as 2,396,078 Subordinated Units and 60,727 Common Units. The Common Units and the Subordinated Units are collectively referred to herein as the "Units." Holders of the Common Units and the Subordinated Units are collectively referred to herein as "Unitholders."

CERTAIN PERSONS PARTICIPATING IN THE OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON UNITS. SUCH TRANSACTIONS MAY INCLUDE STABILIZING, THE PURCHASE OF COMMON UNITS TO COVER SYNDICATE SHORT POSITIONS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "PLAN OF DISTRIBUTION."

STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE

This Prospectus includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (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 national and regional economic conditions, the effect of weather conditions on the Partnership's financial performance, the price and supply of propane and the ability of the Partnership to obtain new accounts and retain existing accounts. All statements other than statements of historical facts included in this Prospectus, including, without limitation,

statements regarding the Partnership's business strategy, plans and objectives of the Partnership for future operations and statements under "Cash Distribution Policy" 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 Prospectus, including, without limitation, in conjunction with the forward-looking statements included in this Prospectus and under "Risk Factors." 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.

AVAILABLE INFORMATION

The Partnership has filed with the Securities and Exchange Commission (the "Commission") in Washington, D.C., a Registration Statement on Form S-3 (the "Registration Statement") under the Securities Act, with respect to the securities offered by this Prospectus. Certain of the information contained in the Registration Statement is omitted from this Prospectus, and reference is hereby made to the Registration Statement and exhibits and schedules relating thereto for further information with respect to the Partnership and the securities offered by this Prospectus. The Partnership is subject to the informational requirements of the Exchange Act, and, in accordance therewith, files reports and other information with the Commission. Such reports and other information are available for inspection at, and copies of such materials may be obtained upon payment of the fees prescribed therefor by the rules and regulations of the Commission from, the Commission at its principal offices located at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 and at the Regional Offices of the Commission located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511, and at 7 World Trade Center, New York, New York 10048 or may be obtained on the Internet at http:www.sec.gov. In addition, the Common Units of the Partnership are listed on the Nasdaq National Market, and such reports and other information may be inspected and copied at the offices of the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

The Partnership will furnish to record holders of Common Units within 120 days after the close of each fiscal year an annual report containing audited financial statements and a report thereon by its independent public accountants. The Partnership will also furnish each unitholder with tax information within 90 days after the close of each taxable year of the Partnership.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Partnership's (1) Annual Report on Form 10-K (including, without limitation, information regarding Executive Compensation and Management's Discussion and Analysis of Financial Condition and Results of Operations) for the fiscal year ended September 30, 1997 ("1997 Annual Report"); (2) Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 1997; and (3) Periodic Report on Form 8-K filed on October 22, 1997 are incorporated in this Prospectus by reference. All documents filed by the Partnership pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the Offering shall be deemed incorporated by reference into this Prospectus from the date of filing of such documents. Any statement contained herein or in a document, all or a portion of which is incorporated or deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or superseded such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. The Partnership will provide without charge to each person, including any beneficial owner, to whom this Prospectus is delivered, upon the request of such person, a copy of the foregoing documents incorporated herein by reference, other than exhibits to such documents (unless such exhibits are incorporated by reference in such document). Requests shall be directed to the attention of Richard F. Ambury, Vice President, Finance, Star Gas Corporation, 2187 Atlantic Street, Stamford, CT 06902 (telephone (203) 328-7300).

THE PARTNERSHIP

GENERAL

The Partnership is a Delaware limited partnership formed in 1995 to acquire and operate the propane business of Star Gas and its parent corporation, Petro. The Partnerships activities are conducted through its subsidiary, Star Gas Propane, L.P., a Delaware limited Partnership (the "Operating Partnership"). Except as the context otherwise requires, references to or descriptions of operations of the Partnership include the operations of the Operating Partnership and any other subsidiary operating partnership or corporation, the Partnership's predecessor, Star Gas, and the propane operations of Petro. All such operations are sometimes collectively referred to herein as the "Star Gas Group."

The Partnership is primarily engaged in the retail distribution of propane and related supplies and equipment to residential, commercial, industrial, agricultural and motor fuel customers. On October 22, 1997, the Partnership completed the acquisition of Pearl Gas Co. ("Pearl Gas"), a retail propane distributor headquartered in Bowling Green, Ohio, which sells over 14 million gallons of retail propane annually to over 12,000 customers. After giving effect to such acquisition, the Partnership believes that it is the eighth largest retail propane distributor in the United States, serving approximately 162,000 customers from 72 branch locations in the Midwest and Northeast. In addition to its retail business, the Partnership also serves approximately 60 wholesale customers from its wholesale operation in southern Indiana.

Propane is used primarily for space heating, water heating and cooking by the Partnership's residential and commercial customers, which constitute the largest portion of its customer base. The Partnership believes its business is relatively stable due to the following characteristics: (i) the demand for propane has been relatively unaffected by general economic conditions due to the largely non-discretionary nature of most propane purchases; (ii) the loss of customers to other competing energy sources has been low; and (iii) customer retention has been high due to an automatic delivery system, which eliminates affirmative purchase decisions, and to the Partnership's ownership of over 95% of the tanks utilized by its customers.

The Partnership sells propane primarily to four specific retail markets: residential, industrial/commercial, agricultural and other (principally to other propane retailers and as a motor fuel). In the Midwest, the Partnership services customers in Indiana, Kentucky, Michigan, Ohio and West Virginia. In the Northeast, the Partnership services customers in Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania and Rhode Island. During the fiscal year ended September 30, 1997, approximately 71% of the Partnership's sales (by volume of gallons sold) were to retail customers (of which approximately 52%, 21%, 18% and 9% were sales to residential customers, industrial/commercial customers, agricultural customers and motor fuel customers, respectively) and approximately 29% were to wholesale customers. Residential sales have a greater profit margin and a more stable customer base and tend to be less sensitive to price changes than the other markets served by the Partnership. Sales to residential customers in fiscal 1997 accounted for 62% of the Partnership's gross profit on propane sales, reflecting the higher-margin nature of this segment of the retail market.

For ease of reference, a glossary (the "Glossary") of certain terms used in this Prospectus is included as Appendix B to this Prospectus. Capitalized terms not otherwise defined herein have the meanings given in the Glossary.

BUSINESS STRATEGY

The Partnership's business strategy is to maximize its cash flow and profitability, primarily through (i) internal growth, (ii) controlling operating costs and (iii) acquisitions which have the potential for generating attractive returns on investment. The retail propane industry is mature and experiences only limited growth in

total demand for the product. The propane industry is also large and highly fragmented, with approximately 6,000 independently owned and operated distributors. Given these characteristics, the Partnership's acquisition strategy is focused on acquiring smaller to medium-sized local and regional

independent propane distributors, particularly those with a relatively large percentage of residential customers, which generate higher margins than other types of customers, and those located in the Midwest and Northeast, where the Partnership believes it can attain higher margins than in other areas of the United States.

Although there are no formal arrangements between Petro and the Partnership, the Partnership has had, and anticipates that it will continue to have, access to Petro's management expertise. In particular, the Partnership believes that the extensive experience of Petro's management team in making acquisitions in the home heating oil industry, which has many similar characteristics to the propane industry, provides the Partnership with a competitive advantage. Additionally, the field of potential acquisition candidates for the Partnership is broadened because of the ability to acquire companies with both home heating oil and propane operations, with the Partnership either retaining the propane operations and Petro retaining the home heating oil operations or the Partnership retaining both the propane and the home heating oil operations. In this regard, although the Partnership does not presently have any home heating oil operations, it may consider acquiring or retaining such operations in the future to the extent that the Partnership is able to identify attractive acquisition candidates in the home heating oil industry.

In order to facilitate the Partnership's acquisition strategy, the Operating Partnership has entered into bank credit facilities (the "Bank Credit Facilities"), which consist of a $25.0 million acquisition facility (the "Acquisition Facility") (none of which was outstanding as of February 28, 1998) and a $12.0 million working capital facility (the "Working Capital Facility") (none of which was outstanding as of February 28, 1998). In addition to borrowings under the Bank Credit Facilities, the Partnership may fund future acquisitions from internal cash flow or from the issuance of additional Partnership interests or debt securities.

While the Partnership regularly considers and evaluates acquisitions as part of its ongoing acquisition program, the Partnership does not have any present agreements or commitments with respect to any acquisition. There can be no assurance that the Partnership will identify attractive acquisition candidates in the future or that it will be able to acquire such candidates or obtain financing for such acquisitions on acceptable terms. In addition, there can be no assurance that any such acquisition will not dilute earnings and distributions or that any additional debt incurred to finance acquisitions will not affect the ability of the Partnership to make distributions to Unitholders. The General Partner has broad discretion in making acquisitions and it is expected that the General Partner will not generally seek Unitholder approval of acquisitions.

RECENT DEVELOPMENTS

December 1997 Offering of Common Units

On December 16, 1997, the Partnership completed a public offering of 809,000 Common Units at $21.25 per Common Unit (the "December 1997 Offering"). The net proceeds of $15.7 million were used to repay $10.0 million borrowed under the Acquisition Facility and $5.7 million borrowed under the Working Capital Facility. In connection with the December 1997 Offering, the General Partner sold 87,000 Common Units. The Partnership did not receive any proceeds from the sale of such Units by the General Partner.

Issuance of First Mortgage Notes

In January 1998, the Operating Partnership issued $11.0 million of First Mortgage Notes with an annual interest rate of 7.17%. The First Mortgage Notes mature on September 15, 2010 and require a prepayment of $5.5 million on March 15, 2010. Interest is payable semi-annually on March 15 and September 15. The proceeds from the First Mortgage Notes were used to repay $11.0 million borrowed under the Acquisition Facility.

Pearl Gas Acquisition

On October 22, 1997, the Operating Partnership completed the acquisition of Pearl Gas (the "Pearl Gas Acquisition") which is based in Bowling Green, Ohio. Pearl Gas, which has been in business for more than 70 years, sells over 14

million gallons of retail propane annually to over 12,000 customers. Pearl Gas operates primarily in northwest Ohio, southern Michigan and northeast Indiana. Over 80% of Pearl Gas' volume is sold to residential customers.

The purchase price for Pearl Gas was $23.0 million in cash (including working capital of $1.9 million, and transaction expenses of $0.4 million) plus the issuance of limited and general partner interests in the Partnership, including 147,727 Common Units to the General Partner (valued in total as of the acquisition date at $3.5 million).

The following chart sets forth for the periods indicated Pearl Gas' EBITDA, net income and volume of retail propane gallons sold:

	YEAR ENDED DECEMBER 31		TWELVE MONTHS ENDED SEPTEMBER 30, 1997	
	1995	1996	ACTUAL	ADJUSTED(B)
	(IN THOUSANDS)			
EBITDA(a)	$2,629	$3,162	$3,012	$3,285
Net income	$2,302	$2,924	$2,667	$2,940
Retail propane gallons sold	14,372	15,288	14,303	14,303

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(a) EBITDA is defined as operating income plus depreciation and amortization, less net gain (loss) on sale of businesses and equipment and other non-cash charges (including impairment of long-lived assets). EBITDA should not be considered as an alternative to net income (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), but provides additional information for evaluating the Partnership's ability to make the Minimum Quarterly Distributions.

(b) Adjusted to include $0.3 million in estimated cost savings which Management anticipates will be realized as a result of the Pearl Gas Acquisition.

On a pro forma basis, after giving effect to the Pearl Gas Acquisition and the completion of the December 1997 Offering, for the fiscal year ended September 30, 1997, the Partnership's volume of retail propane gallons sold, EBITDA and net income would have been 109.2 million gallons, $23.0 million and $3.4 million, respectively, as compared to the Partnership's historical results of 94.9 million gallons, $19.7 million and $2.0 million, respectively.

Operating Results for the Three Months Ended December 31, 1997

For the three months ended December 31, 1997, net income was $3.7 million, or $0.66 per Unit, as compared to net income of $5.9 million, or $1.10 per Unit for the three months ended December 31, 1996. Results for the 1998 and 1997 fiscal first quarter periods are based on a weighted average of 5,474,000 and 5,271,000 Units outstanding, respectively. The increase is due to the Units that were issued in connection with the December 1997 Offering.

EBITDA declined to $8.7 million for the three months ended December 31, 1997, as compared to $10.4 million in the prior year's period. The decrease in EBITDA was primarily due to lower wholesale volumes and lower wholesale and retail per gallon margins. As expected, per gallon margins were lower compared to the year-earlier period, when operating results had benefitted from unusual supply and wholesale propane market conditions. Retail volume increased 12% over the prior year due to the Pearl Gas Acquisition.

The Partnership's operating expenses remained unchanged as compared to the fiscal 1997 first quarter despite 12% higher retail volume, as the increased costs associated with the Pearl Gas operations were offset by the Partnership's successful efforts to lower operating expenses. On a retail per gallon basis, operating expenses actually declined 10% as a result of lower insurance and vehicle operating costs.

Temperatures for the month of January 1998 were approximately 26.2% warmer

than normal (measured on a degree-day basis) which is expected to have an adverse impact on second quarter results.

THE OFFERING

Securities Offered by the Partnership.....	1,000,000 Common Units.
Units to be Outstanding After This Offering.....	4,831,727 Common Units and 2,396,078 Subordinated Units, representing a 65.5% and a 32.5% limited partner interest in the Partnership, respectively.
Distributions of Available Cash.....	The Partnership distributes all of its Available Cash approximately 45 days after each March 31, June 30, September 30 and December 31, to Unitholders of record on the applicable record date and to the General Partner. "Available Cash" for any quarter will consist generally of all cash on hand at the end of such quarter, as adjusted for reserves. The complete definition of Available Cash is set forth in the Glossary. The General Partner has broad discretion in making cash disbursements and establishing reserves, thereby affecting the amount of Available Cash. Available Cash will generally be distributed 98% to the Unitholders and 2% to the General Partner, except that if distributions of Available Cash exceed Target Distribution Levels above the Minimum Quarterly Distribution, the General Partner will receive a percentage of such excess distributions that will increase to up to 50% of distributions in excess of the highest Target Distribution Level. See "Cash Distribution Policy--Incentive Distributions."
Distributions to Unitholders.....	The Partnership intends, to the extent there is sufficient Available Cash from Operating Surplus, to distribute to each holder of Common Units at least the Minimum Quarterly Distribution of $0.55 per Common Unit per quarter. With respect to each quarter during the Subordination Period, which will generally not end earlier than January 1, 2001, the Common Unitholders will generally have the right to receive the Minimum Quarterly Distribution, plus any arrearages thereon, before any distribution of Available Cash from Operating Surplus is made to the

Subordinated Unitholders. In addition, the Minimum Quarterly Distribution and the Target Distribution Levels are subject to adjustments in certain other circumstances. See "Cash Distribution Policy--Adjustment of

	Minimum Quarterly Distribution and Target Distribution Levels." Subordinated Units will not accrue distribution arrearages. Upon the expiration of the Subordination Period, Common Units will no longer accrue distribution arrearages. See "Cash Distribution Policy."
Subordination Period.....	The Subordination Period will generally extend until the first day of any quarter beginning on or after January 1, 2001 in respect of which (i) distributions of Available Cash from Operating Surplus on the Common Units and the Subordinated Units equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units with respect to each of the three non-overlapping four-quarter periods immediately preceding such date, (ii) 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 Distribution on all of the outstanding Common Units and Subordinated Units during such periods and (iii) there are no arrearages in payment of the Minimum Quarterly Distribution on the Common Units. Upon expiration of the Subordination Period, all remaining Subordinated Units will convert into Common Units and will thereafter participate pro rata with the other Common Units in distributions of Available Cash. In addition, if the General Partner is removed as the general partner of the Partnership other than for Cause, the Subordination Period will end.
Early Conversion of Subordinated Units.....	A portion of the Subordinated Units will convert into Common Units on the first day after the record date established for any quarter ending on or after March 31, 1999 (with respect to 599,020 of the Subordinated Units) and March 31, 2000 (with respect to an additional 599,020 of the Subordinated Units), on a cumulative basis, in respect of which (i) distributions of Available Cash from Operating Surplus on the Common Units and the Subordinated Units equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units with respect to each of the three non-overlapping four-quarter periods

	immediately preceding such date, (ii) 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 Distribution on all of the outstanding Common Units and Subordinated Units during such periods and (iii) there are no arrearages in payment of the Minimum Quarterly Distribution on the Common Units. See "Cash Distribution Policy--Quarterly Distributions of Available Cash."

Incentive Distributions..... As an incentive, if quarterly distributions of Available Cash exceed the Target Distribution Levels, the General Partner will receive up to 50% of distributions of Available Cash in excess of such Target Distribution Levels as follows:

	TOTAL QUARTERLY DISTRIBUTION AMOUNT	MARGINAL PERCENTAGE INTEREST IN DISTRIBUTIONS	
		UNITHOLDERS	GENERAL PARTNER
Minimum Quarterly Distribution...	$0.550	98%	2%
First Target Distribution...	$0.604	98%	2%
Second Target Distribution...	$0.711	85%	15%
Third Target Distribution...	$0.926	75%	25%
Thereafter.....	--	50%	50%

See "Cash Distribution Policy--Incentive Distributions."

Adjustment of Minimum Quarterly Distribution and Target Distribution Levels.....

The Minimum Quarterly Distribution and the Target Distribution Levels are subject to downward adjustments in the event that Unitholders receive distributions of Available Cash from Capital Surplus (which generally includes cash from transactions such as borrowings (other than working capital borrowings), refinancings, sales of securities or sales or other dispositions of assets constituting a return of capital under the Partnership Agreement, as distinguished from cash from Partnership operations), or in the event legislation is enacted or existing law is modified or interpreted in a manner that causes the Partnership to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal, state or local income tax purposes. If the

	Unitholders receive a full return of capital as a result of distributions of Available Cash from Capital Surplus, the distributions payable to the General Partner will increase to 50% of all amounts

	distributed thereafter. See "Cash Distribution Policy--Distributions from Capital Surplus" and "--Adjustment of Minimum Quarterly Distribution and Target Distribution Levels."
Partnership's Ability to Issue Additional Units.....	The Partnership Agreement authorizes the General Partner to cause the Partnership to issue an unlimited number of additional limited partner interests of the Partnership for such consideration and on such terms as shall be established by the General Partner in its sole discretion without the approval of the Unitholders. Prior to the end of the Subordination Period, however, the Partnership may not issue equity securities ranking senior to the Common Units or more than 1,300,000 additional Common Units or an equivalent number of securities ranking on a parity with the Common Units (excluding Common Units or parity Units issued upon conversion of Subordinated Units, in connection with certain acquisitions or to repay certain indebtedness) without the approval of a Unit Majority. The Common Units offered in the December 1997 Offering (to the extent that the proceeds thereof were used to refinance acquisition debt) and the Common Units issued to Star Gas in connection with the Pearl Gas Acquisition will be excluded from such 1,300,000 Common Units. See "Risk Factors--Risks Inherent in an Investment in the Partnership--The Partnership May Issue Additional Units, Diluting Existing Unitholders' Interests."
Limited Call Right.....	If at any time not more than 20% of the outstanding limited partner interests of any class are held by persons other than the General Partner and its Affiliates, the General Partner may purchase all of the remaining limited partner interests of such class at specified market prices.
Limited Voting Rights.....	Unitholders have only limited voting rights on matters affecting the Partnership's business. The approval of at least a majority of the outstanding Units is required in such instances.
Removal and Withdrawal of the General Partner.....	Subject to certain conditions, the General Partner may be removed upon

	the approval of the holders of at least 66 2/3% of the outstanding Units, excluding those Units held by the General Partner and its Affiliates. A meeting of the holders of the Common Units may be called only by the General Partner or by the holders of 20% or more of the outstanding Common Units.

	The General Partner has agreed not to voluntarily withdraw as general partner of the Partnership and the Operating Partnership prior to December 31, 2005, subject to limited exceptions, without obtaining the approval of at least a Unit Majority and furnishing an Opinion of Counsel.
Transfer Restrictions.....	All purchasers of Common Units in this Offering and purchasers of Common Units in the open market who wish to become Common Unitholders of record must deliver an executed transfer application (the "Transfer Application," the form of which is included in this Prospectus as Appendix A) before the transfer of such Common Units will be registered and before cash distributions and federal income tax allocations will be made to the transferee. See "Description of the Common Units--Transfer of Units."
Liquidation Preference.....	In the event of any liquidation of the Partnership during the Subordination Period, the outstanding Common Units will be entitled to receive a distribution out of the net assets of the Partnership, generally in preference to liquidating distributions on the Subordinated Units. Following conversion of the Subordinated Units into Common Units, all Units will be treated the same upon liquidation of the Partnership. See "Cash Distribution Policy--Distributions of Cash Upon Liquidation."
Use of Proceeds.....	Except as may otherwise be described in a Prospectus Supplement relating to an offering of Common Units, the net proceeds from the sale of the Common Units will be used for general partnership purposes. Any allocation of the net proceeds of an offering of Common Units to a specific purpose will be determined at the time of such offering and will be described in the related Prospectus Supplement. See "Use of Proceeds."
Nasdaq Trading Symbol.....	"SGASZ"

RISK FACTORS

LIMITED PARTNER INTERESTS ARE INHERENTLY DIFFERENT FROM CAPITAL STOCK OF A CORPORATION, ALTHOUGH MANY OF THE BUSINESS RISKS TO WHICH THE PARTNERSHIP IS SUBJECT ARE SIMILAR TO THOSE THAT WOULD BE FACED BY A CORPORATION ENGAGED IN A SIMILAR BUSINESS. PROSPECTIVE PURCHASERS OF THE COMMON UNITS SHOULD CONSIDER THE FOLLOWING RISK FACTORS IN EVALUATING AN INVESTMENT IN THE COMMON UNITS. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDED IN THIS PROSPECTUS, INCLUDING, WITHOUT LIMITATION, STATEMENTS REGARDING THE PARTNERSHIP'S BUSINESS STRATEGY, PLANS AND OBJECTIVES OF MANAGEMENT OF THE PARTNERSHIP FOR FUTURE OPERATIONS AND STATEMENTS UNDER "CASH DISTRIBUTION POLICY," 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 BE CORRECT. IMPORTANT FACTS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE PARTNERSHIP'S EXPECTATIONS ARE DISCLOSED BELOW AND ELSEWHERE IN THIS PROSPECTUS.

RISKS INHERENT IN THE PARTNERSHIP'S BUSINESS

Weather Conditions Affect the Demand for Propane

Weather conditions have a significant impact on the demand for propane for both heating and agricultural purposes. Many customers of the Partnership rely heavily on propane as a heating fuel. Accordingly, the volume of propane sold is at its highest during the six-month peak heating season of October through March and is directly affected by the severity of the winter weather. Actual weather conditions can vary substantially from year to year, significantly affecting the Partnership's financial performance. Approximately 70% to 75% of the Partnership's retail propane volume is sold during the peak heating season from October through March. Furthermore, variations in weather in one or more regions in which the Partnership operates can significantly affect the total volume of propane sold by the Partnership and the margins realized on such sales and, consequently, the Partnership's results of operations. Agricultural demand is also affected by weather, as dry weather during the harvest season reduces demand for propane used in crop drying.

The Partnership Is Subject to Pricing and Inventory Risk

The retail propane business is a "margin-based" business in which gross profits depend on the excess of selling prices over the propane supply costs. Propane is a commodity and, as such, its unit price is subject to volatile changes in response to changes in supply or other market conditions. The Partnership has no control over these market conditions. Consequently, the unit price of propane purchased by the Partnership, as well as other marketers, can change rapidly over a short period of time. In general, product supply contracts permit suppliers to charge posted prices at the time of delivery or the current prices established at major storage points such as Mont Belvieu, Texas or Conway, Kansas. As rapid increases in the wholesale cost of propane may not be immediately passed on to customers, such increases could reduce margins. Consequently, the Partnership's profitability is sensitive to changes in wholesale propane prices. See "--The Retail Propane Business Is Highly Competitive."

Propane is available from numerous sources, including integrated international oil companies, independent refiners and independent wholesalers. The Partnership purchases propane from a variety of suppliers pursuant to supply contracts and on the spot market. The major portion of propane purchased by the Partnership (approximately 79% in fiscal 1997) is produced domestically. To the extent that the Partnership purchases propane from Canadian sources (approximately 21% in fiscal 1997), its propane business will be subject to risks of disruption in foreign supply. The Partnership attempts to minimize inventory risk by purchasing propane on a

short-term basis. During periods of low demand for propane, which generally occur during the summer months, the Partnership has on occasion purchased large volumes of propane at lower-than-market costs for storage in the Partnership's 21 million gallon underground storage facility in Seymour, Indiana for future resale. Because of the potential volatility of propane prices, the market price for propane could fall below the price at which the Partnership purchased propane held in inventory, thereby adversely affecting

gross margin or sales or rendering sales from such inventory unprofitable. The Partnership may from time to time engage in transactions (such as options or fixed price contracts to purchase propane) to hedge product costs in an attempt to reduce cost volatility. To date, the level of such activities has not been significant and the Partnership is not currently engaged in any such transactions.

Inflation increases the Partnership's operating and administrative costs. The Partnership will attempt to limit the effects of inflation on its results of operations through cost control efforts, productivity improvements and increases in gross profit margins, but it may not be successful.

The Retail Propane Business Is Highly Competitive

The Partnership's business is highly competitive. Competition within the propane distribution industry stems from primarily three types of participants: larger, multistate marketers; smaller, local independent marketers; and farm cooperatives. Some of the Partnership's competitors have substantially greater financial and operating resources than the Partnership. Generally, competition in the past few years has intensified, partly as a result of warmer-than-normal weather and general economic conditions. The Partnership's ability to compete effectively depends on the reliability of its service, its responsiveness to customers and its ability to maintain competitive retail prices.

Most of the Partnership's retail branch locations compete with five or more marketers or distributors. The principal factors influencing competition with other retail marketers are price, reliability and quality of service, responsiveness to customer needs and safety concerns. Each branch location operates in its own competitive environment, as retail marketers are typically located in close proximity to customers to lower the cost of providing service. The Partnership's branch locations have an average effective marketing radius of 35 miles.

As a result of long-standing customer relationships that are typical in the retail home propane industry, the inconvenience of switching tanks and suppliers and the lack of growth in the industry, the Partnership's propane business may experience difficulty in acquiring new retail customers (other than through acquisitions).

The Partnership's Ability To Grow Depends Upon Acquisitions

The retail propane industry is mature with only limited growth in total demand for propane. The Partnership believes the overall demand for propane has remained relatively constant, with year-to-year industry volumes being affected primarily by weather patterns. Therefore, the ability of the Partnership's propane business to grow depends heavily on its ability to acquire other distributors. In making acquisitions, the Partnership competes with other larger, well-financed companies.

There can be no assurance that the Partnership will identify attractive acquisition candidates in the future or that it will be able to acquire such candidates or obtain financing for such acquisitions on acceptable terms. If the Partnership is able to make acquisitions, there can be no assurance that such acquisitions will not dilute earnings and distributions, or that any additional debt incurred to finance acquisitions will not affect the ability of the Partnership to make distributions. The Partnership is subject to certain debt incurrence covenants in certain agreements governing its indebtedness that might restrict the Partnership's ability to incur indebtedness to finance acquisitions. In addition, to the extent that warm winter weather adversely affects the Partnership's operating and financial results, the Partnership's access to capital and its acquisition activities may be limited.

Dependence on Principal Suppliers

During fiscal year 1997, 43% of the Partnership's volume of propane purchases in the Midwest was purchased on the spot market from various Mont Belvieu sources and 21% was purchased from three refineries

in Illinois and Indiana owned by Amoco Canada Marketing Group. Approximately 47% of purchases from Amoco Canada Marketing Group were made under long-term

market-based supply contracts and the balance was made under short-term supply contracts. Although the Partnership believes that alternative sources of propane are readily available, in the event that the Partnership is unable to purchase propane from either of these sources, the failure to obtain alternate sources of supply at competitive prices and on a timely basis could have a material adverse effect on the Partnership. Substantially all of the Partnership's propane supply for its Northeast retail operations is purchased under annual or longer term supply contracts. Historically, a substantial portion of the propane purchased by the Partnership has originated at the Mont Belvieu, Texas storage facilities and has been shipped to the Partnership through a major common carrier pipeline. Any significant interruption in the service at Mont Belvieu or on the common carrier pipeline could have a material adverse effect on the business of the Partnership.

Energy Efficiency and Technology Trends May Affect Demand

The national trend toward increased conservation and technological advances, including installation of improved insulation and the development of more efficient furnaces and other heating devices, has slowed the growth of demand for propane by retail customers. The Partnership cannot predict the effect of future conservation measures or the effect that any technological advances in heating, conservation, energy generation or other devices might have on its operations.

The Partnership Is Subject to Operating and Litigation Risks Which May Not Be Covered by Insurance

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. As a result, the Partnership may be a defendant in various legal proceedings and litigation arising in the ordinary course of business. The Partnership maintains insurance policies with insurers in such amounts and with such coverages and deductibles as the General Partner believes are reasonable and prudent. However, there can be no assurance that such insurance will be adequate to protect the Partnership from all material expenses related to potential future claims for personal and property damage or that such 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 propane.

The Retail Propane Business Faces Competition from Alternative Energy Sources

Propane is sold in competition with other sources of energy, some of which are less costly for equivalent energy value. The Partnership competes for customers against suppliers of natural gas. Because of the significant cost advantage of natural gas over propane, propane is generally not competitive with natural gas in those areas where natural gas is readily available. The expansion of the nation's natural gas distribution systems has resulted in the availability of natural gas in areas that previously depended upon propane. To a lesser extent, the Partnership also competes for customers against suppliers of electricity and fuel oil. The General Partner cannot predict the effect that the development of alternative energy sources might have on the operations of the Partnership.

RISKS INHERENT IN AN INVESTMENT IN THE PARTNERSHIP

Cash Distributions Are Not Guaranteed and May Fluctuate with Partnership Performance

Although the Partnership distributes all of its Available Cash, there can be no assurance regarding the amounts of Available Cash that the Partnership will generate. The actual amounts of Available Cash will depend upon numerous factors, including profitability of operations, required principal and interest payments on the Partnership's debt, the cost of acquisitions (including related debt service payments), the issuance of debt and equity securities by the Partnership, fluctuations in working capital, capital expenditures, adjustments in reserves,

prevailing economic conditions and financial, business and other factors, some of which may be beyond the control of the General Partner. Cash distributions are dependent primarily on cash flow, including from reserves, and not on

profitability, which is affected by non-cash items. Therefore, cash distributions may be made during periods when the Partnership records losses and may not be made during periods when the Partnership records profits.

The Partnership Agreement gives the General Partner discretion in establishing reserves for the proper conduct of the Partnership's business that will affect the amount of Available Cash. Because the business of the Partnership is seasonal, the General Partner expects that it will make additions to reserves during certain of the Partnership's fiscal quarters in order to fund operating expenses and distributions to partners with respect to other fiscal quarters. In addition, the Partnership is required to make reserves for the future payment of principal and interest on the First Mortgage Notes and in certain instances for the future payment of principal and interest under the Bank Credit Facilities and other indebtedness of the Partnership. The Partnership anticipates that reserves for interest on the First Mortgage Notes will be established at approximately $1.8 million at each December 31 and June 30, and the reserves will be eliminated when interest payments are made on the First Mortgage Notes in March and September. Reserves for repayment of principal on the First Mortgage Notes are not required until December 31, 2000 and then will equal 50% of the next installment at each December 31 and June 30 and the reserves will be eliminated when principal payments are made on the First Mortgage Notes in March and September. In addition, the First Mortgage Notes and the Bank Credit Facilities limit the Operating Partnership's ability to distribute cash to the Partnership. Distributions from the Operating Partnership will be the Partnership's primary source of Available Cash. As a result of these and other factors, there can be no assurance regarding the actual levels of cash distributions by the Partnership, and the Partnership's ability to distribute cash may be limited during the existence of any events of default under any of the Partnership's debt instruments.

The Partnership's Indebtedness May Limit the Partnership's Ability to Make Distributions and May Affect its Operations

At December 31, 1997 the Partnership's total indebtedness as a percentage of total capitalization was approximately 57.2%. As a result, the Partnership is significantly leveraged and has indebtedness that is substantial in relation to its partners' equity. The ability of the Partnership to make principal and interest payments will depend on future performance which is subject to many factors, some of which will be outside the Partnership's control. Certain of the Partnership's indebtedness contain provisions relating to change of control. In particular, the First Mortgage Notes and the Bank Credit Facilities require the General Partner to serve as general partner of the Partnership and to maintain with its Affiliates ownership of a minimum number of Units. If such change of control provisions are triggered, (i) under the Bank Credit Facilities, all outstanding indebtedness may become due and (ii) under the First Mortgage Notes, the indebtedness will be re-rated by a rating agency. In such event, there is no assurance that the Partnership will be able to pay the indebtedness, in which case the lenders would have the right to foreclose on the Partnership's assets, which would have a material adverse effect on the Partnership. There is no restriction on the ability of the General Partner to enter into a transaction which would trigger such change of control provisions. In addition, all of the Partnership's indebtedness is secured by substantially all of the assets of the Partnership and will contain covenants that limit the ability of the Operating Partnership to distribute cash and to incur additional indebtedness. In the case of a continuing default by the Partnership under such indebtedness, the lenders would have the right to foreclose on the Partnership's assets, which would have a material adverse effect on the Partnership. Payment of principal and interest on such indebtedness, as well as compliance with the requirements and covenants of such indebtedness, may limit the Partnership's ability to make distributions to Unitholders. The Partnership's leverage may also adversely affect the ability of the Partnership to finance its future operations and capital needs, may limit its ability to pursue other business opportunities and may make its results of operations more susceptible to adverse economic conditions.

Holders of Common Units Have Limited Voting Rights; The General Partner Manages and Operates the Partnership

The General Partner manages and operates the Partnership. Unlike the holders of common stock in a corporation, holders of outstanding Common Units have only limited voting rights on matters affecting the Partnership's business.

Holders of Common Units have no right to elect the General Partner on an annual or other continuing basis, and the General Partner generally may not be removed except pursuant to the vote of the holders of not less than 66 2/3% of the outstanding Units, excluding those held by the General Partner and its Affiliates. As a result, holders of Common Units have limited influence on matters affecting the operation of the Partnership and third parties may find it difficult to attempt to gain control or influence the activities of the Partnership.

The Partnership May Issue Additional Units, Diluting Existing Unitholders' Interests

The Partnership may issue an unlimited number of additional limited partner interests of the Partnership for such consideration and on such terms as shall be established by the General Partner in its sole discretion without the approval of the Unitholders. Prior to the end of the Subordination Period, however, the Partnership may not issue equity securities ranking senior to the Common Units or more than 1,300,000 additional Common Units or an equivalent number of securities ranking on a parity with the Common Units (excluding Common Units or parity Units issued upon conversion of Subordinated Units, in connection with certain acquisitions or to repay certain indebtedness), without the approval of a Unit Majority. The Common Units offered in the December 1997 Offering (to the extent that the proceeds therefrom were used to refinance acquisition debt) and the Common Units issued to Star Gas in connection with the Pearl Gas Acquisition will be excluded from such 1,300,000 Common Units. The effect of any such issuance may be to dilute the interests of holders of Units in distributions by the Partnership and to make it more difficult for a person or group to remove the General Partner as a general partner or otherwise change management of the Partnership.

The General Partner Will Have a Limited Call Right with Respect to the Common Units

If, at any time, not more than 20% of the issued and outstanding Common Units are held by persons other than the General Partner and its Affiliates, the General Partner will have the right, which it may assign to any of its Affiliates or the Partnership, to acquire all, but not less than all, of the remaining Common Units held by such unaffiliated persons at specified prices. As a consequence of the General Partner's right to purchase outstanding Common Units, a Unitholder may have his Common Units purchased from him even though he may not desire to sell them, and the price paid may be less than the amount the Unitholder would desire to receive upon the sale of his Common Units.

Change of Management Provisions

The Partnership Agreement contains certain provisions that may discourage a person or group from attempting to remove the General Partner as general partner. The Partnership Agreement provides that if the General Partner is removed other than for Cause, the Subordination Period will end, all arrearages on the Common Units will terminate and all outstanding Subordinated Units will convert into Common Units. The effect of these provisions may be to diminish the price at which the Common Units will trade under certain circumstances.

Unitholders May Not Have Limited Liability in Certain Circumstances

The limitations on the liability of holders of Common Units for the obligations of a limited partnership have not been clearly established in some states. If it were determined that the Partnership had been conducting business in any state without compliance with the applicable limited partnership statute, or that the right or the exercise of the right by the holders of Common Units as a group to remove or replace the General Partner, to make certain amendments to the Partnership Agreement or to take other action pursuant to the Partnership

Agreement constituted participation in the "control" of the Partnership's business, then a holder of Common Units could be held liable under certain circumstances for the Partnership's obligations to the same extent as the General Partner.

CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITY

Conflicts of interest have arisen and could arise in the future as a result of the relationships between the General Partner and its Affiliates, on the one hand, and the Partnership or any partner thereof, on the other. The directors and officers of the General Partner have fiduciary duties to manage the General Partner in a manner beneficial to the shareholder of the General Partner. At the same time, the General Partner, as general partner, has fiduciary duties to manage the Partnership in a manner beneficial to the Partnership and the Unitholders. The duties of the General Partner, as general partner, to the Partnership and the Unitholders, therefore, may come into conflict with the duties of the directors and officers of the General Partner to its sole shareholder, Petro.

Such conflicts of interest might arise in the following situations, among others:

(i) Decisions of the General Partner with respect to the amount and timing of cash expenditures, borrowings, issuances of additional Units and reserves in any quarter will affect whether or the extent to which there is sufficient Available Cash from Operating Surplus to meet the Minimum Quarterly Distribution and Target Distribution Levels on all Units in a given quarter. In addition, actions by the General Partner may have the effect of enabling the General Partner to receive incentive distributions or accelerating the expiration of the Subordination Period or the conversion of Subordinated Units into Common Units.

(ii) The Partnership does not have any employees and relies solely on employees of the General Partner and its Affiliates.

(iii) Under the terms of the Partnership Agreement, the Partnership will reimburse the General Partner and its Affiliates for costs incurred in managing and operating the Partnership, including costs incurred in rendering corporate staff and support services to the Partnership.

(iv) Whenever possible, the General Partner intends to limit the Partnership's liability under contractual arrangements to all or particular assets of the Partnership, with the other party thereto to have no recourse against the General Partner or its assets.

(v) Any agreements between the Partnership and the General Partner and its Affiliates will not grant to the holders of Common Units, separate and apart from the Partnership, the right to enforce the obligations of the General Partner and such Affiliates in favor of the Partnership. Therefore, the General Partner, in its capacity as the general partner of the Partnership, will be primarily responsible for enforcing such obligations.

(vi) Under the terms of the Partnership Agreement, the General Partner is not restricted from causing the Partnership to pay the General Partner or its Affiliates for any services rendered on terms that are fair and reasonable to the Partnership or entering into additional contractual arrangements with any of such entities on behalf of the Partnership. Neither the Partnership Agreement nor any of the other agreements, contracts and arrangements between the Partnership, on the one hand, and the General Partner and its Affiliates, on the other, are or will be the result of arm's-length negotiations.

(vii) The General Partner may exercise its right to call for and purchase Units as provided in the Partnership Agreement or assign such right to one of its Affiliates or to the Partnership.

(viii) The Partnership Agreement provides that, subject to certain restrictions, it will not constitute a breach of the General Partner's fiduciary duties to the Partnership or the Unitholders for the General Partner's Affiliates, including Petro, to engage in activities of the type conducted by the Partnership, even if in direct competition with the Partnership. The General Partner and its Affiliates have no obligation to present business opportunities to the Partnership.

Petro has agreed with the Partnership that neither Petro nor any of its Affiliates will acquire a business which derives any revenues from the sale of propane, if, after giving effect to such acquisition, Petro's Pro Forma

Propane Volumes would equal or exceed the lesser of (i) 15% of the

Partnership's reported propane volume sold for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of such acquisition or (ii) 15 million gallons of propane. Petro's "Pro Forma Propane Volumes" means that actual propane volumes sold by Petro and any of its Affiliates (other than the Partnership) for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of determination plus the propane volumes sold by the propane business to be acquired for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of determination. In addition, in the event Petro or an Affiliate owns a propane business, Petro or such Affiliate may not accept as a customer any person who is a customer of the Partnership.

Notwithstanding the above, there are no restrictions on the ability of Petro or other Affiliates of the General Partner to engage in the sale of propane outside the continental United States or to trade or store propane. Petro has advised the Partnership that it currently has no plans to acquire any propane business, engage in the sale of propane outside the continental United States or to trade or store propane.

Unless provided for otherwise in the partnership agreement, Delaware law generally requires a general partner of the Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest. The Partnership Agreement expressly permits the General Partner to resolve conflicts of interest between itself or its Affiliates on the one hand, and the Partnership or the Unitholders, on the other, and to consider, in resolving such conflicts of interest and actions of the General Partner and its Affiliates that might otherwise be prohibited, including those described in paragraphs (i)-(viii) above, and provides that such conflicts of interest and actions do not constitute a breach by the General Partner of any duty stated or implied by law or equity. The General Partner will not be in breach of its obligations under the Partnership Agreement or its duties to the Partnership or the Unitholders if the resolution of such conflict is fair and reasonable to the Partnership. The latitude given in the Partnership Agreement to the General Partner in resolving conflicts of interest may significantly limit the ability of a Unitholder to challenge what might otherwise be a breach of fiduciary duty. The General Partner believes, however, that such latitude is necessary and appropriate to enable it to serve as the general partner of the Partnership without undue risk of liability.

The Partnership Agreement expressly limits the liability of the General Partner by providing that the General Partner, its Affiliates and its officers and directors will not be liable for monetary damages to the Partnership, the limited partners or assignees for errors of judgment or for any actual omissions if the General Partner and other persons acted in good faith. In addition, the Partnership is required to indemnify the General Partner, its Affiliates and their respective officers, directors, employees and agents to the fullest extent permitted by law, against liabilities, costs and expenses incurred by the General Partner or such other persons, if the General Partner or such persons acted in good faith and in a manner they reasonably believed to be in, or not opposed to, the best interest of the Partnership and, with respect to any criminal proceedings, had no reasonable cause to believe the conduct was unlawful.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and the General Partner has not obtained an opinion of counsel covering the provisions set forth in the Partnership Agreement that purport to waive or restrict the fiduciary duties of the General Partner that would be in effect under common law were it not for the Partnership Agreement.

TAX RISKS

For a general discussion of the expected federal income tax consequences of owning and disposing of Units, see "Tax Considerations."

Tax Treatment Is Dependent on Partnership Status

The availability to a Unitholder of the federal income tax benefits of an

investment in the Partnership depends, in large part, on the classification of the Partnership (unless the context requires otherwise, references in this subdivision to the Partnership are references to both the Partnership and the Operating Partnership) as a partnership for federal income tax purposes. Based on certain representations by the General Partner, counsel is of the opinion that, under current law, the Partnership has been and will continue to be classified as a partnership for federal income tax purposes. However, no ruling from the IRS as to such status has been or will be requested, and the opinion of counsel is not binding on the IRS. One of the representations of the General Partner on which the opinion of counsel is based is that at least 90% of the Partnership's gross income for each taxable year has been and will be "qualifying income." Whether the Partnership will continue to be classified as a partnership in part depends, therefore, on the Partnership's ability to meet this qualifying income test in the future. See "Tax Considerations--Partnership Status."

If the Partnership were classified as a corporation for federal income tax purposes, the Partnership would pay tax on its income at corporate rates, distributions would generally be taxed to the Unitholders as corporate distributions, and no income, gain, losses or deductions would flow through to the Unitholders. Because a tax would be imposed upon the Partnership as an entity, the cash available for distribution to the Unitholders would be substantially reduced. Treatment of the Partnership as an association taxable as a corporation or otherwise as a taxable entity would result in a material reduction in the anticipated cash flow and after-tax return to the Unitholders and this would likely result in a substantial reduction in the value of the Units. See "Tax Considerations--Partnership Status."

There can be no assurance that the law will not be changed so as to cause the Partnership to be treated as an entity taxable as a corporation for federal income tax purposes or otherwise to be subject to entity-level taxation. The Partnership Agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects the Partnership to taxation as a corporation or otherwise subjects the Partnership to entity-level taxation for federal, state or local income tax purposes, certain provisions of the Partnership Agreement relating to the subordination of distributions on Subordinated Units will be subject to change, including a decrease in the amount of the Minimum Quarterly Distribution (and Target Distribution Levels) to reflect the impact of such law on the Partnership. See "Cash Distribution Policy--Adjustment of Minimum Quarterly Distribution and Target Distribution Levels."

No IRS Ruling with Respect to Tax Consequences

No ruling has been requested from the IRS with respect to classification of the Partnership as a partnership for federal income tax purposes, whether the Partnership's propane operations generate "qualifying income", or any other matter affecting the Partnership. Accordingly, the IRS may adopt positions that differ from counsel's conclusions expressed herein. It may be necessary to resort to administrative or court proceedings in an effort to sustain some or all of counsel's conclusions, and some or all of such conclusions ultimately may not be sustained. The costs of any contest with the IRS will be borne directly or indirectly by some or all of the Unitholders and the General Partner.

Deductibility of Losses

In the case of taxpayers subject to the passive loss rules, losses generated by the Partnership, if any, will only be available to offset future income generated by the Partnership and cannot be used to offset income from other activities, including passive activities or investments. Unused losses may be deducted when the Unitholder disposes of all of his Units in a fully taxable transaction with an unrelated party. Net passive income from the Partnership may be offset by a Unitholder's unused Partnership losses carried over from prior years, but not by losses from other passive activities, including losses from other publicly traded partnerships. See "Tax Considerations--Tax Consequences of Unit Ownership--Limitations on Deductibility of Partnership Losses."

Tax Liability Exceeding Cash Distribution

A Unitholder will be required to pay federal income tax and, in certain

cases, state and local income taxes on his allocable share of the Partnership's income, even if he receives no cash distributions from the Partnership. No assurance can be given that a Unitholder will receive cash distributions equal to his allocable share of taxable income from the Partnership or even the tax liability to him resulting from that income. Further, a holder of Units may incur a tax liability, in excess of the amount of cash received, upon the sale of his Units. See "Tax Considerations--Tax Consequences of Unit Ownership" and "--Disposition of Units."

Bunching of Income

Each Unitholder will be required to include in income his allocable share of Partnership income, gain, loss and deduction for the fiscal year of the Partnership ending within or with the taxable year of the Unitholder. In addition, a Unitholder who has a taxable year ending on other than December 31 and who disposes of Units following the close of the Partnership's taxable year but before the close of the Unitholder's taxable year must include his allocable share of Partnership income, gain, loss and deduction in income for the Unitholder's taxable year with the result that the Unitholder will be required to report in income for his taxable year his distributive share of more than one year of Partnership income, gain, loss and deduction. See "Tax Considerations--Disposition of Common Units--Allocations Between Transferors and Transferees."

Ownership of Units by Tax-Exempt Organizations and Certain Other Investors

Investment in Units by certain tax-exempt entities, regulated investment companies and foreign persons raises issues unique to such persons. For example, much of the taxable income derived by most organizations exempt from federal income tax (including IRAs and other retirement plans) from the ownership of a Unit will be unrelated business taxable income and thus will be taxable to such a Unitholder. See "Tax Considerations--Uniformity of Units--Tax-Exempt Organizations and Certain Other Investors."

Tax Shelter Registration; Potential IRS Audit

The Partnership is registered with the IRS as a "tax shelter." No assurance can be given that the Partnership will not be audited by the IRS or that tax adjustments will not be made. The rights of a Unitholder owning less than a 1% profit interest in the Partnership to participate in the income tax audit process are very limited. Further, any adjustments in the Partnership's returns will lead to adjustments in the Unitholders' returns and may lead to audits of Unitholders' returns and adjustments of items unrelated to the Partnership. Each Unitholder would bear the cost of any expenses incurred in connection with an examination of such Unitholder's personal tax return.

Possible Loss of Tax Benefits Relating to Non-uniformity of Units and Nonconforming Depreciation Conventions

Because the Partnership cannot match transferors and transferees of Units, uniformity of the economic and tax characteristics of the Units to a purchaser of Units must be maintained. To maintain uniformity and for other reasons, the Partnership has adopted certain depreciation and amortization conventions that do not conform with all aspects of certain proposed and final Treasury Regulations. A successful challenge to those conventions by the IRS could adversely affect the amount of tax benefits available to a purchaser of Units and could have a negative impact on the value of the Units. See "Tax Considerations--Uniformity of Units."

State, Local and Other Tax Considerations

In addition to federal income taxes, Unitholders will likely be subject to other taxes, such as state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which the Partnership does business or owns property. A Unitholder will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of the various

jurisdictions in which the Partnership does business or owns property and may be subject to penalties for failure to comply with those requirements. The General Partner anticipates that substantially all of the Partnership's income will be generated in the following states: Connecticut, Indiana, Kentucky,

Maine, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania and Rhode Island, each of which currently imposes a personal income tax. It is the responsibility of each Unitholder to file all United States federal, state and local tax returns that may be required of such Unitholder. Counsel has not rendered an opinion on the state or local tax consequences of an investment in the Partnership. See "Tax Considerations--State, Local and Other Tax Considerations."

Tax Gain or Loss on Disposition of Units

A Unitholder who sells Units will recognize gain or loss equal to the difference between the amount realized (including his share of Partnership nonrecourse liabilities) and his adjusted tax basis in such Units. Thus, prior Partnership distributions in excess of cumulative net taxable income in respect of a Unit which decreased a Unitholder's tax basis in such Unit will, in effect, become taxable income if the Unit is sold at a price greater than the Unitholder's tax basis in such Units, even if the price is less than his original cost. A portion of the amount realized (whether or not representing gain) may be ordinary income. Furthermore, should the IRS successfully contest certain conventions to be used by the Partnership, a Unitholder could realize more gain on the sale of Units than would be the case under such conventions without the benefit of decreased income in prior years.

Reporting of Partnership Tax Information and Audits

The Partnership will furnish each holder of Units with a Schedule K-1 that sets forth his allocable share of income, gains, losses and deductions. In preparing these schedules, the Partnership will use the various accounting and reporting conventions and adopt various depreciation and amortization methods. There is no assurance that these schedules will yield a result that conforms to statutory or regulatory requirements or to administrative pronouncements of the IRS. Further, the Partnership's tax return may be audited, and any such audit could result in an audit of a partner's individual tax return as well as increased liabilities for taxes because of adjustments resulting from the audit.

PRICE RANGE OF COMMON UNITS AND DISTRIBUTION

The Common Units, representing common limited partner interests in the Partnership, are listed and traded on the Nasdaq National Market under the symbol SGASZ. The Common Units began trading on December 20, 1995, at an initial public offering price of $22.00 per Common Unit. The following table sets forth the closing high and low sales prices for the Common Units on the Nasdaq National Market and the cash distribution declared per Common Unit for the periods indicated.

COMMON UNIT CLOSING SALES PRICE RANGE

	HIGH			LOW			CASH DISTRIBUTIONS DECLARED PER UNIT		
FISCAL QUARTER	1998	1997	1996	1998	1997	1996	1998	1997	1996
First Quarter.....	$23.38	$23.88	$22.50	$20.88	$21.75	$22.00	$0.55	$0.55	--
Second Quarter.....	$24.00(a)	$24.63	$22.50	$21.38(a)	$20.75	$21.13	--	$0.55	--
Third Quarter.....	--	$21.88	$22.00	--	$19.00	$19.75	--	$0.55	$0.62(b)
Fourth Quarter.....	--	$23.50	$24.75	--	$21.00	$20.50	--	$0.55	$0.55

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(a) Through February 27, 1998.

(b) This distribution amounted to $0.6225 per unit and represented a pro rata distribution of $0.0725 per unit for the period December 20, 1995 to December 31, 1995 and a quarterly distribution of $0.55 per unit for the three months ended March 31, 1996.

As of March 3, 1998, there were approximately 136 holders of record of the Partnership's Common Units. There is no established public trading market for the Partnership's 2,396,078 Subordinated Units which are all held by the

General Partner. The Partnership makes quarterly distributions to its Partners in an aggregate amount equal to its Available Cash for such quarter. See "Cash Distribution Policy."

CASH DISTRIBUTION POLICY

The Partnership distributes to its partners, on a quarterly basis, all its Available Cash in the manner described herein. "Available Cash" is defined in the Glossary and generally means, with respect to any fiscal quarter of the Partnership, 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 (i) provide for the proper conduct of the Partnership's business, (ii) comply with applicable law or any Partnership debt instrument or other agreement or (iii) provide funds for distributions to the Unitholders and the General Partner during the next four quarters.

Cash distributions will be characterized as distributions from either Operating Surplus or Capital Surplus. This distinction affects the amounts distributed to Unitholders in relation to the General Partner, and under certain circumstances it determines whether holders of Subordinated Units receive any distributions. See "--Quarterly Distributions of Available Cash."

Operating Surplus generally refers to (i) the cash balance of the Partnership on the date the Partnership commenced operations, plus $6.0 million, plus all cash receipts of the Partnership, less (ii) all Partnership operating expenses (including expenses of the General Partner incurred on behalf of the Partnership), debt service payments, maintenance capital expenditures and reserves established for future Partnership operations.

Capital Surplus will generally be generated only by borrowings (other than for working capital purposes), sales of debt and equity securities and sales or other dispositions of assets for cash (other than inventory, accounts receivable and other assets, all as disposed of in the ordinary course of business).

To avoid the difficulty of trying to determine whether Available Cash distributed by the Partnership is from Operating Surplus or Capital Surplus, all Available Cash distributed by the Partnership from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since the commencement of the Partnership equals the Operating Surplus as of the end of the quarter prior to such distribution. Any excess Available Cash (irrespective of its source) will be deemed to be Capital Surplus and distributed accordingly.

If Capital Surplus is distributed in respect of each Common Unit in an aggregate amount per Unit equal to $22.00 per Common Unit (the "Initial Unit Price"), the distinction between Operating Surplus and Capital Surplus will cease, and all distributions will be treated as from Operating Surplus. The General Partner does not expect that there will be significant distributions from Capital Surplus.

The Subordinated Units are a separate class of interests in the Partnership, and the rights of holders of such interests to participate in distributions differ from the rights of the holders of Common Units. For any given quarter, Available Cash will be distributed to the General Partner and to the holders of Common Units, and it may also be distributed to the holders of Subordinated Units, depending upon the amount of Available Cash for the quarter, amounts distributed in prior quarters, whether the Subordination Period has ended and other factors discussed below.

The discussion below indicates the percentages of cash distributions required to be made to the General Partner and the Common Unitholders and the circumstances under which holders of Subordinated Units are

entitled to cash distributions and the amounts thereof. For a discussion of Available Cash from Operating Surplus available for distributions with respect to the Units on a pro forma basis, see "--Cash Available for Distribution."

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

The Partnership will make distributions to its partners with respect to each fiscal quarter of the Partnership prior to liquidation in an amount equal to

all of its Available Cash for such quarter. Distributions will be made approximately 45 days after each March 31, June 30, September 30 and December 31, to holders of record on the applicable record date.

With respect to each quarter during the Subordination Period, to the extent there is sufficient Available Cash, the holders of Common Units will have the right to receive the Minimum Quarterly Distribution, plus any Cumulative Common Unit Arrearages, prior to any distribution of Available Cash to the holders of Subordinated Units. Upon expiration of the Subordination Period, all Subordinated Units will be converted (on a one-for-one basis) into Common Units and will participate pro rata with all other holders of Common Units in future distributions of Available Cash. Under certain circumstances, up to 1,198,040 Subordinated Units may convert into Common Units prior to the expiration of the Subordination Period. Common Units will not accrue arrearages for any quarter after the Subordination Period, and Subordinated Units will not accrue any arrearages with respect to distributions for any quarter.

The Minimum Quarterly Distribution and the Target Distribution Levels are subject to adjustment as described below under "--Distributions from Capital Surplus" and "--Adjustment of Minimum Quarterly Distribution and Target Distribution Levels."

DISTRIBUTIONS FROM OPERATING SURPLUS DURING SUBORDINATION PERIOD

The Subordination Period will generally extend until the first day of any quarter beginning on or after January 1, 2001 in respect of which (i) distributions of Available Cash from Operating Surplus on the Common Units and the Subordinated Units equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units with respect to each of the three non-overlapping four-quarter periods immediately preceding such date, (ii) 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 Distribution on all of the outstanding Common Units and Subordinated Units during such periods and (iii) there are no arrearages in payment of the Minimum Quarterly Distribution on the Common Units.

Prior to the end of the Subordination Period, a portion of the Subordinated Units will convert into Common Units on the first day after the record date established for any quarter ending on or after March 31, 1999 (with respect to 599,020 of the Subordinated Units) and March 31, 2000 (with respect to an additional 599,020 of the Subordinated Units), on a cumulative basis, in respect of which (i) distributions of Available Cash from Operating Surplus on the Common Units and the Subordinated Units equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units with respect to each of the three non-overlapping four-quarter periods immediately preceding such date, (ii) 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 Distribution on all of the outstanding Common Units and Subordinated Units during such periods and (iii) there are no arrearages in payment of the Minimum Quarterly Distribution on the Common Units.

Upon expiration of the Subordination Period, all remaining Subordinated Units will convert into Common Units and will thereafter participate pro rata with the other Common Units in distributions of Available Cash. In addition, if the General Partner is removed other than for Cause, the Subordination Period will end, the existing arrearages on the Common Units will terminate and the Subordinated Units will immediately convert into Common Units.

"Adjusted Operating Surplus" for any period generally means Operating Surplus generated during such period, but excluding (i) any net increase in working capital borrowings during such period and (ii) any net reduction in cash reserves for Operating Expenditures during such period, but including (x) any net decrease in working capital borrowings during such period and (y) any net increase in cash reserves for Operating Expenditures during such period required by any debt instrument for the repayment of principal, interest or premium.

Distributions by the Partnership of Available Cash from Operating Surplus with respect to any quarter during the Subordination Period will be made in

the following manner:

first, 98% to the Common Unitholders, pro rata, and 2% to the General Partner, until there has been distributed in respect of each Common Unit an amount equal to the Minimum Quarterly Distribution for such quarter;

second, 98% to the Common Unitholders, pro rata, and 2% to the General Partner, until there has been distributed in respect of each Common Unit an amount equal to any Cumulative Common Unit Arrearages on each Common Unit with respect to any prior quarter;

third, 98% to the Subordinated Unitholders, pro rata, and 2% to the General Partner, until there has been distributed in respect of each Subordinated Unit an amount equal to the Minimum Quarterly Distribution for such quarter; and

thereafter, in the manner described in "--Incentive Distributions" below.

The above references to the 2% of Available Cash constituting Operating Surplus distributed to the General Partner are references to the amount of the General Partner's percentage interest in distributions from the Partnership and the Operating Partnership on a combined basis. The General Partner owns a 1% general partner interest in the Partnership and a 1.0101% general partner interest in the Operating Partnership. Other references in this Prospectus to the General Partner's 2% interest or to distributions of 2% of Available Cash are also references to the amount of the General Partner's combined percentage interest in the Partnership and the Operating Partnership.

DISTRIBUTIONS FROM OPERATING SURPLUS AFTER SUBORDINATION PERIOD

Distributions by the Partnership of Available Cash constituting Operating Surplus with respect to any quarter after the Subordination Period will be made in the following manner:

first, 98% to all Unitholders, pro rata, and 2% to the General Partner, until there has been distributed in respect of each Unit an amount equal to the Minimum Quarterly Distribution for such quarter; and

thereafter, in the manner described in "--Incentive Distributions" below.

INCENTIVE DISTRIBUTIONS

For any quarter for which Available Cash from Operating Surplus is distributed in respect of both the Common Units and the Subordinated Units in an amount equal to the Minimum Quarterly Distribution and Available Cash has been distributed on outstanding Common Units in such amount as may be necessary to eliminate any Cumulative Common Unit Arrearages, then any additional Available Cash from Operating Surplus in respect of such quarter will be distributed among the Unitholders and the General Partner in the following manner:

first, 98% to all Unitholders, pro rata, and 2% to the General Partner, until the Unitholders have received (in addition to any distributions to Common Unitholders to eliminate any Cumulative Common Unit Arrearages) a total of $0.604 for such quarter in respect of each Unit (the "First Target Distribution");

second, 85% to all Unitholders, pro rata, and 15% to the General Partner, until the Unitholders have received (in addition to any distributions to Common Unitholders to eliminate any Cumulative Common Unit Arrearages) a total of $0.711 for such quarter in respect of each Unit (the "Second Target Distribution");

third, 75% to all Unitholders, pro rata, and 25% to the General Partner, until the Unitholders have received (in addition to any distributions to Common Unitholders to eliminate any Cumulative Common Unit Arrearages) a total of $0.926 for such quarter in respect of each Unit (the "Third Target Distribution"); and

thereafter, 50% to all Unitholders, pro rata, and 50% to the General Partner.

The following table illustrates the percentage allocation of any such

additional Available Cash among the Unitholders and the General Partner up to the various Target Distribution Levels at each different level of allocation between the Unitholders and the General Partner. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of the Unitholders and the General Partner in any Available Cash from Operating Surplus distributed up to and including the quarterly distribution amount shown, until Available Cash reaches the next Target Distribution Level, if any. The calculations are based on the assumption that the quarterly distribution amounts shown do not include any Cumulative Common Unit Arrearages. The percentage interests shown for the Unitholders and the General Partner for the Minimum Quarterly Distribution are also applicable to quarterly distribution amounts that are less than the Minimum Quarterly Distribution.

	TOTAL QUARTERLY DISTRIBUTION AMOUNT	MARGINAL PERCENTAGE INTEREST IN DISTRIBUTIONS	
		UNITHOLDERS	GENERAL PARTNER
Minimum Quarterly Distribution	$0.550	98%	2%
First Target Distribution	$0.604	98%	2%
Second Target Distribution	$0.711	85%	15%
Third Target Distribution	$0.926	75%	25%
Thereafter	--	50%	50%

DISTRIBUTIONS FROM CAPITAL SURPLUS

Distributions by the Partnership of Available Cash from Capital Surplus will be made 98% to all Unitholders, pro rata, and 2% to the General Partner, until the Partnership shall have distributed, in respect of each Unit, Available Cash from Capital Surplus in an aggregate amount per Unit equal to the Initial Unit Price. Thereafter, all distributions from Capital Surplus will be distributed as if they were from Operating Surplus.

As a distribution is made from Capital Surplus, it is treated as if it were a repayment of the Initial Unit Price. To reflect such repayment, the Minimum Quarterly Distribution and the Target Distribution Levels will be adjusted downward by multiplying each such amount by a fraction, the numerator of which is the Unrecovered Initial Unit Price immediately after giving effect to such repayment and the denominator of which is the Unrecovered Initial Unit Price immediately prior to such repayment. For example, based on the Unrecovered Initial Unit Price of $22.00 per Unit and assuming Available Cash from Capital Surplus of $11.00 per Unit is distributed to Unitholders (assuming no prior adjustments), then the amount of the Minimum Quarterly Distribution and the Target Distribution Levels would each be reduced to 50% of its initial level.

When "payback" of the Initial Unit Price has occurred, i.e., when the Unrecovered Initial Unit Price is zero, then in effect the Minimum Quarterly Distribution and the Target Distribution Levels each will have been reduced to zero. Thereafter, all distributions of Available Cash from all sources will be treated as if they were from Operating Surplus and, because the Minimum Quarterly Distribution and the Target Distribution Levels will have been reduced to zero, the General Partner will be entitled to receive 50% of all distributions of Available Cash after distributions in respect of Cumulative Common Unit Arrearages.

Distributions from Capital Surplus will not reduce the Minimum Quarterly Distribution or any of the Target Distribution Levels for the quarter with respect to which they are distributed.

ADJUSTMENT OF MINIMUM QUARTERLY DISTRIBUTION AND TARGET DISTRIBUTION LEVELS

In addition to adjustments made upon a distribution of Available Cash from

Capital Surplus, the Minimum Quarterly Distribution, the Target Distribution Levels, the Unrecovered Initial Unit Price, the number of additional Common Units issuable during the Subordination Period without a Unitholder vote, the number of Common Units issuable upon conversion of the Subordinated Units and other amounts calculated on a per Unit basis will be proportionately adjusted upward or downward, as appropriate, in the event of any combination or subdivision of Common Units (whether effected by a distribution payable in Common Units or otherwise), but not by reason of the issuance of additional Common Units for cash or property. For example, in the event of a two-for-one split of the Common Units (assuming no prior adjustments), the Minimum Quarterly Distribution, the Target Distribution Levels and the Unrecovered Initial Unit Price would each be reduced to 50% of its initial level.

The Minimum Quarterly Distribution and Target Distribution Levels may also be adjusted if legislation is enacted or if existing law is modified or interpreted by the relevant governmental authority in a manner that causes the Partnership to become taxable as a corporation or otherwise subjects the Partnership to taxation as an entity for federal, state or local income tax purposes. In such event, the Minimum Quarterly Distribution and Target Distribution Levels for each quarter thereafter would be reduced to amounts equal to the product of (i) the respective Minimum Quarterly Distribution or Target Distribution Level multiplied by (ii) one minus the sum of (x) the maximum marginal federal income tax rate to which the Partnership is then subject as an entity plus (y) any increase in the effective overall state and local income tax rate to which the Partnership is subject as a result of the new imposition of the entity level tax (after taking into account the benefit of any deduction allowable for federal income tax purposes with respect to the payment of state and local income taxes). For example, assuming the Partnership was not previously subject to state and local income tax, if the Partnership were to become taxable as an entity for federal income tax purposes and the Partnership became subject to a maximum marginal federal, and effective state and local, income tax rate of 38%, then the Minimum Quarterly Distribution and the Target Distribution Levels would each be reduced to 62% of the amount thereof immediately prior to such adjustment.

DISTRIBUTIONS OF CASH UPON LIQUIDATION

Following the commencement of the dissolution and liquidation of the Partnership, assets will be sold or otherwise disposed of and the partners' capital account balances will be adjusted to reflect any resulting gain or loss. The proceeds of such liquidation will, first, be applied to the payment of creditors of the Partnership in the order of priority provided in the Partnership Agreement and by law and, thereafter, be distributed to the Unitholders and the General Partner in accordance with their respective capital account balances, as so adjusted.

Partners are entitled to liquidation distributions in accordance with capital account balances. Although operating losses are allocated to all Unitholders pro rata, the allocations of gains and losses attributable to liquidation are intended to entitle the holders of outstanding Common Units to a preference over the holders of outstanding Subordinated Units upon the liquidation of the Partnership, to the extent of the Unrecovered Initial Unit Price plus any Cumulative Common Unit Arrearages. However, no assurance can be given that there will be sufficient gain upon liquidation of the Partnership to enable the holders of Common Units to fully recover all of such amounts, even though there may be cash available for distribution to the holders of Subordinated Units. The manner of such adjustment is provided in the Partnership Agreement. Any gain (or unrealized gain attributable to assets distributed in kind) will be allocated to the partners as follows:

first, to the General Partner and the holders of Units that have negative balances in their capital accounts to the extent of and in proportion to such negative balance;

second, 98% to the holders of Common Units, pro rata, and 2% to the General Partner, until the capital account for each Common Unit is equal to the Unrecovered Initial Unit Price in respect of such Common Unit

(including the amount of the Minimum Quarterly Distribution for the fiscal quarter during which the dissolution occurs) plus any Cumulative Common Unit Arrearages in respect of such Common Units;

third, 98% to the holders of Subordinated Units, pro rata, and 2% to the General Partner, until the capital account for each Subordinated Unit is equal to the Unrecovered Subordinated Unit Capital (including the amount of the Minimum Quarterly Distribution for the fiscal quarter during which the dissolution occurs) in respect of a Subordinated Unit;

fourth, 98% to all Unitholders, pro rata and 2% to the General Partner, until there has been allocated under this clause fourth an amount per Unit equal to (a) the excess of the First Target Distribution per Unit over the Minimum Quarterly Distribution per Unit for each quarter of the Partnership's existence, less (b) the amount per Unit of any distributions of Available Cash from Operating Surplus in excess of the Minimum Quarterly Distribution per Unit that was distributed 98% to the Unitholders, pro rata, and 2% to the General Partner, for each quarter of the Partnership's existence;

fifth, 85% to all Unitholders, pro rata, and 15% to the General Partner until there has been allocated under this clause fifth an amount per Unit equal to (a) the excess of the Second Target Distribution per Unit over the First Target Distribution per Unit for each quarter of the Partnership's existence, less (b) the amount per Unit of any distributions of Available Cash from Operating Surplus in excess of the First Target Distribution per Unit that was distributed 85% to the Unitholders, pro rata, and 15% to the General Partner, for each quarter of the Partnership's existence;

sixth, 75% to all Unitholders, pro rata, and 25% to the General Partner, until there has been allocated under this clause sixth an amount per Unit equal to (a) the excess of the Third Target Distribution per Unit over the Second Target Distribution per Unit for each quarter of the Partnership's existence, less (b) the amount per Unit of any distributions of Available Cash from Operating Surplus in excess of the Second Target Distribution per Unit that was distributed 75% to the Unitholders, pro rata, and 25% to the General Partner, for each quarter of the Partnership's existence; and

thereafter, 50% to all Unitholders, pro rata, and 50% to the General Partner.

Any loss or unrealized loss will be allocated to the General Partner and the Unitholders as follows: first, 98% to the Subordinated Unitholders in proportion to the positive balances in their respective capital accounts, and 2% to the General Partner, until the positive balances in such Subordinated Unitholders' respective capital accounts have been reduced to zero; second, 98% to the Common Unitholders in proportion to the positive balances in their respective capital accounts, and 2% to the General Partner, until the positive balances in such Common Unitholders' respective capital accounts have been reduced to zero; and thereafter, to the General Partner.

Interim adjustments to Capital Accounts will be made at the time the Partnership issues additional interests in the Partnership or makes distributions of property. Such adjustments will be based on the fair market value of the interests issued or the property distributed and any gain or loss resulting therefrom will be allocated to the Unitholders in the same manner as gain or loss is allocated upon liquidation.

USE OF PROCEEDS

Except as may otherwise be described in a Prospectus Supplement relating to an offering of Common Units, the net proceeds from the sale of the Common Units will be used for general partnership purposes. Any allocation of the net proceeds of an offering of Common Units to a specific purpose will be determined at the time of such offering and will be described in the related Prospectus Supplement.

MANAGEMENT--DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

PARTNERSHIP MANAGEMENT

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. Notwithstanding any limitation on obligations or duties, the General Partner is 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. In addition, if the Operating Partnership defaults under the First Mortgage Notes or the Bank Credit Facilities, the General Partner will be liable for any deficiency remaining after foreclosure on the Operating Partnership's assets.

William P. Nicoletti and Elizabeth K. Lanier, who are neither officers or 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 with 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 to be 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 Unitholders. In addition, the Audit Committee reviews 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 such 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 with regard thereto 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 employees of the Star Gas Group who managed and operated the propane business and assets prior to the IPO that are now owned by the Partnership continue to manage and operate the Partnership's business as officers and employees of the General Partner and its Affiliates.

DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

The following table sets forth certain information with respect to the directors and executive officers of the General Partner. Executive officers and directors are elected for one-year terms.

NAME	AGE	POSITION WITH THE GENERAL PARTNER
Irik P. Sevin(a)(b).....	50	Chairman of the Board of Directors
Joseph P. Cavanaugh.....	60	President and Chief Executive Officer
David R. Eastin.....	39	Vice President--Operations
Norman L. Bushey.....	68	Vice President--Safety/Compliance
Richard F. Ambury.....	41	Vice President--Finance
Audrey L. Sevin.....	71	Director and Secretary
William G. Powers, Jr.(b).....	44	Director
Thomas J. Edelman.....	46	Director
Paul Biddelman.....	51	Director
Wolfgang Traber(a).....	53	Director
William P. Nicoletti(c).....	52	Director
Elizabeth K. Lanier(c).....	46	Director

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(a) Member of the Compensation Committee
(b) Member of the Management Committee
(c) Member of the Audit Committee

IRIK P. SEVIN has been the Chairman of the Board of Directors of Star Gas since December 1993. Mr Sevin has been a director of Petro since its organization in October 1983 and Chairman of the Board of Petro since January 1993. Mr. Sevin has been President of Petro, Inc. (a predecessor of Petro) since November 1979 and was 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. Mr. Sevin is a graduate of the Cornell University School of

Industrial and Labor Relations (B.S.), New York University School of Law (J.D.) and the Columbia University School of Business Administration (M.B.A.).

JOSEPH P. CAVANAUGH has been President and Chief Executive Officer of Star Gas since December 1997. Mr. Cavanaugh was Senior Vice President--Safety and Compliance of Petro from January 1993 through November 1997. From October 1985 to January 1993, Mr. Cavanaugh was Vice President of Petro. Mr. Cavanaugh was Controller of Petro, Inc. from 1973 to 1985 and of Petro from its organization in 1983 until 1994. Mr. Cavanaugh has also taken an active role in assisting the Partnership's management with the development of safety/compliance programs, assisting with acquisitions and their subsequent integration into the Partnership and with the Partnership's risk management efforts, since Petro's initial involvement with the Star Gas Group in 1993. Mr. Cavanaugh is a graduate of Iona College (B.B.A.) and Pace University (M.S. in Taxation).

DAVID R. EASTIN has served as Vice President of Operations of Star Gas since September 1995. He joined Star Gas in 1992, and served as a Regional Manager and as Director of Operations--Eastern Area. Prior to joining Star Gas, he was employed by Ferrellgas, Inc. (1987 through 1992) and a predecessor company, Buckeye Gas Products (1980 through 1987), in a variety of operational capacities. Mr. Eastin is a graduate of the University of Tulsa (B.S. 1980) and Duquesne University (M.B.A. 1985).

NORMAN L. BUSHEY has served as Vice President of Safety/Compliance of the General Partner since September 1995. Prior thereto he served as the Northeast Area Safety Manager for Star Gas following Star Gas' acquisition of Maingas, Inc. in 1988. From 1974 through 1988, Mr. Bushey served as Vice President and General Manager of Maingas, Inc. From 1953 through 1974, Mr. Bushey was employed by Suburban Propane.

RICHARD F. AMBURY has been Vice President of Finance of Star Gas since February 1996. Prior to joining Star Gas, he was employed by Petro from 1983 through 1996 where he served in various accounting/finance capacities. Prior to joining Petro, Mr. Ambury was employed by a predecessor firm of KPMG Peat Marwick LLP. Mr. Ambury is a graduate of Marist College (B.S. 1979) and has been a certified public accountant since 1981.

AUDREY L. SEVIN has been a director of Star Gas since December 1993 and the Secretary of Star Gas since June 1994. Mrs. Sevin has 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 Inc. in May 1981. Mrs. Sevin is a graduate of New York University (B.S.).

WILLIAM G. POWERS, JR. has been a Director of Star Gas since December 1997. Mr. Powers has been President of Petro since December 1997. Mr. Powers was President of Star Gas from December 1993 through November 1997. Prior to joining Star Gas, he was employed by Petro from 1984 to 1993 where he served in various capacities, including Regional Operations Manager and Vice President of Acquisitions. He has participated in over 90 acquisitions for Petro. 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. Mr. Powers is a graduate of

the University of Notre Dame (B.A. 1975) and the University of Vermont Graduate School of Business (M.B.A. 1984).

THOMAS J. EDELMAN has been a Director of Star Gas from December 1993 through June 1995 and since October 1995. Mr. Edelman has been a Director of Petro since its organization in October 1983. Mr. Edelman has been the Chairman of the Board, President and Chief Executive Office of Patina Oil & Gas Corporation since its formation in May 1996. Mr. Edelman also serves as Chairman of Lomak Petroleum, Inc. He co-founded Snyder Oil Corporation and was its President and a Director from 1981 through February 1997. Prior to 1981, he was a Vice President of The First Boston Corporation. From 1975 through 1980, Mr. Edelman was with Lehman Brothers Kuhn Loeb Incorporated. Mr. Edelman received his Bachelor of Arts Degree from Princeton University and his Masters Degree in Finance from Harvard University's Graduate School of Business Administration. Mr. Edelman serves as a Director of Paradise Music & Entertainment, Inc., Weatherford Enterra, Inc., and serves as a Trustee of The Hotchkiss School.

PAUL BIDDELMAN has been a director of Star Gas from December 1993 through June 1995 and since October 1995. Mr. Biddelman has been a director of Petro since October 1994. Mr. Biddelman has been Treasurer of Hanseatic Corporation since April 1992. Mr. Biddelman joined Hanseatic from Clements Taee Biddelman Incorporated, a merchant banking firm which he co-founded in 1991. From 1982 through 1990, he was a Managing Director in Corporate Finance at Drexel Burnham Lambert Incorporated. Mr. Biddelman also worked in corporate finance at Kuhn, Loeb & Co. from 1975 to 1979, and at Oppenheimer & Co. from 1979 to 1982. Mr. Biddelman is a director of Celadon Group, Inc., Electronic Retailing Systems International, Inc., Institution Technologies, Inc. and Premier Parks, Inc.

WOLFGANG TRABER has been a director of Star Gas from December 1993 through June 1995 and since October 1995. Mr. Traber has been a director of Petro since its organization in October 1983. Mr. Traber is Chairman of the Board of Hanseatic Corporation, a private investment corporation in New York, New York. Mr. Traber is a director of Deltec Asset Management Corporation, Blue Ridge Real Estate Company, Hellespont Tankers Ltd. and M.M. Warburg & Co.

WILLIAM P. NICOLETTI has been a director of Star Gas since November 1995. Since 1991, Mr. Nicoletti has been Managing Director of Nicoletti & Company Inc., a private investment bank servicing clients in energy related industries. From 1988 through 1990, he was a Managing Director and head of the Energy and Natural Resources Group of PaineWebber Incorporated. From 1969 through 1987 he was with E.F. Hutton & Company Inc., where from 1980 through 1987 he was a Senior Vice President and head of the Energy and Natural Resources Group. He is Chairman of the Board of Amerac Energy Corporation and a director of Domain Energy Corporation and StatesRail, Inc.

ELIZABETH K. LANIER has been a director of Star Gas since November 1995. Since June 1996 Ms. Lanier has been Vice President and Chief of Staff of Cinergy Corp., a public utility. From 1984 through 1996, Ms. Lanier was a partner in the law firm of Frost & Jacobs, in Cincinnati, Ohio. From 1976 through 1982, she was associated with Davis, Polk & Wardwell, in New York, New York. Ms. Lanier specializes in corporate and litigation matters. Ms. Lanier is General Counsel to the Southwest Ohio Regional Transit Authority. Ms. Lanier is a graduate of Smith College (B.A.) and the Columbia University School of Law (J.D.).

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

KEY EMPLOYEES

The following senior management personnel, although not executive officers of the Company, make significant business contributions to the Company.

RICHARD BARKER has been President of Silgas, the Partnership's wholesale and supply distribution center for the Midwest, since July 1990. Previously, Mr. Barker was part-owner and operator of Silgas. Mr. Barker

managed and supervised the construction of the Partnership's underground storage facility in Seymour, Indiana. Mr. Barker has over forty-four years in the propane gas industry.

BRYAN N. BRADSHAW has been Regional Manager of the Midwest--Western Region since May 1991. Prior to joining the Partnership, Mr. Bradshaw was employed by Suburban Propane and Petrolane Gas Service. Mr. Bradshaw has over eleven years in the propane gas industry.

THOMAS E. CHRISTERSON joined Star Gas as Regional Manager of the Midwest--Southern Region in August 1993. Prior to joining Star Gas, Mr. Christerson was associated with Suburban Propane, Petrolane Gas Service and Pyrofax Gas Corporation. Mr. Christerson has over thirty-seven years in the propane gas industry.

RICHARD NODES has been Regional Manager of the Mid-Atlantic Region since October 1994. From August 1991 through October 1994, Mr. Nodes was Branch Manager of the Poughkeepsie and Maple Shade branches. Mr. Nodes has over thirteen years in the propane gas industry.

MARTY M. PANNING has been Regional Manager of the Midwest--Northern Region since March 1994. From April 1990 through March 1994, Mr. Panning was Branch Manager at the Waterloo and Deshler branches. Mr. Panning has over fourteen years in the propane gas industry.

CRAIG C. PREMO has been Regional Manager of the Pearl Region since October 22, 1997, when the Partnership acquired Pearl Gas. Mr. Premo has over thirty-one years in the propane gas industry, all with Pearl Gas, and served as its President from January 1996 through October 1997.

PAUL WELDON has been Regional Manager of the New England Region since November 1989. Prior to joining Star Gas, Mr. Weldon worked at Pyrofax Gas Corporation, Penn Fuel Gas Inc. and Finger Lakes Gas Equipment. He has over twenty-five years in the propane gas industry.

THOMAS E. WRIGHT has been Regional Manager of the Midwest--Eastern Region since January 1986. From March 1979 through December 1985, Mr. Wright was Branch Manager of the Deshler branch. Mr. Wright has over twenty-four years in the propane gas industry.

TAX CONSIDERATIONS

This section is a summary of material tax considerations that may be relevant to prospective Unitholders and, to the extent set forth below under "--Legal Opinions and Advice" expresses the opinion of Phillips Nizer Benjamin Krim & Ballon LLP, special counsel to the General Partner and the Partnership ("Counsel"), insofar as it relates to matters of law and legal conclusions. This section is based upon current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed regulations thereunder and current administrative rulings and court decisions, all of which are subject to change. Subsequent changes in such authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to the Partnership are references to both the Partnership and the Operating Partnership.

No attempt has been made in the following discussion to comment on all federal income tax matters affecting the Partnership or the Unitholders. Moreover, the discussion focuses on Unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, non-resident aliens or other Unitholders subject to specialized tax treatment (such as tax-exempt institutions, foreign persons, individual retirement accounts, REITs or mutual funds). Accordingly, each prospective Unitholder should consult, and should depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences peculiar to him of the ownership or disposition of Common Units.

LEGAL OPINIONS AND ADVICE

Counsel is of the opinion that, based on the accuracy of the representations and subject to the qualifications set forth in the detailed discussion that follows, for federal income tax purposes (i) the Partnership and the Operating Partnership will each be treated as a partnership and (ii) owners of Common Units (with certain exceptions, as described in "Limited Partner Status" below) will be treated as partners of the Partnership (but not the Operating Partnership). In addition, all statements as to matters of law and legal conclusions contained in this section, unless otherwise noted, reflect the opinion of Counsel.

Although no attempt has been made in the following discussion to comment on all federal income tax matters affecting the Partnership or prospective Unitholders, Counsel has advised the Partnership that, based on current law, the following is a general description of the principal federal income tax consequences that should arise from the ownership and disposition of Common Units and, insofar as it relates to matters of law and legal conclusions, addresses the material tax consequences to Unitholders who are individual citizens or residents of the United States.

No ruling has been or will be requested from the Internal Revenue Service (the "IRS") with respect to classification of the Partnership as a partnership for federal income tax purposes, whether the Partnership's propane operations generate "qualifying income" under Section 7704 of the Code or any other

matter affecting the Partnership or prospective Unitholders. An opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Thus, no assurance can be provided that the opinions and statements set forth herein would be sustained by a court if contested by the IRS. Any such contest with the IRS may materially and adversely impact the market for the Common Units and the price at which Common Units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the Unitholders and the General Partner. Furthermore, no assurance can be given that the treatment of the Partnership or an investment therein will not be significantly modified by future legislative or administrative changes or court decisions. Any such modification may or may not be retroactively applied.

For the reasons hereinafter described, Counsel has not rendered an opinion with respect to the following specific federal income tax issues: (i) the treatment of a Unitholder whose Common Units are loaned to a short seller to cover a short sale of Common Units (see "--Tax Treatment of Operations--Treatment of Short Sales"), (ii) whether a Unitholder acquiring Common Units in separate transactions must maintain a single aggregate adjusted tax basis in his Common Units (see "--Disposition of Common Units--Recognition of Gain or Loss"), (iii) whether the Partnership's monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (see "--Disposition of Common Units--Allocations Between Transferors and Transferees"), (iv) whether the Partnership's method for depreciating Section 743 adjustments is sustainable (see "--Tax Treatment of Operations--Section 754 Election") and (v) whether the allocations of recapture income contained in the Partnership Agreement will be respected for federal income tax purposes (see "--Tax Consequences of Unit Ownership--Allocation of Partnership Income, Gain, Loss and Deduction").

TAX RATES

The top marginal income tax rate for individuals for 1998 is 39.6%. Pursuant to the Taxpayer Relief Act of 1997 (the "TRA of 1997") in general, net capital gains of an individual are subject to a maximum 28% tax rate, if the asset was held for at least one year and a 20% tax rate if the asset was held for at least 18 months.

PARTNERSHIP STATUS

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner is required to take into account his allocable share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, regardless of whether cash distributions are made. Distributions by a partnership to a partner are generally not taxable unless the amount of any cash distributed is in excess of the partner's adjusted basis in his partnership interest.

No ruling has been or will be sought from the IRS as to the status of the Partnership or the Operating Partnership as a partnership for federal income tax purposes. Instead the Partnership has relied on the opinion of Counsel that, based upon the Code, the regulations thereunder, published revenue rulings and court decisions, the Partnership and the Operating Partnership have been and will each continue to be classified as a partnership for federal income tax purposes.

In rendering its opinion Counsel has relied on the following factual representations made by the Partnership and the General Partner:

Neither the Partnership nor the Operating Partnership has nor will elect to be treated as an association or corporation;

The Partnership and the Operating Partnership have been and will continue to be operated in accordance with (i) all applicable partnership statutes, (ii) the applicable Partnership Agreement and (iii) the description thereof in this Prospectus;

For each taxable year, more than 90% of the gross income of the Partnership will be (i) derived from the exploration, development, production, processing, refining, transportation or marketing of any mineral or natural resource, including oil, gas or products thereof or (ii) other items of "qualifying income" within the meaning of Section 7704(d) of the Code; and

The General Partner has and will at all times act independently of the limited partners.

Section 7704 of the Code provides that publicly-traded partnerships, as a general rule, will be taxed as corporations. However, an exception (the "Qualifying Income Exception") exists with respect to publicly-traded partnerships if 90% or more of its gross income for every taxable year consists of "qualifying income." Qualifying income includes interest (from other than a financial business), dividends and income and gains from the processing, transportation and marketing of crude oil, natural gas, and products thereof, including the retail and wholesale marketing of propane and the transportation of propane and natural gas liquids. Based upon the representations of the Partnership and the General Partner and a review of the applicable legal authorities, Counsel is of the opinion that at least 90% of the Partnership's gross income will constitute qualifying income.

If the Partnership fails to meet the Qualifying Income Exception (other than a failure which is determined by the IRS to be inadvertent and which is cured within a reasonable time after discovery), the Partnership will be treated as if it had transferred all of its assets (subject to liabilities) to a newly formed corporation (on the first day of the year in which it fails to meet the Qualifying Income Exception) in return for stock in such corporation, and then distributed such stock to the partners in liquidation of their interests in the Partnership. This contribution and liquidation should be tax-free to Unitholders and the Partnership, so long as the Partnership, at that time, does not have liabilities in excess of the tax basis of its assets. Thereafter, the Partnership would be treated as a corporation for federal income tax purposes.

If the Partnership or the Operating Partnership were taxed as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, its items of income, gain, loss and deduction would be reflected only on its tax return rather than being passed through to the Unitholders, and its net income would be taxed to the Partnership or the Operating Partnership, as the case may be, at corporate rates. In addition, any distribution made to a Unitholder would be treated as either taxable dividend income (to the extent of the Partnership's current or accumulated earnings and profits) or (in the absence of earnings and profits) a nontaxable return of capital (to the extent of the Unitholder's tax basis in his Common Units) or taxable capital gain (after the Unitholder's tax basis in the Common Units has been reduced to zero). Accordingly, treatment of either the Partnership or the Operating Partnership as an association taxable as a corporation would result in a material reduction in a Unitholder's cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the Units.

The discussion below is based on the assumption that the Partnership will be classified as a partnership for federal income tax purposes.

LIMITED PARTNER STATUS

Unitholders who have become limited partners of the Partnership will be treated as partners of the Partnership for federal income tax purposes. Counsel is also of the opinion that (a) assignees who have executed and delivered Transfer Applications, and are awaiting admission as limited partners and (b) Unitholders whose Common Units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their Common Units will be treated as partners of the Partnership for federal income tax purposes. As there is no direct authority dealing with the issue of addressing assignees of Common Units who are entitled to execute and deliver Transfer Applications and thereby become entitled to direct the exercise of attendant rights, but who fail to execute and deliver Transfer Applications, Counsel's opinion does not extend to those persons. Income, gain, deductions or losses would not appear to be reportable by a Unitholder who is not a partner for federal income tax purposes, and any cash distributions received by such a Unitholder would therefore be fully taxable as ordinary income. These holders should consult their own tax advisors with respect to their status as partners in the Partnership for federal income tax purposes. Furthermore, a purchaser or other transferee of Common Units who does not execute and deliver a Transfer Application may not receive certain federal income tax information or reports

furnished to record holders of Common Units unless the Common Units are held in a nominee or street name account and the nominee or broker has executed and delivered a Transfer Application with respect to such Common Units.

A beneficial owner of Common Units whose Common Units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to such Common Units for federal income tax purposes. See "--Treatment of Operations--Treatment of Short Sales."

TAX CONSEQUENCES OF UNIT OWNERSHIP

Flow-through of Taxable Income

No federal income tax will be paid by the Partnership. Instead, each Unitholder will be required to report on his income tax return his allocable share of the income, gains, losses and deductions of the Partnership without regard to whether corresponding cash distributions are received by such Unitholder. Consequently, a Unitholder may be allocated income from the Partnership even if he has not received a cash distribution. Each Unitholder will be required to include in income his allocable share of Partnership income, gain, loss and deduction for the taxable year of the Partnership ending with or within the taxable year of the Unitholder.

Treatment of Partnership Distributions

Distributions by the Partnership to a Unitholder generally will not be taxable to the Unitholder for federal income tax purposes to the extent of his tax basis in his Common Units immediately before the distribution. Cash distributions in excess of a Unitholder's tax basis generally will be considered to be gain from the sale or exchange of the Common Units, taxable in accordance with the rules described under "--Disposition of Common Units" below. Any reduction in a Unitholder's share of the Partnership's liabilities for which no partner, including the General Partner, bears the economic risk of loss ("nonrecourse liabilities") will be treated as a distribution of cash to that Unitholder. To the extent that Partnership distributions cause a Unitholder's "at risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. See "--Limitations on Deductibility of Partnership Losses."

A decrease in a Unitholder's percentage interest in the Partnership because of the issuance by the Partnership of additional Units will decrease such Unitholder's share of nonrecourse liabilities of the Partnership, and thus will result in a corresponding deemed distribution of cash. A non-pro rata distribution of money or property may result in ordinary income to a Unitholder, regardless of his tax basis in his Common Units, if such distribution reduces the Unitholder's share of the Partnership's "unrealized receivables" (including depreciation recapture) and/or substantially appreciated "inventory items" (both as defined in Section 751 of the Code) (collectively, "Section 751 Assets"). To that extent, the Unitholder will be treated as having been distributed his proportionate share of the Section 751 Assets and having exchanged such assets with the Partnership in return

for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the Unitholder's realization of ordinary income under Section 751(b) of the Code. Such income will equal the excess of (1) the non-pro rata portion of such distribution over (2) the Unitholder's tax basis for the share of such Section 751 Assets deemed relinquished in the exchange.

Basis of Common Units

A Unitholder's initial tax basis for his Common Units will be the amount he paid for the Common Units plus his share of the Partnership's nonrecourse liabilities. That basis will be increased by his share of Partnership income and by any increases in his share of Partnership nonrecourse liabilities. That basis will be decreased (but not below zero) by distributions from the Partnership, by the Unitholder's share of Partnership losses, by any decrease in his share of Partnership nonrecourse liabilities and by his share of expenditures of the Partnership that are not deductible in computing its taxable income and are not required to be capitalized. A limited partner will have no share of Partnership debt which is recourse to the General Partner, but will have a share, generally based on his share of profits, of Partnership

debt which is not recourse to any partner. See "--Disposition of Common Units--Recognition of Gain or Loss."

Limitations on Deductibility of Partnership Losses

The deduction by a Unitholder of his share of Partnership losses will be limited to the tax basis in his Units and, in the case of an individual Unitholder or a corporate Unitholder (if more than 50% of the value of its stock is owned directly or indirectly by five or fewer individuals or certain tax-exempt organizations), to the amount for which the Unitholder is considered to be "at risk" with respect to the Partnership's activities, if that is less than the Unitholder's tax basis. A Unitholder must recapture losses deducted in previous years to the extent that Partnership distributions cause the Unitholder's at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a Unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that the Unitholder's tax basis or at risk amount (whichever is the limiting factor) is subsequently increased. Upon the taxable disposition of a Unit, any gain recognized by a Unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss (above such gain) previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a Unitholder will be at risk to the extent of the tax basis of his Units, excluding any portion of that basis attributable to his share of Partnership nonrecourse liabilities, reduced by any amount of money the Unitholder borrows to acquire or hold his Units if the lender of such borrowed funds owns an interest in the Partnership, is related to such a person or can look only to Units for repayment. A Unitholder's at risk amount will increase or decrease as the tax basis of the Unitholder's Units increases or decreases (other than tax basis increases or decreases attributable to increases or decreases in his share of Partnership nonrecourse liabilities).

The passive loss limitations generally provide that individuals, estates, trusts and certain closely-held corporations and personal service corporations can deduct losses from passive activities (generally, activities in which the taxpayer does not materially participate) only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly-traded partnership. Consequently, any passive losses generated by the Partnership will only be available to offset future income generated by the Partnership and will not be available to offset income from other passive activities or investments (including other publicly-traded partnerships) or salary or active business income. Passive losses which are not deductible because they exceed a Unitholder's income generated by the Partnership may be deducted in full when he disposes of his entire investment in the Partnership in a fully taxable transaction to an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions such as the at risk rules and the basis limitation.

A Unitholder's share of net income from the Partnership may be offset by any suspended passive losses from the Partnership, but it may not be offset by any other current or carryover losses from other passive

activities, including those attributable to other publicly-traded partnerships. The IRS has announced that Treasury Regulations will be issued which characterize net passive income from a publicly-traded partnership as investment income for purposes of the limitations on the deductibility of investment interest.

Limitations on Interest Deductions

The deductibility of a non-corporate taxpayer's "investment interest expense" is generally limited to the amount of such taxpayer's "net investment income." As noted, a Unitholder's net passive income from the Partnership will be treated as investment income for this purpose. In addition, the Unitholder's share of the Partnership's portfolio income will be treated as investment income. Investment interest expense includes (i) interest on indebtedness properly allocable to property held for investment, (ii) the Partnership's interest expense attributed to portfolio income and (iii) the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income. The computation of a Unitholder's investment interest expense will take into

account interest on any margin account borrowing or other loan incurred to purchase or carry a Unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income pursuant to the passive loss rules less deductible expenses (other than interest) directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment.

Allocation of Partnership Income, Gain, Loss and Deduction

In general, if the Partnership has a net profit, items of income, gain, loss and deduction will be allocated among the General Partner and the Unitholders in accordance with their respective percentage interests in the Partnership. At any time that distributions are made to a Limited Partner in excess of the distribution to another Limited Partner (determined on a per Unit basis), or that Incentive Distributions are made to the General Partner, gross income will be allocated to the recipients to the extent of such distribution. If the Partnership has a net loss, items of income, gain, loss and deduction generally will be allocated first, to the General Partner and the Unitholders in accordance with their respective Percentage Interests to the extent of their positive capital accounts (as maintained under the Partnership Agreement) and, thereafter, to the General Partner.

As required by Section 704(c) of the Code and as permitted by Regulations thereunder, certain items of Partnership income, deduction, gain and loss will be allocated to account for the difference between the tax basis and fair market value of property owned by the Partnership. This allocation will have the effect of giving a purchaser in the Offering a basis in Partnership assets equal to the fair market value of those assets. In addition, certain items of recapture income will be allocated to the extent possible to the partner allocated the deduction or curative allocation giving rise to the treatment of such gain as recapture income in order to minimize the recognition of ordinary income to the other Unitholders. Finally, although the Partnership does not expect that its operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of Partnership income and gain will be allocated in an amount and manner sufficient to eliminate the negative balance as quickly as possible.

Regulations provide that an allocation of items of partnership income, gain, loss or deduction, other than an allocation required by Section 704(c) of the Code to eliminate the difference between a partner's "book" capital account (credited with the fair market value of Contributed Property) and "tax" capital account (credited with the tax basis of Contributed Property) (the "Book-Tax Disparity"), will generally be given effect for federal income tax purposes in determining a partner's distributive share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a partner's distributive share of an item will be determined on the basis of the partner's interest in the partnership, which will be determined by taking into account all the facts and circumstances, including the partner's relative contributions to the partnership, the interests of the partners in economic profits and losses, the interest of the partners in cash flow and other nonliquidating distributions and rights of the partners to distributions of capital upon liquidation.

Counsel is of the opinion that, with the exception of the allocation of recapture income discussed above, allocations under the Partnership Agreement will be given effect for federal income tax purposes in determining a partner's distributive share of an item of income, gain, loss or deduction.

TAX TREATMENT OF OPERATIONS

Accounting Method and Taxable Year

The Partnership uses the fiscal year ending December 31 as its taxable year and has adopted the accrual method of accounting for federal income tax purposes. Each Unitholder will be required to include in income his allocable share of Partnership income, gain, loss and deduction for the fiscal year of the Partnership ending within or with the taxable year of the Unitholder. In addition, a Unitholder who disposes of Units following the close of the Partnership's taxable year but before the close of his taxable year must include his allocable share of Partnership income, gain, loss and deduction in income for his taxable year with the result that he will be required to report

in income for his taxable year his distributive share of more than one year of Partnership income, gain, loss and deduction. See "--Disposition of Common Units--Allocations Between Transferors and Transferees."

Tax Basis, Depreciation and Amortization

The tax basis of the various assets of the Partnership will be used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of such assets. The Partnership assets initially had an aggregate tax basis equal to the tax basis of the assets in the possession of the General Partner immediately prior to the formation of the Partnership. The federal income tax burden associated with the difference between the fair market value of property held by the Partnership and its tax basis immediately prior to this Offering will be borne by partners holding interests in the Partnership prior to this offering. See "--Tax Consequences of Unit Ownership--Allocation of Partnership Income, Gain, Loss and Deduction."

If the Partnership disposes of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain (determined by reference to the amount of depreciation previously deducted and the nature of the property) may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a partner who has taken cost recovery or depreciation deductions with respect to property owned by the Partnership may be required to recapture such deductions as ordinary income upon a sale of his interest in the Partnership. See "--Consequences of Unit Ownership--Allocation of Partnership Income, Gain, Loss and Deduction" and "--Disposition of Common Units--Recognition of Gain or Loss."

Costs incurred in organizing the Partnership are being amortized over a period of 60 months. The costs incurred in promoting the issuance of Units, including the issuance of Units in this Offering (such as syndication expenses) must be capitalized and cannot be deducted currently, ratably or upon termination of the Partnership. There are uncertainties regarding the classification of costs as organization expenses, which may be amortized, and as syndication expenses, which may not be amortized. Under recently adopted regulations, the underwriting discounts and commissions would be treated as a syndication cost.

Section 754 Election

The Partnership has made the election permitted by Section 754 of the Code. That election is irrevocable without the consent of the IRS. The election generally permits the Partnership to adjust a Common Unit purchaser's (other than a Common Unit purchased from the Partnership) tax basis in the Partnership's assets ("inside basis") pursuant to Section 743(b) of the Code to reflect his purchase price. The Section 743(b) adjustment belongs to the purchaser and not to other partners. (For purposes of this discussion, a partner's inside basis in the Partnership's assets will be considered to have two components: (1) his share of the Partnership's tax basis in such assets ("common basis") and (2) his Section 743(b) adjustment to that basis.)

Proposed Treasury Regulation Section 1.168-2(n) generally requires the Section 743(b) adjustment attributable to recovery property to be depreciated as if the total amount of such adjustment were attributable to newly-acquired recovery property placed in service when the purchaser acquires the Unit. Similarly, the proposed regulations under Section 197 indicate that the Section 743(b) adjustment attributable to an amortizable Section 197 intangible should be treated as a newly-acquired asset placed in service in the month when the purchaser acquires the Unit. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable

to property subject to depreciation under Section 167 of the Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. The depreciation and amortization methods and useful lives associated with the Section 743(b) adjustment, therefore, may differ from the methods and useful lives generally used to depreciate the common basis in such properties. Pursuant to the Partnership Agreement, the Partnership is authorized to adopt a convention to preserve the uniformity of Units even if such convention is not consistent with Treasury Regulation Section 1.167(c)-1(a)(6), Proposed Treasury Regulation Section 1.168-2(n) or Proposed Treasury

Regulation Section 1.197-2(g)(3). See "--Uniformity of Units."

Although Counsel is unable to opine as to the validity of such an approach, the Partnership intends to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Partnership property (to the extent of any unamortized Book-Tax Disparity) using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of such property, or treat that portion as non-amortizable to the extent attributable to property the common basis of which is not amortizable, despite its inconsistency with Proposed Treasury Regulation Section 1.168-2(n), Treasury Regulation Section 1.167(c)-1(a)(6) (neither of which is expected to directly apply to a material portion of the Partnership's assets) or Proposed Treasury Regulation 1.197-2(g)(3). To the extent such Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, the Partnership will apply the rules described in the Regulations. If the Partnership determines that such position cannot reasonably be taken, the Partnership may adopt a depreciation or amortization convention under which all purchasers acquiring Units in the same month would receive depreciation or amortization, whether attributable to common basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's assets. Such an aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to certain Unitholders. See "--Uniformity of Units."

The allocation of the Section 743(b) adjustment must be made in accordance with the Code. The IRS may seek to reallocate some or all of any Section 743(b) adjustment not so allocated by the Partnership to goodwill which, as an intangible asset, would be amortizable over a longer period of time than the Partnership's tangible assets.

A Section 754 election is advantageous if the transferee's tax basis in his Units is higher than such Units' share of the aggregate tax basis to the Partnership of the Partnership's assets immediately prior to the transfer. In such a case, as a result of the election, the transferee would have a higher tax basis in his share of the Partnership's assets for purposes of calculating, among other items, his depreciation and depletion deductions and his share of any gain or loss on a sale of the Partnership's assets. Conversely, a Section 754 election is disadvantageous if the transferee's tax basis in such Units is lower than such Unit's share of the aggregate tax basis of the Partnership's assets immediately prior to the transfer. Thus, the fair market value of the Units may be affected either favorably or adversely by the election.

The calculations involved in the Section 754 election are complex and will be made by the Partnership on the basis of certain assumptions as to the value of Partnership assets and other matters. There is no assurance that the determinations made by the Partnership will not be successfully challenged by the IRS and that the deductions resulting from them will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in the Partnership's opinion, the expense of compliance exceed the benefit of the election, the Partnership may seek permission from the IRS to revoke the Section 754 election for the Partnership. If such permission is granted, a subsequent purchaser of Units may be allocated more income than he would have been allocated had the election not been revoked.

Alternative Minimum Tax

Although it is not expected that the Partnership will generate significant tax preference items or adjustments, each Unitholder will be required to take into account his distributive share of any items of Partnership income, gain, deduction or loss for purposes of the alternative minimum tax.

The alternative minimum tax rate for noncorporate taxpayers is 26% on the first $175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective Unitholders should consult with their tax advisors as to the impact of an investment in Units on their liability for the alternative minimum tax.

Valuation of Partnership Property and Basis of Properties

The federal income tax consequences of the ownership and disposition of Units will depend in part on estimates by the Partnership of the relative fair market values and determinations of the initial tax bases of the assets of the Partnership. Although the Partnership may from time to time consult with professional appraisers with respect to valuation matters, many of the relative fair market value estimates will be made by the Partnership. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or determinations of basis are subsequently found to be incorrect, the character and amount of items of income, gain, loss or deductions previously reported by Unitholders might change, and Unitholders might be required to adjust their tax liability for prior years.

Treatment of Short Sales

A Unitholder whose Units are loaned to a "short seller" to cover a short sale of Units may be considered as having disposed of ownership of those Units. If so, he would no longer be a partner with respect to those Units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period, any Partnership income, gain, deduction or loss with respect to those Units would not be reportable by the Unitholder, any cash distributions received by the Unitholder with respect to those Units would be fully taxable and all of such distributions would appear to be treated as ordinary income. Unitholders desiring to assure their status as partners and avoid the risk of gain recognition should modify any applicable brokerage account agreements to prohibit their brokers from borrowing their Units. The IRS has announced that it is actively studying issues relating to the tax treatment of short sales of Partnership interests. See also "--Disposition of Common Units--Recognition of Gain or Loss."

DISPOSITION OF COMMON UNITS

Recognition of Gain or Loss

Gain or loss will be recognized on a sale of Units equal to the difference between the amount realized and the Unitholder's tax basis for the Units sold. A Unitholder's amount realized will be measured by the sum of the cash or the fair market value of other property received plus his share of Partnership nonrecourse liabilities. Because the amount realized includes a Unitholder's share of Partnership nonrecourse liabilities, the gain recognized on the sale of Units could result in a tax liability in excess of any cash received from such sale.

Partnership distributions in excess of cumulative net taxable income in respect of a Common Unit which decrease a Unitholder's tax basis in such Common Unit will, in effect, become taxable income if the Common Unit is sold at a price greater than the Unitholder's tax basis in such Common Unit, even if the price is less than his original cost.

Should the IRS successfully contest the convention used by the Partnership to amortize only a portion of the Section 743(b) adjustment (described under "--Tax Treatment of Operations--Section 754 Election") attributable to an amortizable Section 197 intangible after a sale by the General Partner of Units, a Unitholder could realize additional gain from the sale of Units than had such convention been respected. In that case, the Unitholder may have been entitled to additional deductions against income in prior years but may be unable to claim them, with the result to him of greater overall taxable income than appropriate. Counsel is unable to opine as to the validity of the convention but believes such a contest by the IRS to be unlikely because a successful contest could result in substantial additional deductions to other Unitholders.

Gain or loss recognized by a Unitholder (other than a "dealer" in Units) on the sale or exchange of a Unit will generally be taxable as capital gain or loss. Capital gain recognized on the sale of Units held for more than 18 months will generally be taxed at a maximum rate of 20%. A portion of this gain or loss (which could be substantial), however, will be separately computed and taxed as ordinary income or loss under Section 751 of the Code to the extent attributable to assets giving rise to depreciation recapture or other "unrealized receivables" or to "inventory items" owned by the Partnership. The term "unrealized receivables" includes potential recapture items, including depreciation recapture. Ordinary income attributable to

unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of the Unit and may be recognized even if there is a net taxable loss realized on the sale of the Unit. Thus, a Unitholder may recognize both ordinary income and a capital loss upon a disposition of Units. Net capital loss may offset no more than $3,000 of ordinary income each year in the case of individuals and may only be used to offset capital gain in the case of corporations.

The IRS has ruled that a partner who acquires interests in a Partnership in separate transactions must combine those interests and maintain a single adjusted tax basis. Upon a sale or other disposition of less than all of such interests, a portion of that tax basis must be allocated to the interests sold using an "equitable apportionment" method. The ruling is unclear as to how the holding period of these interests is determined once they are combined. If this ruling is applicable to the holders of Common Units, a Common Unitholder will be unable to select high or low basis Common Units to sell as would be the case with corporate stock. It is not clear whether the ruling applies to the Partnership because, similar to corporate stock, interests in the Partnership are evidenced by separate certificates. Accordingly, Counsel is unable to opine as to the effect such ruling will have on the Unitholders. A Unitholder considering the purchase of additional Common Units or a sale of Common Units purchased in separate transactions should consult his tax advisor as to the possible consequences of such ruling.

The TRA of 1997 affects the taxation of certain financial products and securities, including partnership interests by treating a taxpayer as having sold an "appreciated" partnership interest (one in which gain would be recognized if it were sold, assigned or otherwise terminated at its fair market value) if the taxpayer or related persons enters into (i) a short sale of, (ii) an offsetting notional principal contract with respect to, or (iii) a futures or forward contract to deliver, (or, in the case of an appreciated financial position that is a short sale or offsetting notional principal or futures or forward contract, acquire) the same or substantially identical property. The Secretary of Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

Allocations Between Transferors and Transferees

In general, the Partnership's taxable income and losses will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the Unitholders in proportion to the number of Units owned by each of them as of the opening of the principal national securities exchange on which the Common Units are then traded on the first business day of the month (the "Allocation Date"). However, gain or loss realized on a sale or other disposition of Partnership assets other than in the ordinary course of business will be allocated among the Unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a Unitholder transferring Common Units in the open market may be allocated income, gain, loss and deduction accrued after the date of transfer.

The use of this method may not be permitted under existing Treasury Regulations. Accordingly, Counsel is unable to opine on the validity of this method of allocating income and deductions between the transferors and the transferees of Units. If this method is not allowed under the Treasury Regulations (or only applies to transfers of less than all of the Unitholder's interest), taxable income or losses of the Partnership might be reallocated among the Unitholders. The Partnership is authorized to revise its method of allocation between transferors and transferees (as well as among partners whose interests otherwise vary during a taxable period) to conform to a method permitted under future Treasury Regulations.

A Unitholder who owns Units at any time during a quarter and who disposes of such Units prior to the record date set for a cash distribution with respect to such quarter will be allocated items of Partnership income, gain, loss and deductions attributable to such quarter but will not be entitled to receive that cash distribution.

Notification Requirements

A Unitholder who sells or exchanges Units is required to notify the

Partnership in writing of that sale or exchange within 30 days after the sale or exchange and in any event by no later than January 15 of the year following the calendar year in which the sale or exchange occurred. The Partnership is required to notify the IRS of that transaction and to furnish certain information to the transferor and transferee. However, these reporting requirements do not apply with respect to a sale by an individual who is a citizen of the United States and who effects the sale or exchange through a broker. Additionally, a transferee of a Unit will be required to furnish a statement to the IRS, filed with its income tax return for the taxable year in which the sale or exchange occurred, that sets forth the amount of the consideration paid for the Unit. Failure to satisfy these reporting obligations may lead to the imposition of substantial penalties.

Constructive Termination

The Partnership and the Operating Partnership will be considered to have been terminated if there is a sale or exchange of 50% or more of the total interests in Partnership capital and profits within a 12-month period. Under Treasury Regulations, a termination of the Partnership will result in a deemed transfer by the Partnership of its assets to a new partnership in exchange for an interest in the new partnership followed by a deemed distribution of interests in the new partnership to the Unitholders in liquidation of the Partnership. Under TRA of 1997, if the Partnership elects to be treated as a large partnership it will not terminate by reason of the sale or exchange of interests in the Partnership. A termination of the Partnership will cause a termination of the Operating Partnership. A termination of the Partnership will result in the closing of the Partnership's taxable year for all Unitholders. In the case of a Unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of the Partnership's taxable year may result in more than 12 months' taxable income or loss of the Partnership being includable in his taxable income for the year of termination. New tax elections required to be made by the Partnership, including a new election under Section 754 of the Code, must be made subsequent to a termination, and a termination could result in a deferral of Partnership deductions for depreciation. A termination could also result in penalties if the Partnership were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject the Partnership to, any tax legislation enacted prior to the termination.

Entity-Level Collections

If the Partnership is required or elects under applicable law to pay any federal, state or local income tax on behalf of any Unitholder or any General Partner or any former Unitholder, the Partnership is authorized to pay those taxes from Partnership funds. Such payment, if made, will be treated as a distribution of cash to the partner on whose behalf the payment was made. If the payment is made on behalf of a person whose identity cannot be determined, the Partnership is authorized to treat the payment as a distribution to current Unitholders. The Partnership is authorized to amend the Partnership Agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of Units and to adjust subsequent distributions, so that after giving effect to such distributions, the priority and characterization of distributions otherwise applicable under the Partnership Agreement is maintained as nearly as is practicable. Payments by the Partnership as described above could give rise to an overpayment of tax on behalf of an individual partner in which event the partner could file a claim for credit or refund.

UNIFORMITY OF UNITS

Because the Partnership cannot match transferors and transferees of Units, uniformity of the economic and tax characteristics of the Units to a purchaser of such Units must be maintained. In the absence of uniformity,

compliance with a number of federal income tax requirements, both statutory and regulatory, could be substantially diminished. A lack of uniformity can result from a literal application of Proposed Treasury Regulation Section 1.168-2(n). Treasury Regulation Section 1.167(c)-1(a)(6) and Proposed Treasury Regulation 1.197-2(g)(3). Any non-uniformity could have a negative impact on the value of the Units. See "--Treatment of Operations--Section 754 Election."

The Partnership intends to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of contributed property or adjusted property (to the extent of any unamortized Book-Tax Disparity) using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of such property, or treat that portion as nonamortizable, to the extent attributable to property the common basis of which is not amortizable, despite its inconsistency with Proposed Treasury Regulation Section 1.168-2(n) and Treasury Regulation Section 1.167(c)-1(a)(6) (neither of which is expected to directly apply to a material portion of the Partnership's assets) and Proposed Treasury Regulation 1.197-1(a)(3). See "--Tax Treatment of Operations--Section 754 Election." To the extent such Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized Book-Tax Disparity, the Partnership will apply the rules described in the Regulations. If the Partnership determines that such a position cannot reasonably be taken, the Partnership may adopt a depreciation and amortization convention under which all purchasers acquiring Units in the same month would receive depreciation and amortization deductions, whether attributable to common basis or Section 743(b) basis, based upon the same applicable rate as if they had purchased a direct interest in the Partnership's property. If such an aggregate approach is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to certain Unitholders and risk the loss of depreciation and amortization deductions not taken in the year that such deductions are otherwise allowable. This convention will not be adopted if the Partnership determines that the loss of depreciation and amortization deductions will have a material adverse effect on the Unitholders. If the Partnership chooses not to utilize this aggregate method, the Partnership may use any other reasonable depreciation and amortization convention to preserve the uniformity of the intrinsic tax characteristics of any Units that would not have a material adverse effect on the Unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If such a challenge were sustained, the uniformity of Units might be affected, and the gain from the sale of Units might be increased without the benefit of additional deductions. See "--Disposition of Common Units--Recognition of Gain or Loss."

Tax-Exempt Organizations and Certain Other Investors

Ownership of Units by employee benefit plans, other tax-exempt organizations, nonresident aliens, foreign corporations, other foreign persons and regulated investment companies raises issues unique to such persons and, as described below, may have substantially adverse tax consequences.

Employee benefit plans and most other organizations exempt from federal income tax (including IRAs) and other retirement plans) are subject to federal income tax on unrelated business taxable income. Much of the taxable income derived by such an organization from the ownership of a Unit will be unrelated business taxable income and thus will be taxable to such a Unitholder.

A regulated investment Partnership or "mutual fund" is required to derive 90% or more of its gross income from interest, dividends, gains from the sale of stocks or securities or foreign currency or certain related sources. It is not anticipated that any significant amount of the Partnership's gross income will include that type of income.

Non-resident aliens and foreign corporations, trusts or estates which hold Units will be considered to be engaged in business in the United States on account of ownership of Units. As a consequence, they will be required to file federal tax returns in respect of their share of Partnership income, gain, loss or deduction and pay federal income tax at regular rates on any net income or gain. Generally, a partnership is required to pay a withholding tax on the portion of the partnership's income which is effectively connected with the conduct of a United States trade or business and which is allocable to the foreign partners, regardless of whether any actual

distributions have been made to such partners. However, under rules applicable to publicly-traded partnerships, the Partnership will withhold (currently at the rate of 39.6%) on actual cash distributions made quarterly to foreign Unitholders. Each foreign Unitholder must obtain a taxpayer identification number from the IRS and submit that number to the Transfer Agent of the Partnership in order to obtain credit for the taxes withheld. A change in applicable law may require the Partnership to change these procedures.

Because a foreign corporation which owns Units will be treated as engaged in a United States trade or business, such a corporation may be subject to United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its allocable share of the Partnership's income and gain (as adjusted for changes in the foreign corporation's "United States net equity") which are effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country with respect to which the foreign corporate Unitholder is a qualified resident. In addition, such a Unitholder is subject to special information reporting requirements under Section 6038C of the Code.

Under a ruling of the IRS, a foreign Unitholder who sells or otherwise disposes of a Unit will be subject to federal income tax on gain realized on the disposition of such Unit to the extent that such gain is effectively connected with a United States trade or business of the foreign Unitholder. Apart from the ruling, a foreign Unitholder will not be taxed upon the disposition of a Unit if that foreign Unitholder has held less than 5% in value of the Units during the five-year period ending on the date of the disposition and if the Units are regularly traded on an established securities market at the time of the disposition.

ADMINISTRATIVE MATTERS

Partnership Information Returns and Audit Procedures

The Partnership intends to furnish to each Unitholder, within 90 days after the close of each calendar year, certain tax information, including a Schedule K-1, which sets forth each Unitholder's share of the Partnership's income, gain, loss and deduction for the preceding Partnership taxable year. In preparing this information, which will generally not be reviewed by counsel, the Partnership will use various accounting and reporting conventions, some of which have been mentioned in the previous discussion, to determine the Unitholder's share of income, gain, loss and deduction. There is no assurance that any of those conventions will yield a result which conforms to the requirements of the Code, regulations or administrative interpretations of the IRS. The Partnership cannot assure prospective Unitholders that the IRS will not successfully contend in court that such accounting and reporting conventions are impermissible. Any such challenge by the IRS could negatively affect the value of the Units.

The federal income tax information returns filed by the Partnership may be audited by the IRS. Adjustments resulting from any such audit may require each Unitholder to adjust a prior year's tax liability, and possibly may result in an audit of the Unitholder's own return. Any audit of a Unitholder's return could result in adjustments of non-Partnership as well as Partnership items.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Code provides for one partner to be designated as the "Tax Matters Partner" for these purposes. The Partnership Agreement appoints the General Partner as the Tax Matters Partner of the Partnership.

The Tax Matters Partner will make certain elections on behalf of the Partnership and Unitholders and can extend the statute of limitations for assessment of tax deficiencies against Unitholders with respect to Partnership items. The Tax Matters Partner may bind a Unitholder with less than a 1% profits interest in the Partnership to a settlement with the IRS unless that Unitholder elects, by filing a statement with the IRS, not to give such authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review (by which all the

Unitholders are bound) of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, such review may be sought by any Unitholder having at least a 1% interest in the profits of the Partnership and by the Unitholders having in the aggregate at least a 5% profits interest. However, only one action for judicial review will go forward, and each Unitholder with an interest in the outcome may participate.

However, under TRA of 1997, if the Partnership elects to be treated as a large partnership, a partner will not have the right to participate in settlement conferences with the IRS or to seek a refund.

A Unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on the Partnership's return. Intentional or negligent disregard of the consistency requirement may subject a Unitholder to substantial penalties. However, if the Partnership elects to be treated as a large partnership, its partners would be required to treat all Partnership items in a manner consistent with the Partnership return.

Under the provisions of the TRA of 1997, if the Partnership elects to be treated as a large partnership, each partner would take into account separately his share of the following items, determined at the partnership level: (1) taxable income or loss from passive loss limitation activities; (2) taxable income or loss from other activities (such as portfolio income or loss); (3) net capital gains to the extent allocable to passive loss limitation activities and other activities; (4) tax exempt interest; (5) a net alternative minimum tax adjustment separately computed for passive loss limitation activities and other activities; (6) general credits; (7) low-income housing credit; (8) rehabilitation credit; (9) foreign income taxes; (10) credit for producing fuel from a nonconventional source; and (11) any other items the Secretary of Treasury deems appropriate. Moreover, miscellaneous itemized deductions would not be passed through to its partners and 30% of such deductions would be used at the partnership level.

The TRA of 1997 also made a number of changes to the tax compliance and administrative rules relating to electing large partnerships. One provision would require that each partner in an electing large partnership, such as the Partnership, take into account his share of any adjustments to partnership items in the year such adjustments are made. Under prior law, adjustments relating to partnership items for a previous taxable year are taken into account by those persons who were partners in the previous taxable year. Alternatively, under the TRA of 1997, a partnership could elect to or, in some circumstances, could be required to directly pay the tax resulting from any such adjustments. In either case, therefore, Unitholders could bear significant economic burdens associated with tax adjustments relating to periods predating their acquisition of Units.

Nominee Reporting

Persons who hold an interest in the Partnership as a nominee for another person are required to furnish to the Partnership (a) the name, address and taxpayer identification number of the beneficial owner and the nominee; (b) whether the beneficial owner is (i) a person that is not a United States person, (ii) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing or (iii) a tax-exempt entity; (c) the amount and description of Units held, acquired or transferred for the beneficial owner; and (d) certain information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales. Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and certain information on Units they acquire, hold or transfer for their own account. A penalty of $50 per failure (up to a maximum of $100,000 per calendar year) is imposed by the Code for failure to report such information to the Partnership. The nominee is required to supply the beneficial owner of the Units with the information furnished to the Partnership.

Registration as a Tax Shelter

The Code requires that "tax shelters" be registered with the Secretary of the Treasury. The temporary Treasury Regulations interpreting the tax shelter registration provisions of the Code are extremely broad. It is arguable that the Partnership is not subject to the registration requirement on the basis that it will not constitute a tax shelter. However, the General Partner, as a principal organizer of the Partnership, has registered the

Partnership as a tax shelter with the Secretary of the Treasury in the absence of assurance that the Partnership will not be subject to tax shelter registration and in light of the substantial penalties which might be imposed

if registration is required and not undertaken. The IRS has issued the following tax shelter registration number to the Partnership: 96026000016. ISSUANCE OF THE REGISTRATION NUMBER DOES NOT INDICATE THAT AN INVESTMENT IN THE PARTNERSHIP OR THE CLAIMED TAX BENEFITS HAVE BEEN REVIEWED, EXAMINED OR APPROVED BY THE IRS. The Partnership must furnish the registration number to the Unitholders, and a Unitholder who sells or otherwise transfers a Unit in a subsequent transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a Unit to furnish the registration number to the transferee is $100 for each such failure. The Unitholders must disclose the tax shelter registration number of the Partnership on Form 8271 to be attached to the tax return on which any deduction, loss or other benefit generated by the Partnership is claimed or income of the Partnership is included. A Unitholder who fails to disclose the tax shelter registration number on his return, without reasonable cause for that failure, will be subject to a $250 penalty for each failure. Any penalties discussed herein are not deductible for federal income tax purposes. Registration as a tax shelter may increase the risk of an audit.

Accuracy-Related Penalties

A penalty equal to 20% of the amount of any portion of an underpayment of tax which is attributable to one or more of certain listed causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Code. No penalty will be imposed, however, with respect to any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith with respect to that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or $5,000 ($10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return (i) with respect to which there is, or was, "substantial authority" or (ii) as to which there is a reasonable basis and the pertinent facts of such position are disclosed on the return. Certain more stringent rules apply to "tax shelters," a term that in this context does not appear to include the Partnership. If any Partnership item of income, gain, loss or deduction included in the distributive shares of Unitholders might result in such an understatement of income for which no "substantial authority" exists, the Partnership must disclose the pertinent facts on its return. In addition, the Partnership will make a reasonable effort to furnish sufficient information for Unitholders to make adequate disclosure on their returns to avoid liability for this penalty.

A substantial valuation misstatement exists if the value of any property (or the adjusted basis of any property) claimed on a tax return is 200% or more of the amount determined to be the correct amount of such valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds $5,000 ($10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

STATE, LOCAL AND OTHER TAX CONSIDERATIONS

In addition to federal income taxes, Unitholders will likely be subject to other taxes, such as state and local income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which a Unitholder resides or in which the Partnership does business or owns property. A Unitholder will likely be required to file state income tax returns and to pay taxes in various states and may be subject to penalties for failure to comply with such requirements. The General Partner anticipates that substantially all of the Partnership's income will be generated in the following states: Connecticut, Indiana, Kentucky, Maine, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania and Rhode Island. Each of the states in which the General Partner anticipates that a substantial portion of the Partnership's income will be generated currently imposes a personal income tax. Some of these states may require the Partnership to withhold a percentage of income from amounts to be distributed to a Unitholder who is not a resident of such

state. Withholding, the amount of which may be greater or less than a

particular income tax liability to the state, generally does not relieve the non-resident Unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to Unitholders for purposes of determining the amounts distributed by the Partnership. See "--Disposition of Common Units--Entity-Level Collections." Based on current law and its estimate of future Partnership operations, the General Partner anticipates that any amounts required to be withheld will not be material.

It is the responsibility of each Unitholder to investigate the legal and tax consequences, under the laws of pertinent states and localities, of his investment in the Partnership. Accordingly, each prospective Unitholder should consult, and must depend upon, his own tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each Unitholder to file all state and local, as well as U.S. federal, tax returns that may be required of such Unitholder. Counsel has not rendered an opinion on the state or local tax consequences of an investment in the Partnership.

DESCRIPTION OF THE COMMON UNITS

The Common Units have been registered under the Exchange Act, and the rules and regulations promulgated thereunder, and the Partnership is subject to the reporting and certain other requirements of the Exchange Act. The Partnership is required to file periodic reports containing financial and other information with the Securities and Exchange Commission (the "Commission").

Purchasers of Common Units in this Offering and subsequent transferees of Common Units (or their brokers, agents or nominees on their behalf) will be required to execute Transfer Applications, the form of which is included as Appendix A to this Prospectus and which is also set forth on the reverse side of the certificate representing Common Units. Purchasers may hold Common Units in nominee accounts, provided that the broker (or other nominee) executes and delivers a Transfer Application and becomes a limited partner. The Partnership will be entitled to treat the nominee holder of a Common Unit as the absolute owner thereof, and the beneficial owner's rights will be limited solely to those that it has against the nominee holder as a result of or by reason of any understanding or agreement between such beneficial owner and nominee holder.

THE UNITS

Generally, the Common Units and the Subordinated Units represent limited partner interests in the Partnership, which entitle the holders thereof to participate in Partnership distributions and exercise the rights or privileges available to limited partners under the Partnership Agreement. For a description of the relative rights and preferences of holders of Common Units and holders of Subordinated Units in and to Partnership distributions, together with a description of the circumstances under which Subordinated Units may convert into Common Units, see "Cash Distribution Policy."

TRANSFER AGENT AND REGISTRAR

The Partnership has retained BankBoston N.A. as registrar and transfer agent (the "Transfer Agent") for the Common Units. The Transfer Agent receives a fee from the Partnership for serving in such capacities. All fees charged by the Transfer Agent for transfers of Common Units will be borne by the Partnership and not by the holders of Common Units, except that fees similar to those customarily paid by stockholders for surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges, special charges for services requested by a holder of a Common Unit and other similar fees or charges will be borne by the affected holder. There will be no charge to holders for disbursements of the Partnership's cash distributions. The Partnership will indemnify the Transfer Agent, its agents and each of their respective shareholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted in respect of its activities as such, except for any liability due to any negligence, gross negligence, bad faith or intentional misconduct of the indemnified person or entity.

The Transfer Agent may at any time resign, by notice to the Partnership, or be removed by the Partnership, such resignation or removal to become effective upon the appointment by the General Partner of a successor transfer agent and registrar and its acceptance of such appointment. If no successor has been

appointed and accepted such appointment within 30 days after notice of such resignation or removal, the General Partner is authorized to act as the transfer agent and registrar until a successor is appointed.

TRANSFER OF UNITS

Until a Common Unit has been transferred on the books of the Partnership, the Partnership and the Transfer Agent, notwithstanding any notice to the contrary, may treat the record holder thereof as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations. The transfer of the Common Units to persons that purchase directly from a underwriter will be accomplished through the completion, execution and delivery of a Transfer Application by such purchaser in connection with such purchase. Any subsequent transfers of a Common Unit will not be recorded by the Transfer Agent or recognized by the Partnership unless the transferee executes and delivers a Transfer Application. By executing and delivering a Transfer Application, the transferee of Common Units (i) becomes the record holder of such Units and shall constitute an assignee until admitted into the Partnership as a substituted limited partner, (ii) automatically requests admission as a substituted limited partner in the Partnership, (iii) agrees to be bound by the terms and conditions of, and executes, the Partnership Agreement, (iv) represents that such transferee has the capacity, power and authority to enter into the Partnership Agreement, (v) grants powers of attorney to the General Partner and any liquidator of the Partnership as specified in the Partnership Agreement and (vi) makes the consents and waivers contained in the Partnership Agreement. An assignee will become a substituted limited partner of the Partnership in respect of the transferred Common Units upon the consent of the General Partner, which may be withheld for any reason in its sole discretion, and the recordation of the name of the assignee on the books and records of the Partnership.

Common Units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in the Partnership in respect of the transferred Common Units. A purchaser or transferee of Common Units who does not execute and deliver a Transfer Application obtains only (a) the right to assign the Common Units to a purchaser or other transferee and (b) the right to transfer the right to seek admission as a substituted limited partner in the Partnership with respect to the transferred Common Units. Thus, a purchaser or transferee of Common Units who does not execute and deliver a Transfer Application will not receive cash distributions unless the Common Units are held in a nominee or "street name" account and the nominee or broker has executed and delivered a Transfer Application with respect to such Common Units, and may not receive certain federal income tax information or reports furnished to record holders of Common Units. The transferor of Common Units will have a duty to provide such transferee with all information that may be necessary to obtain registration of the transfer of the Common Units, but a transferee agrees, by acceptance of the certificate representing Common Units, that the transferor will not have a duty to insure the execution of the Transfer Application by the transferee and will have no liability or responsibility if such transferee neglects or chooses not to execute and forward the Transfer Application to the Transfer Agent.

PLAN OF DISTRIBUTION

The Partnership may sell Common Units to or through underwriters or dealers, and also may sell Common Units directly to other purchasers or through agents.

The Prospectus Supplement with respect to the Common Units offered thereby will set forth the terms of the offering of such Common Units, including the name or names of any underwriters, dealers or agents, the purchase price of such Common Units and the proceeds to the Partnership from such sale, any underwriting discounts and other items constituting compensation to underwriters, dealers or agents, any initial public offering price, any discounts or concessions allowed or reallowed or paid by underwriters or dealers to other dealers.

If underwriters or dealers are used in the sale, the Common Units will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined

at the time of sale. The Common Units may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more of such firms. Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase such Common Units will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all of the Common Units offered by the Prospectus Supplement if any are purchased. Any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

The Common Units may be sold directly by the Partnership or through agents designated by the Partnership from time to time. Any agent involved in the offering and sale of the Common Units in respect of which this Prospectus is delivered will be named, and any commissions payable by the Partnership to such agent (or the method by which such commissions can be determined) will be set forth, in the Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

Under agreements which may be entered into by the Partnership, underwriters, dealers and agents who participate in the distribution of Common Units may be entitled to indemnification by the Partnership against or contribution toward certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may be customers of, engage in transactions with, or perform services for the Partnership or its Subsidiaries in the ordinary course of business.

VALIDITY OF COMMON UNITS

The validity of the Common Units will be passed upon the Partnership by Phillips Nizer Benjamin Krim & Ballon LLP, New York, New York and will be passed upon for any agents, dealers or underwriters by counsel named in the applicable Prospectus Supplement.

EXPERTS

The consolidated financial statements and schedule of Star Gas Partners, L.P. and subsidiary and the Star Gas Group (Predecessor) as of September 30, 1996 and 1997 and for the fiscal years ended September 30, 1995, 1996 and 1997, have been incorporated by reference herein and elsewhere in the registration statement, in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

APPENDIX A

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership unless the Certificate evidencing the Common Units to be transferred is surrendered for registration or transfer and an Application for Transfer of Common Units has been executed by a transferee either (a) on the form set forth below or (b) on a separate application that the Partnership will furnish on request without charge. A transferor of the Common Units shall have no duty to the transferee with respect to execution of the transfer application in order for such transferee to obtain registration of the transfer of the Common Units.

APPLICATION FOR TRANSFER OF COMMON UNITS

The undersigned ("Assignee") hereby applies for transfer to the name of the Assignee of the Common Units evidenced hereby.

The Assignee (a) requests admission as a Substituted Limited Partner (evidenced by a credit to the account of the undersigned at The Depository Trust Company in the name of its nominee, Cede & Co.) and agrees to comply with and be bound by, and hereby executes, the Agreement of Limited Partnership of Star Gas Partners, L.P. (the "Partnership"), as amended, supplemented or restated to the date hereof (the "Partnership Agreement") (b) represents and warrants that the Assignee has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (c) appoints the General Partner and, if a Liquidator shall be appointed, the Liquidator of the Partnership as the Assignee's attorney-in fact to execute, swear to, acknowledge and file any document, including,

without limitation, the Partnership Agreement and any amendment thereto and the Certificate of Limited Partnership of the Partnership and any amendment thereto, necessary or appropriate for the Assignee's admission as a Substituted Limited Partner and as a party to the Partnership Agreement, (d) gives the powers of attorney provided for in the Partnership Agreement and (e) makes the waivers and gives the consents and approvals contained in the Partnership Agreement. Capitalized terms not defined herein have the meanings assigned to such terms in the Partnership Agreement.

Date: _____

Signature of Assignee _____

- ----------
Social Security or other identifying
number of Assignee

- ----------

- ----------

- ----------
Name and Address of Assignee

- ----------
Purchase Price including commissions, if
any

Type of Entity (check one):

[_]Individual [_]Partnership [_]Corporation
[_]Trust [_]Other (specify) [_]_____

Nationality (check one):

[_]U.S. Citizen, Resident or Domestic Entity
[_]Foreign Corporation

If the U.S. Citizen, Resident or Domestic Entity box is checked, the following certification must be completed.

Under Section 1445(e) of the Internal Revenue Code of 1986, as amended (the "Code"), the Partnership must withhold tax with respect to certain transfers of property if a holder of an interest in the Partnership is a foreign person. To inform the Partnership that no withholding is required with respect to the undersigned interestholder's interest in it, the undersigned hereby certifies the following (or, if applicable, certifies the following on behalf of the interestholder).

Complete Either A or B:

A.Individual Interestholder

1.I am not a non-resident alien for purposes of U.S. income taxation.

2.My U.S. taxpayer identification number (Social Security Number) is _____

3.My home address is _____

B.Partnership, Corporation or Other Interestholder

1. _____ is not a foreign corporation, foreign partnership, foreign
(Name of Interestholder)

trust or foreign estate (as those terms are defined in the Code and Treasury Regulations).

2.The interestholder's U.S. employer identification number is _____

3.The interestholder's office address and place of incorporation (if applicable) is _____

The interestholder agrees to notify the Partnership within sixty (60) days of the date the interestholder becomes a foreign person.

The interestholder understands that this certificate may be disclosed to the Internal Revenue Service by the Partnership and that any false statement contained herein could be punishable by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete and, if applicable, I further declare that I have authority to sign this document on behalf of

(Name of Interestholder)

_____

Signature and Date

_____

Title (if applicable)

_____

Note: If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee holder or an agent of any of the foregoing, and is holding for the account of any other person, this application should be completed by an officer thereof or, in the case of a broker or dealer, by a registered representative who is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or, in the case of any other nominee holder, a person performing a similar function. If the Assignee is a broker, dealer, bank, trust company, clearing corporation, other nominee owner or an agent of any of the foregoing, the above certification as to any person for whom the Assignee will hold the Common Units shall be made to the best of the Assignee's knowledge.

APPENDIX B

GLOSSARY OF TERMS

Acquisition: Any transaction in which any member of the Partnership Group acquires (through an asset acquisition, merger, stock acquisition or other form of investment) control over all or a portion of the assets, properties or business of another person for the purpose of increasing the operating capacity of the Partnership Group over the operating capacity of the Partnership Group existing immediately prior to such transaction.

Adjusted Operating Surplus: With respect to any period, Operating Surplus generated during such period as adjusted to (a) decrease Operating Surplus by (i) any net increase in working capital borrowings during such period and (ii) any net reduction in cash reserves for Operating Expenditures during such period, and (b) increase Operating Surplus by (i) any net decrease in working capital borrowings during such period and (ii) any net increase in cash reserves for Operating Expenditures during such period required by any debt instrument for the repayment of principal, interest or premium.

Affiliate: With respect to any person, any other person that directly, or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the person in question. As used herein, the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through ownership of voting securities, by contract or otherwise.

Audit Committee: A committee of the board of directors of the General Partner composed entirely of two or more directors who are neither officers nor employees of the General Partner nor officers, directors or employees of any Affiliate of the General Partner.

Available Cash: With respect to any quarter prior to liquidation:

(a) the sum of (i) all cash and cash equivalents of the Partnership Group on hand at the end of such quarter and (ii) all additional cash and cash equivalents of the Partnership Group on hand on the date of determination of Available Cash with respect to such quarter resulting from borrowings

subsequent to the end of such quarter, less

(b) the amount of cash reserves that is necessary or appropriate in the reasonable discretion of the General Partner to (i) provide for the proper conduct of the business of the Partnership Group (including reserves for future capital expenditures) subsequent to such quarter, (ii) provide funds for Minimum Quarterly Distributions and Cumulative Common Unit Arrearages in respect of any one or more of the next four quarters, or (iii) comply with applicable law or any debt instrument or other agreement or obligation to which any member of the Partnership Group is a party or its assets are subject.

Capital Account: The capital account maintained for a Partner pursuant to the Partnership Agreement. The Capital Account in respect of a Common Unit, a Subordinated Unit or any other specified interest in the Partnership shall be the amount which such Capital Account would be if such Common Unit, Subordinated Unit or other interest in the Partnership were the only interest in the Partnership held by a Limited Partner.

Capital Improvements: Additions or improvements to the capital assets owned by any member of the Partnership Group or the acquisition of existing or the construction of new capital assets (including retail distribution outlets, propane tanks, pipeline systems, storage facilities and related assets), made to increase the operating capacity of the Partnership Group from the operating capacity of the Partnership Group existing immediately prior to such addition, improvement, acquisition or construction.

Capital Surplus: All Available Cash distributed by the Partnership from any source will be treated as distributed from Operating Surplus until the sum of all Available Cash distributed since the commencement of the Partnership equals the Operating Surplus as of the end of the quarter prior to such distribution. Any excess Available Cash will be deemed to be Capital Surplus.

Cause: Means a court of competent jurisdiction has entered a final, non-appealable judgment finding the General Partner liable for actual fraud, gross negligence or willful or wanton misconduct in its capacity as a general partner of the Partnership.

Common Unit Arrearage: With respect to any Common Unit, whenever issued, and as to any quarter within the Subordination Period, the excess, if any, of (a) the Minimum Quarterly Distribution with respect to such Common Unit over (b) the sum of all Available Cash distributed with respect to such Common Unit in respect of such quarter.

Common Units: A Unit representing a fractional part of the partnership interests of all limited partners and assignees and having the rights and obligations specified with respect to Common Units in the Partnership Agreement.

Cumulative Common Unit Arrearage: With respect to any Common Unit, whenever issued, and as of the end of any quarter, the excess, if any, of (a) the sum resulting from adding together the Common Unit Arrearage as to a Common Unit issued in the IPO for each of the quarters within the Subordination Period ending on or before the last day of such quarter over (b) the sum of any distributions of Operating Surplus theretofore made with respect to such Common Unit (including any distributions to be made in respect of the last of such quarters).

Current Market Price: With respect to any class of Units listed or admitted to trading on any national securities exchange as of any date, the average of the daily Closing Prices (as hereinafter defined) for the 20 consecutive Trading Days (as hereinafter defined) immediately prior to such date. "Closing Price" for any day means the last sale price on such day, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the principal national securities exchange on which the Units of such class are listed or admitted to trading or, if the Units of such class are not listed or admitted to trading on any national securities exchange, the last quoted price on such day, or, if not so quoted, the average of the high bid and low asked prices on such day in the over-the-counter market, as reported by the Nasdaq Stock Market or such other system

then in use, or if on any such day the Units of such class are not quoted by any such organization, the average of the closing bid and asked prices on such day as furnished by a professional market maker making a market in the Units of such class selected by the Board of Directors of the General Partner, or if on any such day no market maker is making a market in the Units of such class, the fair value of such Units on such day as determined reasonably and in good faith by the Board of Directors of the General Partner. "Trading Day" means a day on which the principal national securities exchange on which Units of any class are listed or admitted to trading is open for the transaction of business or, if the Units of a class are not listed or admitted to trading on any national securities exchange, a day on which banking institutions in New York City generally are open.

Degree Day: Degree days measure the amount by which the average of the high and low temperature on a given day is below 65 degrees Fahrenheit. For example, if the high temperature is 60 degrees and the low temperature is 40 degrees for a National Oceanic and Atmospheric Administration measurement location, the average temperature is 50 degrees and the number of degree days for that day is 15.

EBITDA: Operating income plus depreciation and amortization, less net gain (loss) on sale of businesses and equipment and other noncash charges (including the impairment of long-lived assets). As used in this Prospectus, EBITDA is not intended to be construed 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.

General Partner: Star Gas Corporation, a wholly-owned subsidiary of Petroleum Heat and Power Co., Inc., and its successors, as general partner of the Partnership.

Initial Common Units: The Common Units sold in the IPO.

Initial Unit Price: $22.00 per Common Unit, the amount per Unit equal to the initial public offering price of the Common Units in the IPO.

Interim Capital Transactions: (a) borrowings, refinancings or refundings of indebtedness and sales of debt securities (other than for working capital purposes and other than for items purchased on open account in the ordinary course of business) by any member of the Partnership Group, (b) sales of equity interests (including the Common Units sold to the Underwriters pursuant to the exercise of their over-allotment option) by any member of the Partnership Group and (c) sales or other voluntary or involuntary dispositions of any assets of any member of the Partnership Group (other than (i) sales or other dispositions of inventory in the ordinary course of business, (ii) sales or other dispositions of other current assets, including, without limitation, receivables and accounts, in the ordinary course of business and (iii) sales or other dispositions of assets as a part of normal retirements or replacements), in each case prior to the commencement of the dissolution and liquidation of the Partnership.

IPO Closing Date: December 20, 1995, the first date on which Common Units were sold by the Partnership in connection with the IPO.

Minimum Quarterly Distribution: $0.55 per Unit with respect to each quarter, subject to adjustment as described in "Cash Distribution Policy--Distributions from Capital Surplus" and "Cash Distribution Policy--Adjustment of Minimum Quarterly Distribution and Target Distribution Levels."

Operating Expenditures: All Partnership Group expenditures, including taxes, reimbursements of the General Partner, debt service payments, and capital expenditures, subject to the following:

(a) Payments (including prepayments) of principal and premium on a debt shall not be an Operating Expenditure if the payment is (i) required in connection with the sale or other disposition of assets or (ii) made in connection with the refinancing or refunding of indebtedness with the proceeds from new indebtedness or from the sale of equity interests. For purposes of the foregoing, at the election and in the reasonable discretion of the General Partner, any payment of principal or premium shall be deemed to be refunded or refinanced by any indebtedness incurred or to be incurred by the Partnership Group within 180 days before or after such payment to

the extent of the principal amount of such indebtedness.

(b) Operating Expenditures shall not include (i) capital expenditures made for Acquisitions or for Capital Improvements (as opposed to capital expenditures made to maintain assets), (ii) payment of transaction expenses relating to Interim Capital Transactions or (iii) distributions to partners. Where capital expenditures are made in part for Acquisitions or Capital Improvements and in part for other purposes, the General Partner's good faith allocation between the amounts paid for each shall be conclusive.

Operating Partnership: Star Gas Propane, L.P., a Delaware limited partnership, and any successors thereto.

Operating Partnership Agreement: The partnership agreement for the Operating Partnership (the form of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part).

Operating Surplus: As to any period prior to liquidation:

(a) the sum of (i) $6.0 million plus all cash of the Partnership Group on hand as of the close of business on the Closing Date and (ii) all the cash receipts of the Partnership Group for the period beginning on the Closing Date and ending with the last day of such period, other than cash receipts from Interim Capital Transactions, less

(b) the sum of (i) Operating Expenditures for the period beginning on the Closing Date and ending with the last day of such period and (ii) the amount of cash reserves that is necessary or advisable in the reasonable discretion of the General Partner to provide funds for future Operating Expenditures.

Opinion of Counsel: An opinion of counsel to the effect that the taking of a particular action will not result in the loss of the limited liability of the limited partners of the Partnership or cause the Partnership to be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes.

Partnership: Star Gas Partners, L.P., a Delaware limited partnership, and any successors thereto.

Partnership Agreement: The partnership agreement for the Partnership (the form of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part), and unless the context requires otherwise, references to the Partnership Agreement constitute references to the Partnership Agreements of the Partnership and of the Operating Partnership, collectively.

Partnership Group: The Partnership, the Operating Partnership and any partnership Subsidiary of either such entity, treated as a single consolidated entity.

Permitted Investments: Securities with a maturity of one year or less that are (x) direct obligations of the United States of America for the payment of which its full faith and credit is pledged, (y) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof or (z) securities of mutual or similar funds which invest exclusively in securities of the type permitted under clauses (x) and (y) above, in each case having assets in excess of $100 million.

Subordinated Unit: A Unit representing a fractional part of the limited partner partnership interests of all limited partners of the Partnership and assignees of any such limited partner interest and having the rights and obligations specified with respect to Subordinated Units in the Partnership Agreement.

Subordination Period: The Subordination Period will generally extend until the first day of any quarter beginning on or after January 1, 2001 in respect of which (i) distributions of Available Cash from Operating Surplus on the

Common Units and the Subordinated Units equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units with respect to each of the three non-overlapping four-quarter periods immediately preceding such date, (ii) the Adjusted Operating Surplus, generated during each of the three immediately preceding, non-overlapping four quarter periods equaled or exceeded the sum of Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units during such periods and (iii) there are no arrearages in payment of the Minimum Quarterly Distribution on the Common Units. Prior to the end of the Subordination Period, a portion of the Subordinated Units will convert into Common Units on the first day after the record date established for any quarter ending on or after March 31, 1999 (with respect to 599,020 of the Subordinated Units) and March 31, 2000 (with respect to an additional 599,020 of the Subordinated Units), on a cumulative basis, in respect of which (i) distributions of Available Cash from Operating Surplus on the Common Units and the Subordinated Units equaled or exceeded the sum of the Minimum Quarterly Distribution on all of the outstanding Common Units and Subordinated Units with respect to each of the three non-overlapping four-quarter periods immediately preceding such date, (ii) 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 Distribution on all of the outstanding Common Units and Subordinated Units during such periods, and (iii) there are no arrearages in payment of the Minimum Quarterly Distribution on the Common Units. In addition, if the General Partner is removed other than for Cause, the Subordination Period will end, any then-existing arrearages on the Common Units will terminate and the Subordinated Units will immediately convert into Common Units.

Target Distribution Levels: See "Cash Distribution Policy--Incentive Distributions."

Transfer Application: An application for transfer of Units in the form set forth on the back of a certificate, substantially in the form included in this Prospectus as Appendix A, or in a form substantially to the same effect in a separate instrument.

Unitholders: Holders of the Common Units and the Subordinated Units.

Unit Majority: At least a majority of the Common Units (excluding Common Units held by the General Partner and its Affiliates) during the Subordination Period and at least a majority of the Outstanding Units (as defined in the Partnership Agreement) thereafter.

Units: The Common Units and the Subordinated Units, collectively.

Unrecovered Initial Unit Price: At any time, with respect to a class or series of Units (other than Subordinated Units), the price per Unit at which such class or series of Units was initially offered to the public for sale by the Underwriters in respect of such offering, as determined by the General Partner, less the sum of all distributions theretofore made in respect of a Unit of such class or series that was sold in the initial offering of Units of said class or series constituting Capital Surplus and any distributions of cash (or the net agreed value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership theretofore made in respect of a Unit of such class or series that was sold in the initial offering of Units of such class or series, adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Units.

Unrecovered Subordinated Unit Capital: At any time, with respect to a Subordinated Unit, prior to its conversion into a Common Unit, the excess, if any, of (a) the net agreed value (at the time of conveyance) of the undivided interest in any property conveyed to the Partnership in exchange for such Subordinated Unit, over (b) any distributions of cash (or the net agreed value of any distributions in kind) in connection with the dissolution and liquidation of the Partnership, adjusted as the General Partner determines to be appropriate to give effect to any distribution, subdivision or combination of Subordinated Units.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION AND REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE PARTNERSHIP OR THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE PARTNERSHIP SINCE THE DATE HEREOF, OR THAT INFORMATION CONTAINED HEREIN IS CORRECT, AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

TABLE OF CONTENTS

1,000,000 COMMON UNITS
REPRESENTING
LIMITED PARTNER INTERESTS

STAR GAS
PARTNERS, L.P.

P R O S P E C T U S

, 1998

+INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +

+REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +
+SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +
+OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +
+BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +
+THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +
+SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +
+UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +
+ANY SUCH STATE. +
++

SUBJECT TO COMPLETION--DATED MARCH 4, 1998

PROSPECTUS SUPPLEMENT
(TO PROSPECTUS DATED , 1998)

60,727 COMMON UNITS

STAR GAS PARTNERS, L.P.

LIMITED PARTNER INTERESTS

The common units ("Common Units") offered hereby represent limited partner interests in Star Gas Partners, L.P., a Delaware limited partnership (the "Partnership") and are being offered by Star Gas Corporation ("Star Gas"), the selling unitholder (the "Selling Unitholder"). The Partnership will not receive any of the proceeds from the sale of Common Units by the Selling Unitholder. See "The Selling Unitholder." The Partnership was formed in 1995 to acquire and operate the propane business and assets of Star Gas and Petroleum Heat and Power Co., Inc. ("Petro"). Star Gas, the general partner (the "General Partner") of the Partnership, is a wholly owned subsidiary of Petro.

The Partnership distributes to its partners, on a quarterly basis, all of its Available Cash, which is generally all of the cash receipts of the Partnership less all cash disbursements, as adjusted for reserves. The General Partner has broad discretion in making cash disbursements and establishing reserves. It is the intent of the Partnership, to the extent there is sufficient Available Cash, to distribute to each holder of Common Units at least $0.55 per Common Unit per quarter (the "Minimum Quarterly Distribution") or $2.20 per Common Unit on an annualized basis. During the Subordination Period, which generally will not end prior to January 1, 2001, the Minimum Quarterly Distribution will be made to the holders of Common Units before any distributions will be made on the Subordinated Units of the Partnership.

The Common Units are listed on the Nasdaq National Market under the symbol "SGASZ." The last reported sale price of Common Units on the Nasdaq National Market on , 1998 was $ per Common Unit.

SEE "RISK FACTORS" BEGINNING ON PAGE OF THIS PROSPECTUS FOR A DISCUSSION OF THE MATERIAL RISKS RELATING TO AN INVESTMENT IN THE COMMON UNITS. THESE RISKS INCLUDE:

- CASH DISTRIBUTIONS ARE NOT GUARANTEED, WILL DEPEND ON THE FUTURE OPERATING PERFORMANCE OF THE PARTNERSHIP AND WILL BE AFFECTED BY THE FUNDING OF RESERVES, EXPENDITURES AND OTHER MATTERS WITHIN THE DISCRETION OF THE GENERAL PARTNER. AS A RESULT, THERE CAN BE NO ASSURANCE THAT THE PARTNERSHIP WILL BE ABLE TO DISTRIBUTE THE MINIMUM QUARTERLY DISTRIBUTION OR ANY OTHER PARTICULAR LEVEL OF CASH DISTRIBUTIONS TO UNITHOLDERS.

(continued on following page)

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Common Units may be offered by the Selling Unitholder in transactions in which it and any broker-dealer through whom such Common Units are sold may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), as more fully described herein. The Selling Unitholder may sell the Common Units offered hereby from time to time or at one time in transactions on the Nasdaq National Market, in negotiated transactions or through a combination of such methods of sale, at fixed prices, which may be

changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. Any commissions paid or concessions allowed to any broker-dealer, and, if any broker-dealer purchases such Common Units as principal, any profits received from the resale of such Common Units, may be deemed to be underwriting discounts and commissions under the Securities Act. Printing, certain legal, accounting, filing and other similar expenses of the Offering will be paid by the Partnership. The Selling Unitholder will generally bear all other expenses of this Offering, including brokerage fees and any underwriting discounts or commissions.

The date of this Prospectus is , 1998.

(continued from previous page)

- FUTURE PARTNERSHIP PERFORMANCE WILL DEPEND UPON THE SUCCESS OF THE PARTNERSHIP IN MAXIMIZING PROFITS FROM RETAIL PROPANE SALES. PROPANE SALES ARE AFFECTED BY WEATHER PATTERNS, PRODUCT PRICES AND COMPETITION, INCLUDING COMPETITION FROM OTHER ENERGY SOURCES. (ADDITIONAL RISK FACTORS ARE SUMMARIZED ON PAGE 2.)

- BECAUSE THE RETAIL PROPANE INDUSTRY IS MATURE AND OVERALL DEMAND FOR PROPANE IS EXPECTED TO EXPERIENCE LIMITED GROWTH IN THE FORESEEABLE FUTURE, THE PARTNERSHIP WILL DEPEND ON ACQUISITIONS AS THE PRINCIPAL MEANS OF GROWTH. THERE CAN BE NO ASSURANCE THAT THE PARTNERSHIP WILL BE ABLE TO COMPLETE FUTURE ACQUISITIONS.

- THE PARTNERSHIP IS SIGNIFICANTLY LEVERAGED AND HAS INDEBTEDNESS THAT IS SUBSTANTIAL IN RELATION TO ITS PARTNERS' EQUITY.

- HOLDERS OF COMMON UNITS HAVE LIMITED VOTING RIGHTS, AND THE GENERAL PARTNER MANAGES AND OPERATES THE PARTNERSHIP.

- THE AVAILABILITY TO A UNITHOLDER OF THE FEDERAL INCOME TAX BENEFITS OF AN INVESTMENT IN THE PARTNERSHIP LARGELY DEPENDS ON THE CLASSIFICATION OF THE PARTNERSHIP AS A PARTNERSHIP FOR THAT PURPOSE. THE PARTNERSHIP WILL RELY ON AN OPINION OF COUNSEL, AND NOT A RULING FROM THE INTERNAL REVENUE SERVICE, ON THAT ISSUE AND OTHERS RELEVANT TO A UNITHOLDER.

- THE TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP ARE COMPLEX.

The Registration Statement of which this Prospectus forms a part, also covers the offering by the Partnership of up to 1,000,000 Common Units.

CERTAIN PERSONS PARTICIPATING IN THE OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON UNITS. SPECIFICALLY, THE UNDERWRITERS MAY OVER-ALLOT IN CONNECTION WITH THE OFFERING, MAY BID FOR, AND PURCHASE COMMON UNITS IN THE OPEN MARKET AND MAY IMPOSE PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "PLAN OF DISTRIBUTION."

USE OF PROCEEDS

The Partnership will not receive any of the proceeds from sales of Common Units by the Selling Unitholder.

THE SELLING UNITHOLDER

As of the date of this Prospectus Supplement, Star Gas, the Selling Unitholder, held 60,727 Common Units, all of which are being offered pursuant to this Prospectus Supplement. In addition, Star Gas held 2,396,078 Subordinated Units as of such date. The Common Units were issued to Star Gas in connection with the Pearl Gas Acquisition.

PLAN OF DISTRIBUTION

This Prospectus Supplement, as appropriately amended or supplemented, may be used by the Selling Unitholder in connection with the offering of up to 60,727 Common Units in transactions in which it and any broker-dealer through whom such Common Units are sold may be deemed to be underwriters within the meaning of the Securities Act. The Partnership will receive none of the proceeds from any such sales. There presently are no arrangements or understandings, formal or informal, pertaining to the distribution of the Common Units described

herein. Upon the Partnership being notified by the Selling Unitholder that any material arrangement has been entered into with a broker-dealer for the sale of common Units bought through a block trade, special offering, exchange distribution or secondary distribution, a Prospectus Supplement will be filed, pursuant to Rule 424(b) under the Securities Act, setting forth (i) the name of the person offering such Common Units and the participating broker-dealer(s), (ii) the number of Common Units involved, (iii) the price at which the Common Units were sold, (iv) the commission paid or the discount allowed to such broker-dealer(s), where applicable, (v) that such broker-dealer(s) did not conduct any investigation to verify the information set out in this Prospectus Supplement and (vi) other facts material to the transaction.

The Selling Unitholder may sell the Common Units being offered hereby from time to time in transactions (which may involve crosses and block transactions) on the Nasdaq National Market, in the over-the-counter market, in negotiated transactions or otherwise, at market prices prevailing at the time of the sale or at negotiated prices. The Selling Unitholder may sell some or all of the Common Units in transactions involving broker-dealers, who may act solely as agent and/or may acquire Common Units as principal. Broker-dealers participating in such transactions as agent may receive commissions from the Selling Unitholder (and, purchaser), such commissions may be at negotiated rates where permissible. Participating broker-dealers may agree with the Selling Unitholder to sell a specified number of Common Units at a stipulated price per Common Unit and, to the extent such broker-dealer is unable to do so acting as an agent for the Selling Unitholder, to purchase as principal any unsold Common Units at the price required to fulfill the broker-dealer's commitment to the Selling Unitholder. In addition or alternatively, Common Units may be sold by the Selling Unitholder, and/or by or through other broker-dealers in special offerings, exchange distributions or secondary distributions pursuant to and in compliance with the governing rules of the Nasdaq National Market, and in connection therewith commissions in excess of the customary commission prescribed by such governing rules may be paid to participating broker-dealers, or, in the case of certain secondary distributions, a discount or concession from the offering price may be allowed to participating broker-dealers in excess of the customary commission. Broker-dealers who acquire Common Units as principal may thereafter resell such Common Units from time to time in transactions (which may involve crosses and block transactions and which may involve sales to or through other broker-dealer, including transactions of the nature described in the preceding two sentences) on the Nasdaq National Market, in the over-the-counter market, in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices, and in connection with such resales may pay to or receive commissions from the purchaser of such Common Units.

VALIDITY OF COMMON UNITS

The validity of the Common Units will be passed upon for the Partnership by Phillips Nizer Benjamin Krim & Ballon LLP, New York, New York.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

Set forth below are the expenses (other than underwriting discounts and commissions) expected to be incurred in connection with the issuance and distribution of the securities registered hereby. With the exception of the Securities and Exchange Commission registration fee and the Nasdaq National Market listing fee, the amounts set forth below are estimates.

Securities and Exchange Commission registration fee	$ 6,923
Nasdaq National Market listing fee	17,500
Printing and engraving expenses	25,000
Legal fees and expenses	20,000
Accounting fees and expenses	10,000
Blue Sky fees and expenses	2,500
Transfer agent fees and expenses	2,500
Miscellaneous Expenses	3,077

Total	$87,500

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* To be furnished by amendment.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Section of the Registrant's Prospectus dated December 16, 1997, which is part of the Registrant's Registration Statement on Form S-1 File No. 333-40855, entitled "The Partnership Agreement--Indemnification" is incorporated herein by this reference. Subject to any terms, conditions or restrictions set forth in the Partnership Agreements, Section 17-108 of the Delaware Revised Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other person from and against any and all claims and demands whatsoever.

ITEM 16. EXHIBITS

3.1	--Form of Agreement of Limited Partnership of Star Gas Partners, L.P.(2)
3.2	--Form of Agreement of Limited Partnership of Star Gas Propane, L.P.(2)
5.1	--Opinion of Phillips Nizer Benjamin Krim & Ballon LLP as to the legality of the securities being registered(1)
8.1	--Opinion of Phillips Nizer Benjamin Krim & Ballon LLP relating to tax matters(1)
10.1	--Form of Credit Agreement among Star Gas Propane, L.P. and certain banks(3)
10.2	--Form of Conveyance and Contribution Agreement among Star Gas Corporation, the Partnership and the Operating Partnership.(3)
10.3	--Form of First Mortgage Note Agreement among certain insurance companies, Star Gas Corporation and Star Gas Propane L.P.(3)
10.4	--Intercompany Debt(3)
10.5	--Form of Non-competition Agreement between Petro and the Partnership(3)
10.6	--Form of Star Gas Corporation 1995 Unit Option Plan(3)
10.7	--Amoco Supply Contract(3)
10.8	--Stock Purchase Agreement dated October 20, 1997 with respect to the Pearl Gas Acquisition(4)

10.9	--Conveyance and Contribution Agreement with respect to the Pearl Gas Acquisition(4)
10.10	--Second Amendment dated as of October 21, 1997 to the Credit Agreement dated as of December 13, 1995 among the Operating Partnership, Bank Boston, N.A. and NationsBank, N.A.(4)
10.11	--Note Agreement, dated as of January 22, 1998, by and between Star Gas and The Northwestern Mutual Life Insurance Company(1)
21	--Subsidiaries of the Registrant(5)
23.1	--Consent of KPMG Peat Marwick LLP(1)
23.2	--Consent of Phillips Nizer Benjamin Krim & Ballon LLP (included in Exhibit 5.1)(1)
24.1	--Powers of Attorney (included on signature page)(1)

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(1) Filed herewith.
(2) Incorporated by reference to Appendix A to the Prospectus filed as part of Registrant's Registration Statement on Form S-1 File No. 33-90496.
(3) Incorporated by reference to the same Exhibit to Registrant's Registration Statement on Form S-1, File No. 33-98496, 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.

ITEM 17. UNDERTAKINGS

(1) Insofar as indemnification for liabilities arising under the Securities

Act may be permitted to directors, officers or controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(2) The undersigned Registrant hereby undertakes that:

(a) For purposes of determining any liability under the Securities Act, the information omitted from the form of Prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of Prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be a part of this Registration Statement as of the time it was declared effective.

(b) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of Prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) The undersigned Registrant hereby undertakes:

(a) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement. Provided, however, that paragraphs (a)(i) and (a)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or section 15(d) of the Exchange Act that are incorporated by reference in the Registration Statement.

(b) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(c) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT, THE REGISTRANT HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN STAMFORD, CONNECTICUT, ON MARCH , 1998.

Star Gas Partners, L.P.

By: STAR GAS CORPORATION,
as General Partner

By: /s/ Joseph P. Cavanaugh
Joseph P. Cavanaugh, President

POWER OF ATTORNEY

EACH PERSON WHOSE SIGNATURE APPEARS BELOW APPOINTS IRIK SEVIN, RICHARD F. AMBURY AND JOSEPH P. CAVANAUGH AND EACH OF THEM, ANY OF WHOM MAY ACT WITHOUT THE JOINDER OF THE OTHER, AS HIS TRUE AND LAWFUL ATTORNEYS-IN-FACT AND AGENTS, WITH FULL POWER OF SUBSTITUTION AND RESUBSTITUTION, FOR HIM AND IN HIS NAME, PLACE AND STEAD, IN ANY AND ALL CAPACITIES, TO SIGN ANY AND ALL AMENDMENTS (INCLUDING POST-EFFECTIVE AMENDMENTS) TO THIS REGISTRATION STATEMENT AND ANY REGISTRATION STATEMENT (INCLUDING ANY AMENDMENT THERETO) FOR THIS OFFERING THAT IS TO BE EFFECTIVE UPON FILING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, AND TO FILE THE SAME, WITH ALL EXHIBITS THERETO, AND ALL OTHER DOCUMENTS IN CONNECTION THEREWITH, WITH THE SECURITIES AND EXCHANGE COMMISSION, GRANTED UNTO SAID ATTORNEYS-IN-FACT AND AGENTS FULL POWER AND AUTHORITY TO DO AND PERFORM EACH AND EVERY ACT AND THING REQUISITE AND NECESSARY TO BE DONE, AS FULLY TO ALL INTENTS AND PURPOSES AS HE MIGHT OR WOULD DO IN PERSON, HEREBY RATIFYING AND CONFIRMING ALL THAT SAID ATTORNEY-IN-FACT AND AGENTS OR ANY OF THEM OR THEIR OR HIS SUBSTITUTE AND SUBSTITUTES, MAY LAWFULLY DO OR CAUSE TO BE DONE BY VIRTUE HEREOF.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE	TITLE	DATE
/s/ Joseph P. Cavanaugh Joseph P. Cavanaugh	President (Principal Executive Officer)	March 3, 1998
/s/ Richard F. Ambury Richard F. Ambury	Vice President--Finance (Principal Financial and Accounting Officer)	March 3, 1998
/s/ Irik P. Sevin Irik P. Sevin	Director	March 3, 1998
/s/ Audrey L. Sevin Audrey L. Sevin	Director	March 3, 1998
William P. Nicoletti	Director	March , 1998
/s/ Elizabeth K. Lanier Elizabeth K. Lanier	Director	March 3, 1998

/s/ Paul Biddelman Paul Biddelman	Director	March 3, 1998
/s/ Thomas J. Edelman Thomas J. Edelman	Director	March 3, 1998
/s/ Wolfgang Traber Wolfgang Traber	Director	March 3, 1998
/s/ William G. Powers, Jr. William G. Powers, Jr.	Director	March , 1998

PHILLIPS NIZER BENJAMIN KRIM & BALLON LLP

Exhibit 5.1

212-841-0700

March 4, 1998

Star Gas Partners, L.P.
Clearwater House
2187 Atlantic Street
Stamford, CT 06912-0011

Re: Registration Statement on Form S-3

Dear Sirs:

We refer to the above-captioned registration statement (the "Registration Statement") under the Securities Act of 1933, as amended, filed by Star Gas Partners, L.P., a Delaware limited partnership (the "Partnership"), with the Securities and Exchange Commission, relating to:

(i) 1,000,000 common units (the "Common Units") representing limited partner interests in the Partnership (the "Partnership Units") which are being offered for sale by the Partnership; and

(ii) 60,727 Common Units (the "Selling Unitholder Units") which are being offered for sale by a selling unitholder.

Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Registrant Statement.

We have made such examination of law and have examined originals or copies, certified or otherwise authenticated to our satisfaction, of all such records, agreements and other instruments, certificates and orders of public officials, certificates of the General Partner and representatives of the Partnership, and other documents that we have deemed necessary to render the opinions hereinafter set forth.

In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us

as originals, the conformity to the original thereof of all documents submitted to us as certified or photostatic copies, and the authenticity of the originals of such latter documents.

Based on the foregoing, we are of the opinion that:

1. The partnership has been duly formed and is validly existing as a limited partnership in good standing under the laws of the State of Delaware.

2. The Partnership Units have been duly authorized, and when issued in the manner set forth in the registration Statement, will be validly issued, fully paid and non-assessable.

3. The Selling Unitholder Units are validly issued, fully paid and non-assessable.

We are attorneys admitted to practice in the State of New York. Our opinion relates only to the laws of the State of New York, applicable federal law of the United States of America and the corporate and limited partnership laws of Delaware. We express no opinion on the law of nay other jurisdiction.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm under the caption "Validity of Common Units' in eh related Prospectus.

Very truly yours,

/s/

Phillips Nizer Benjamin Krim &
Ballon LLP

/pg

PHILLIPS NIZER BENJAMIN KRIM & BALLON LLP

Exhibit 8.1

212-841-0700

March 4, 1998

Star Gas Partners, L.P.
2187 Atlantic Street
Stamford, CT 06912-0011

Re: Star Gas Partners, L.P.
Registration Statement on Form S-3

Dear Sirs:

We have acted as counsel to Star Gas Partners, L.P. (the "Partnership") in connection with the offering of up to 1,060,727 common units representing limited partner interest ("Common Units") in the Partnership (including up to 60,727 Common Units which are being offered by a selling unitholder) pursuant to the Registration Statement on Form S-3 of the Partnership relating to the Common Units (the "Registration Statement").

All statements of legal conclusions contained in the discussion under the caption "Tax Considerations" in the prospectus included in the Registration Statement (the "Prospectus"), unless otherwise noted, reflect our opinion with respect to the matters set forth therein as of the effective date of the Registration Statement and the date of the closing of the transactions described in the Registration Statement after giving effect to those transactions.

In addition, we are of the opinion that the federal income tax discussion in the Prospectus with respect to those matters as to which no legal conclusions are provided is an accurate discussion of such federal income tax matters (except for the representations and statements of fact of the Partnership and its general partner, included in such discussion, as to which we express no opinion).

We hereby consent to the references to our firm and this opinion contained in the Prospectus.

Very truly yours,

/s/
PHILLIPS NIZER BENJAMIN
KRIM & BALLON LLP

EXHIBIT 10.11

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STAR GAS PROPANE, L.P.

$11,000,000
7.17% First Mortgage Notes due September 15, 2010

(Private Placement Number: 85513@ AB 5)

NOTE AGREEMENT

Dated as of January 22, 1998

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TABLE OF CONTENTS

STAR GAS PROPANE, L.P.
2187 Atlantic Street
Stamford, Ct. 06902

7.17% First Mortgage Notes due September 15, 2010

Dated as of January 22, 1998

TO THE NORTHWESTERN MUTUAL
LIFE INSURANCE COMPANY

Dear Purchaser:

Star Gas Propane, L.P., a Delaware limited partnership (the "Company"), hereby agrees with you as follows:

SECTION 1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of $11,000,000 aggregate principal amount of its 7.17% First Mortgage Notes due September 15, 2010 (the "Notes", such term to include any Notes issued in substitution therefor or replacement thereof pursuant to Section 14). The Notes shall be sub stantially in the form of Exhibit A, with such changes therefrom, if any, as may be approved by you and the Company. Certain capi talized terms used in this Agreement are defined in Section 13; references to a "Section" or a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Section of this Agreement or to a Schedule or an Exhibit attached to this Agreement.

SECTION 2. SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to you and you will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified opposite your name for purchase by you at the Closing in Schedule A, at the purchase price of 100% of the principal amount thereof.

SECTION 3. CLOSING.

The sale of the Notes to you shall take place at the offices of Debevoise & Plimpton, 875 Third Avenue, New York, New York 10022, at 10:00 a.m., New York City time, at a closing (the "Closing") on January 26, 1998, or such later date as may be agreed upon by the Company and you. At the Closing, the Company will deliver to you Notes in the principal amount to be purchased by you, in the form of a single Note (or such greater number of Notes as you may request), each dated the date of the Closing and registered in your name (or in the name of your nominee as

indicated in Schedule A), against payment of the purchase price therefor by transfer of immediately available funds to the Company, or as otherwise directed by the Company in writing, on the date of the Closing. If at the Closing the Company shall fail to tender such Notes to you as provided above in this Section 3 or if 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 other 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:

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

4.2. Performance; No Default. Each of the Company and its Affiliates

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

4.3. Compliance Certificates. You shall have received an Officers' Certificates of the Company, dated the date of the Closing and satisfactory in substance and form to you, certifying that the conditions specified in Sections 4.1 and 4.2 have been fulfilled and certifying that no material adverse change has occurred in the financial condition of the Business subsequent to the date of the financial statements delivered pursuant to Section 5.4(c).

4.4. Opinions of Counsel. You shall have received favorable opinions from (a) Phillips Nizer Benjamin Krim & Ballon LLP, counsel for the Company and its Affiliates, substantially in the form of Exhibit B1, and [(b) Debevoise & Plimpton, your special counsel in connection with the transactions contemplated by this Agreement, substantially in the form of Exhibit B2, and in each case covering such other matters incident to such

transactions as you may reasonably request, each addressed to you, dated the date of the Closing and otherwise reasonably satisfactory in substance and form to you. The Company hereby directs its counsel referred to in clause (a) of this Section 4.4 to deliver to you such opinions and letters to be delivered by it and authorizes you to rely thereon.

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

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

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

(b) Each of the Security Documents shall have been duly authorized, executed and delivered by each of the Company and/or its Affiliates party thereto, shall be in full force and effect and shall (a) constitute the valid and binding obligation

of each such party and (b) constitute a valid assignment of, and create a valid, presently effective security interest of record in, property covered by such Security Document and all other interests described therein, subject to no prior security interest in any such personal property other than as specifically permitted therein, and no default on the part of any such party shall exist thereunder.

4.8. Recordation; Taxes, etc. The Conveyance Agreements referred to in clause (b) of the definition of such term and the Mortgage(s), the Company Security Agreement and the Partners Security Agreement, or proper notices, statements or other instruments in respect thereof, covering all or substantially all of the Assets covered by such Conveyance Agreements and such Security Documents, shall have been duly recorded, published, registered and filed, and all other actions deemed necessary by your special counsel shall have been duly performed or taken, in such manner and in such places as is required by applicable law (a) to convey to the Company record and beneficial ownership of the Assets purported to be conveyed by such Conveyance Agreements and (b) to establish, perfect, preserve and protect the rights and first priority liens and security interests purported to be granted by each such Security Document to the Trustee with respect to the Assets for the benefit of the holders of the Notes and their respective successors and assigns, and all taxes, fees and other charges then due in connection with the execution, delivery, recording, publishing, registration and filing of such documents or instruments and the sale, transfer and delivery of the Notes shall have been paid in full.

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

4.10. Confirmation of Parity Debt; Etc.

(a) The Company, the General Partner, the Restricted Subsidiaries party to the Company Security Agreement, the Public Partnership, the Banks, the Administrative Agent under the Bank Credit Facilities, the Documentation Agent under the Bank Credit Facilities, the holders of the 1995 Notes and the Trustee shall have duly authorized, executed and delivered the Confirmation of Parity Debt confirming that the Notes constitute

Parity Debt under the Bank Credit Facilities, the 1995 Note Agreements and the Security Documents, and such Confirmation of Parity Debt shall be in full force and effect.

(b) The conditions specified in Section 10.2(i) of the 1995 Note Agreements and Section 6.02(h) of the Bank Credit Facilities have been fulfilled and you shall have received such evidence as you may reasonably request (including copies of the certificates and opinions required by such Sections) demonstrating fulfillment of such conditions.

4.11. Proceedings and Documents. All proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to 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.

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

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

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

SECTION 5. REPRESENTATIONS AND WARRANTIES, ETC. OF THE COMPANY.

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

5.1. Organization, Standing, etc. The Company is a limited partnership duly organized, validly existing and in good standing under the Delaware Revised Uniform Limited Partnership Act and has all requisite partnership power and authority to own and operate its properties (including, without limitation, the Assets), to conduct its business as described in the Registration Statement, to enter into this Agreement and the other Operative Agreements to which it is a party, to issue and sell the Notes and to carry out the terms of this Agreement, such other Operative Agreements and the Notes. The General Partner is a

corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own and operate its properties, to conduct its business as described in the Registration Statement, to enter into and carry out the terms of this Agreement and the other Operative Agreements to which it is a party, and to execute and deliver as the general partner of the Company this Agreement and the other Operative Agreements to which the Company is a party and the Notes.

5.2. Partnership Interests. The only general partner of the Company is the General Partner, which owns a 1.0101% general partner interest in the Company. The only limited partner of the Company is the Public Partnership, which owns a 98.9899% limited partner interest in the Company acquired. The Company does not have any other partners. Except as disclosed in Schedule 5.2, the Company does not have any Subsidiaries or any Investments in any Person (other than Investments of the types described in Section 10.3(a)).

5.3. Qualification. The Company is duly qualified or registered and is in good standing as a foreign limited partnership for the transaction of business, and the General Partner is qualified or registered and is in good standing as a foreign corporation for the transaction of business, in Connecticut, Illinois, Indiana, Kentucky, Maine, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island and West Virginia which are the only jurisdictions in which the nature of their respective activities or the character of the properties they own, lease or use makes such qualification or registration necessary and in which the failure so to qualify or to be so registered would have a Material Adverse Effect. Each of

the General Partner and the Company has taken all necessary partnership or corporate action to authorize the execution, delivery and performance by it of this Agreement, the Notes and each other Operative Agreement to which it is a party. Each of the General Partner and the Company has duly executed and delivered each of this Agreement, the Notes and the other Operative Agreements to which it is a party, and each of them constitutes its legal, valid and binding obligation enforceable in accordance with its terms.

5.4. Business; Financial Statements. (a) The Company has delivered to you complete and correct copies of (i) the Registration Statement and (ii) a memorandum , draft dated December 12, 1997, prepared by A.G. Edwards & Sons, Inc. for use in connection with the Company's private placement of the Notes (the "Memorandum"). The financial statements and schedules included in the Registration Statement (other than with respect to pro forma matters) have been prepared in accordance with GAAP applied on a consistent basis throughout the periods specified and present fairly the financial position of the corporation or

partnership to which they relate as of the respective dates specified and the results of their operations and cash flows for the respective periods specified.

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

5.5. Changes, etc. Except as contemplated by this Agreement, the other Operative Agreements, the Registration Statement or the Memorandum, subsequent to the respective dates as of which information is given in the Registration Statement or the Memorandum, the Company and its Affiliates have not incurred any material liabilities or obligations, direct or contingent, or entered into any material transaction not in the ordinary course of business, no events have occurred, which individually or in the aggregate, could have a Material Adverse Effect, and there has not been (a) any Restricted Payment of any kind declared, paid or made by the Company or the General Partner (other than those referred to in Section 5.13 and intercompany transfers from the General Partner to Petro in the ordinary course of business and of the nature of such transfers historically made by the General Partner to Petro prior to the initial filing of the Registration Statement) or (b) any incurrence of Indebtedness under the Bank Credit Facilities.

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

5.7. Indebtedness. Other than the Indebtedness represented by the Notes and the Indebtedness listed in Schedule 5.7, neither the Company nor the General Partner has any secured or unsecured Indebtedness outstanding. No instrument or agree-

ment to which the Company or, other than Section 6.6(g) of the MLP Agreement, the General Partner is a party or by which the Company or the General Partner is bound or which is applicable to the Company or the General Partner (other than this Agreement and the Bank Credit Facilities) contains any restrictions on the incurrence by the Company or the General Partner of additional Indebtedness.

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

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

part of the Assets, authorizing any secured party thereunder to file any such financing statement, except for financing statements to be executed and filed in connection with the Closing.

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

5.10. Compliance with Other Instruments, etc. Neither the Company nor the General Partner (i) is in violation of any term of the Partnership Agreement or, in the case of the General Partner, its certificate of

incorporation or by-laws, or (ii) is in violation of any term of any other agreement or instrument to which the Company or the General Partner is a party or by which either of them or any of their properties is bound or any term of any applicable law, ordinance, rule or regulation of any governmental authority or any term of any applicable order, judgment or decree of any court, arbitrator or governmental authority, the consequences of which, in the case of clause (ii), would have a Material Adverse Effect; the execution, delivery and performance by each of the General Partner and the Company of this Agreement and the other Operative Agreements to which it is a party and the Notes will not result in any violation of or be in conflict with or constitute a default under any such term or result in the creation of (or impose any obligation on the Company or the General Partner to create) any Lien upon any of the properties or assets of the Company or the General Partner prohibited by any such term; and there is no such term the compliance with which would have, or in the future may in the reasonable judgment of the General Partner or the Company be likely to have, a Material Adverse Effect.

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

5.12. Offer of Notes. Neither the Company nor any of its Affiliates nor anyone acting on its or their behalf has directly or indirectly offered the Notes or any part thereof or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in

respect thereof with, anyone other than you and not more than 10 other institutional investors. Neither the General Partner nor the Company nor anyone acting on their behalf has taken or will take any action which would subject the issuance and sale of the Notes to the registration and prospectus delivery provisions of the Securities Act of 1933, as amended or to the registration or qualification provisions of any securities or Blue Sky law of any applicable jurisdiction or require registration of any Security Document under the Trust Indenture Act of 1939, as amended.

5.13. Use of Proceeds. The proceeds of the sale of the Notes will be used to repay Indebtedness incurred under the Bank Credit Facilities.

5.14. Federal Reserve Regulations. Neither the General Partner nor the Company will, directly or indirectly, use any of the proceeds of the sale of the Notes for the purpose, whether immediate, incidental or ultimate, of buying a "margin stock" or of maintaining, reducing or retiring any indebtedness originally incurred to purchase a stock that is currently a "margin stock", or for any other purpose which might constitute this transaction a "purpose credit", in each case within the meaning of Regulation G of the Board of Governors of the Federal Reserve System (12 C.F.R. 207, as amended), or otherwise take or permit to be taken any action which would involve a violation of such Regulation G or of Regulation X (12 C.F.R. 224, as amended) or any other applicable regulation of such Board. No indebtedness being reduced or retired, directly or indirectly, out of the proceeds of the sale of the Notes was incurred for the purpose of purchasing or carrying any stock which is currently a "margin stock", and none of the General Partner, the Public Partnership or the Company owns or has any present intention of acquiring any amount of such "margin stock".

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

5.16. Public Utility Holding Company Act; Federal Power Act. Neither the General Partner nor the Company is a "holding company", or a "subsidiary

company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended; each of the General Partner, the Company, and the issue and sale of the Notes is not subject to regulation under such Act; and neither the General Partner nor the Company is a "public utility" as such term is defined in the Federal Power Act, as amended.

5.17. ERISA. (a) None of the General Partner, the Company or any Related Person (other than Petro or any of its Non-Related Subsidiaries) has ever established, maintained, contributed to or been obligated to contribute to, and neither the Company nor any Related Person of the Company has any liability or obligation with respect to, any Plan. Neither the Company nor any Related Person of the Company has assumed, either by agreement (including the Partnership Agreement and the Operative Agreements), by operation of law or otherwise, any liability or obligation with respect to any "employee benefit plan" (as defined in ERISA) or any other compensation or benefit arrangement, agreement, policy, practice or understanding and neither the Company nor any Related Person of the Company has any liability or obligation to provide any amount or type of compensation or benefit in respect of any employee or former employee of the Business which relates to periods, services performed or benefits or amounts accrued prior to the transfer of the Business or the Assets pursuant to the Operative Agreements and the transactions contemplated thereby. None of the General Partner, the Company nor any Related Person has incurred any material liability under Title IV of ERISA with respect to any such Plan and no event or condition exists or has occurred as a result of which such a liability would reasonably be expected to be incurred. None of the General Partner, the Company nor any Related Person has engaged in any transaction, including the transactions contemplated hereunder which could subject the Company or any Related Person of the Company to liability pursuant to Section 4069(a) or 4212(c) of ERISA. There has been no reportable event (within the meaning of Section 4043(b) of ERISA) or any other event or condition with respect to any Plan which presents a risk of the termination of, or the appointment of a trustee to administer, any such Plan by the PBGC. No prohibited transaction (within the meaning of Section 406(a) of ERISA or Section 4975 of the Code) exists or has occurred with respect to any Plan which has subjected or could reasonably be expected to subject the General Partner or the Company to a material liability under Section 502(i) or 502(l) of ERISA or Section 4975 of the Code. No liability to the PBGC (other than liability for premiums not yet due) has been or is expected to be incurred with regard to any Plan by the General Partner, the Company nor any Related Person. Neither the General Partner, the Company nor any Related Person contributes or is obligated to contribute or has ever contributed or been obligated to contribute to any single employer plan that has at least two contributing sponsors not under common control. The Company is not, nor is it expected to become, a "substantial employer" as defined in Section 4001(a)(2) of ERISA with respect to any Plan. Neither the General Partner nor the Company has ever maintained or contributed to any plan or arrangement which provides post-employment welfare benefits or coverage (other than continuation coverage provided pursuant to Section 4980B of the Code).

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

5.18. Environmental Matters. (a) Except as disclosed in Schedule

5.18, each of the Company and the General Partner is in compliance with all Environmental Laws applicable to it or to the Business or Assets except where such noncompliance would not have a Material Adverse Effect. The Company has timely and properly applied for renewal of all environmental permits or licenses that have expired or are about to expire and are necessary for the conduct of the Business as now conducted and as proposed to be conducted, except where the failure to timely and properly reapply would not have a Material Adverse Effect. Schedule 5.18 lists (i) all notices from Federal, state or local environmental agencies to the Company or to the General Partner citing environmental violations that have not been finally resolved and disposed of, and no such violation, whether or not notice regarding such violation is listed on Schedule 5.18, if ultimately resolved against the Company or the General Partner, as the case may be, would have a Material Adverse Effect, and (ii) all current reports filed by the Company or the General Partner with any Federal, state or local environmental agency having jurisdiction over the Assets, true and complete copies of which reports have been made available to you, your special counsel and your environmental advisor. Notwithstanding any such notice, the Company and the General Partner are currently operating in all material respects within the limits set forth in such environmental permits or licenses and any current noncompliance with such permits or licenses will not result in any material liability or penalty to the Company or the General Partner or in the revocation, loss or termination of any such environmental permits or licenses, the revocation, loss or termination of which would have a Material Adverse Effect.

(b) Except as disclosed in Schedule 5.18, all facilities located on the real property included in the Assets which

are subject to regulation by RCRA are and have been operated in compliance with RCRA, except where such noncompliance would not have a Material Adverse Effect and neither the Company nor the General Partner has received, or, to the knowledge of the Company and the General Partner, been threatened with, a notice of violation of RCRA regarding such facilities.

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

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

(e) The Company has performed all of the investigatory and remedial work recommended in the Environmental Assessment Report prepared by Fuss & O'Neil, Inc. dated December 7, 1995 (the "Fuss & O'Neil Report"), covering the properties owned by or to be transferred to the Company. To the extent that any such additional investigation recommended by the Fuss & O'Neil Report indicated that any additional work or remediation was required by applicable laws, the Company has completed such additional work or remediation.

(f) With respect to the above ground storage tanks located at the facilities owned by the Company at Deshler and Hebron, Ohio, the Company has completed the construction of secondary containment walls or barriers designed to contain any spills or leaks from such tanks. The construction of such secondary containment walls or barriers were performed in accordance with all applicable laws and current industry standards for such walls or barriers.

5.19. Foreign Assets Control Regulations, etc. The issue and sale of the Notes by the Company and its use of the proceeds thereof as contemplated by this Agreement will not violate any of the regulations (other than those regulations, if any, that are implicated solely as a result of the actions of the

purchasers of the Notes) administered by the Office of Foreign Assets Control, the United States Department of the Treasury.

5.20. Disclosure. Neither this Agreement, the other Operative Agreements, the Memorandum, the Registration Statement, nor any other historical financial statement, document, certificate or instrument delivered to you by or on behalf of the Company, any Restricted Subsidiary or the General Partner in connection with the transactions contemplated by this Agreement, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading. There is no fact known to the Company or the General Partner which has or in the future would (so far as the Company or the General Partner can now foresee) have a Material Adverse Effect which has not been set forth or referred to in this Agreement, the Memorandum or the Registration Statement. You shall be entitled to rely on the statements and disclosures set forth in the Registration Statement.

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

SECTION 6. PURCHASER'S REPRESENTATIONS; SOURCE OF FUNDS.

6.1. 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, in each case not with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act of 1933, as amended, or with any present intention of distributing or selling any of the Notes, provided that the disposition of your property shall at all times be within your control. If you are purchasing for the account of one or more pension or trust funds (other than pension or trust funds included in the general account of an insurance company), you represent that (except to the extent that you have otherwise advised Debevoise & Plimpton and the Company in writing) you have sole investment discretion with respect to the purchase of the Notes to be purchased by you pursuant to this Agreement and the determination and decision on your behalf to purchase such Notes for such pension or trust funds is being made by the same individual or group of individuals who customarily pass on such investments.

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

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

(b) if you are an insurance company, to the extent that any of such funds constitutes assets allocated to any separate account maintained by you, (i) such separate account is a "pooled separate account" within the

meaning of Prohibited Transaction Class Exemption 90-1, in which case you have disclosed to the Company the names of each employee benefit plan whose assets in such separate account exceed 10% of the total assets or are expected to exceed 10% of the total assets of such account as of the date of such purchase (and for the purposes of this subdivision (b), all employee benefit plans maintained by the same employer or employee organization are deemed to be a single plan), or (ii) such separate account contains only the assets of a specific employee benefit plan, complete and accurate information as to the identity of which you have delivered to the Company in writing; or

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

(d) if you are other than an insurance company, all or a portion of such funds consists of funds which do not constitute assets of any employee benefit plan (other than a governmental plan exempt from the coverage of ERISA) and the remaining portion, if any, of such funds consists of funds which may be deemed to constitute assets of one or more specific employee benefit plans, complete and accurate

information as to the identity of each of which you have delivered to the Company in writing; or

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

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

SECTION 7. ACCOUNTING; FINANCIAL STATEMENTS AND OTHER INFORMATION.

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

(a) as soon as practicable, but in any event within 60 days after the end of each of the first three quarterly fiscal periods in each fiscal year of the Company, consolidated (and (i) if the Restricted Subsidiaries constitute a Substantial Portion, then as to the Restricted Subsidiaries or (ii) if the Restricted Subsidiaries do not constitute a Substantial Portion, but one or more Restricted Subsidiaries have outstanding

Indebtedness owing to Persons other than the Company or any Restricted Subsidiary, then as to such Restricted Subsidiaries, consolidating) balance sheets of the Company and the Restricted Subsidiaries as at the end of such period and the related consolidated (and, as to statements of income and cash flows, if applicable and as appropriate, consolidating) statements of income, surplus or partners' capital, cash flows and stockholders' equity of the Company and the Restricted Subsidiaries (i) for such period and (ii)

(in the case of the second and third

quarterly periods) for the period from the beginning of the current fiscal year to the end of such quarterly period, setting forth in each case in comparative form the consolidated and, where applicable and as appropriate, consolidating figures for the corresponding periods of the previous fiscal year, all in reasonable detail and certified by the principal financial officer of the general partner of the Company as presenting fairly, in all material respects, the information contained therein (subject to changes resulting from normal year-end adjustments), in accordance with GAAP applied on a basis consistent with prior fiscal periods, provided that

delivery within the time period specified above of copies of the 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 hereof to the extent such reports otherwise satisfy such requirements (for purposes of this Section 7, "Substantial Portion" shall mean that either (A) the book value of the

assets of the Restricted Subsidiaries exceeds 5% of the book value of the consolidated assets of the Company and the Restricted Subsidiaries, or (B)

the Restricted Subsidiaries account for more than 5% of the Consolidated Net Income of the Company and its Restricted Subsidiaries, in each case in respect of the four fiscal quarters ended as of the date of the applicable financial statement);

(b) as soon as practicable, but in any event within 120 days after the end of each fiscal year of the Company beginning with the fiscal year ending September 30, 1997, consolidated (and (i) if the Restricted

Subsidiaries constitute a Substantial Portion, then as to the Restricted Subsidiaries or (ii) if the Restricted Subsidiaries do not constitute a

Substantial Portion, but one or more Restricted Subsidiaries have outstanding Indebtedness owing to Persons other than the Company or any Restricted Subsidiary, then as to such Restricted Subsidiaries, consolidating) balance sheets of the Company and the Restricted Subsidiaries and the consolidated balance sheet of the general partner of the Company as at the end of such year and the related consolidated (and, as to statements of income and cash flows, if applicable and as appropriate, consolidating) statements of income, partners' capital, cash flows and stockholders' equity of the Company and the Restricted Subsidiaries and the consolidated statements of income, surplus, cash flow and stockholders' equity of the general partner of the Company for such fiscal year, setting forth in each case in comparative form the consolidated and, where applicable and as appropriate, consolidating figures for the previous fiscal year, all in reasonable detail, provided

that delivery within the time periods specified above of copies of the Company's Annual Report on Form 10-K prepared in

compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements hereof to the extent such reports otherwise satisfy such requirements, and (i) in the

case of such consolidated financial statements of the Company, accompanied by a report thereon of KPMG Peat Marwick LLP or other independent public accountants of recognized national standing selected by the Company and acceptable to the Required Holders, which report shall state that such

consolidated financial statements present fairly the financial position of the Company and the Restricted Subsidiaries as at the dates indicated and the results of their operations and cash flows for the periods indicated in conformity with GAAP applied on a basis consistent with prior years and that the audit by such accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards in effect in the United States from time to time, and

(ii) in the case of such consolidated financial statements of the general partner of the Company and such consolidating financial statements of the Company, certified by the principal financial officer of the general partner of the Company, as presenting fairly the information contained therein, in accordance with GAAP applied on a basis consistent with prior fiscal periods;

(c) together with each delivery of financial statements pursuant to subdivisions (a) and (b) of this Section 7, an Officers' Certificate of the Company (i) stating that the signers have reviewed the terms of this Agreement and the other Operative Agreements and the Notes, and have made, or caused to be made under their supervision, a review in reasonable detail of the transactions and condition of the Company and the Restricted Subsidiaries during the accounting period covered by such financial statements and that the signers do not have knowledge of the existence and continuance as at the date of such Officers' Certificate of any condition or event which constitutes an Event of Default or Potential Event of Default, or, if any such condition or event exists, specifying the nature and period of existence thereof and what action the Company has taken or is taking or proposes to take with respect thereto, (ii) specifying the amount available at the end of such accounting period for Restricted Payments in compliance with Section 10.4 and showing in reasonable detail all calculations required in arriving at such amount, (iii) demonstrating in reasonable detail, if applicable, compliance during and at the end of such accounting period with the restrictions contained in Sections 10.1(b), (d), (e), (f), (h) and (i), 10.3(b), 10.7(a)(ii), 10.7(a)(iii) and 10.7(c)(iii), (iv) if not specified in the related financial statements being delivered pursuant to subdivisions (a) and (b) above, specifying

the aggregate amount of interest paid or accrued by the Company and the Restricted Subsidiaries, and the aggregate amount of depreciation, depletion and amortization charged on the books of the Company and the Restricted Subsidiaries, during the fiscal period covered by such financial statements and describing in reasonable detail the number and nature of the parcels of real property, or rights thereto or interests therein, caused to be released by the Company from the liens of the Security Documents pursuant to the Trust Agreement and in the case of the fee owned property, the value of the fee owned property caused to be released by the Company during such accounting period;

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

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

(f) promptly upon their becoming publicly available, copies of all financial statements, reports, notices and proxy statements sent or made available by the Company, the general partner of the Company or the Public Partnership to all of its security holders in compliance with the Securities Exchange Act of 1934, as amended from time to time, or any comparable Federal or state laws relating to the disclosure by any Person of information to its security holders, of all regular and periodic reports and all registration statements and prospectuses filed by the

Company, the general partner of the Company or the Public Partnership with any securities exchange or with the Securities and Exchange Commission or any governmental authority succeeding to any of its functions (other than Registration Statements on Form S-8), and of all press releases and other statements made available by the Company, the general partner of the Company or the Public Partnership to the public concerning material developments in the business of the Company, the general partner of the Company or the Public Partnership, as the case may be;

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

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

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

Service or the Department of Labor with respect to such event or condition):

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

(ii) the filing under Section 4041 of ERISA of a notice of

intent to terminate any Plan or the termination of any Plan;

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

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

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

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

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

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

(ix) the amendment of any Plan in a manner which would be treated as a termination of such Plan under Section 4041(e) of ERISA or require the Company or any Related Person to provide security to such Plan pursuant to Section 307 of ERISA or Section 401(a)(29) of the Code; or

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

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

(k) with reasonable promptness, such other financial reports and information and data with respect to the Company, any Restricted Subsidiary, any Subsidiary (to the extent such reports, information and

data relate to environmental matters or any material litigation or proceeding) or the general partner of the Company as from time to time may be requested by the holder of any Note.

SECTION 8. INSPECTION.

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

SECTION 9. PREPAYMENT OF NOTES.

9.1. Required Prepayments of the Notes. On March 15, 2010, the Company will prepay $5,500,000 aggregate principal amount of the Notes (or such lesser principal amount of the Notes as shall at the time be outstanding), at the principal amount of the Notes so prepaid, without premium, together with interest accrued thereon.

Any amounts prepaid pursuant to Section 9.3 on March 15, 2010 may be applied to satisfy the prepayment required under this Section 9.1. Any partial prepayment of the Notes pursuant to Section 9.2 or 9.4 (occurring prior to March 15, 2010) or Section 9.3 (to the extent not applied to satisfy the prepayment required under this Section 9.1) shall be applied to reduce such prepayment required hereunder pro rata, but no acquisition of the Notes by the Company or any of its Affiliates otherwise shall relieve the Company from its obligation to make the required prepayment provided for in this Section 9.1. The Company shall notify the holders of the Notes of any application provided for in the immediately preceding sentence five days prior to such application. On the maturity date, the Company will pay the then outstanding principal amount of the Notes together with interest accrued thereon.

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

9.3. Contingent Prepayments on Disposition of Property. If at any time the Company or any of the Restricted Subsidiaries disposes of property or such property shall be damaged, destroyed or taken in eminent domain or there shall be title insurance proceeds with respect to such property, in any such case, with the result that there are Excess Proceeds, and the Company does not apply such Excess Proceeds in the manner described in Section 10.7(c)(iii)(B)(x), and if the scheduled date of prepayment of the Notes pursuant to Section 9.1 occurs within 180 days after receipt of such Excess Proceeds, such Excess Proceeds may be applied to such prepayment required under

Section 9.1. To the extent that there are such Excess Proceeds remaining after application in accordance with the first sentence of this Section 9.3, the Company shall prepay, upon notice as provided in Section 9.5 (which notice shall be given not later than 180 days after the date of such sale of property), a principal amount of the outstanding Notes equal to the amount of such remaining Excess Proceeds allocable to the Notes, determined by allocating such remaining Excess Proceeds pro rata among the holders of all Notes, 1995 Notes and Parity Debt, if any, outstanding on the date such prepayment is to be made, according to the aggregate then unpaid principal amounts of the Notes (and the Make Whole Amount on the principal amount of the Notes to be prepaid), 1995 Notes and Parity Debt, respectively. Each prepayment of Notes pursuant to this Section 9.3 shall be made at 100% of the principal amount of the Notes to be prepaid, plus interest thereon to the prepayment date plus, to the extent the prepayment is not made in satisfaction of a required prepayment in accordance with Section 9.1, the Make Whole Amount thereon.

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

9.5. Notice of Prepayments; Officers' Certificate. The Company will give each holder of any Notes irrevocable written notice of each prepayment under Section 9.2, 9.3 or 9.4 not less than 10 days and not more than 30 days prior to the date fixed for such prepayment, in each case specifying such prepayment date, the aggregate principal amount of the Notes and the principal amount of each Note held by such holder to be prepaid and the Section under which such prepayment is to be made. Notice of prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the Make Whole Amount, if any, with respect thereto, shall become due and payable on such prepayment date. The Company shall, on or before the day on which it provides such written notice, give telephonic notice of the principal amount of the Notes to be prepaid and the prepayment date to each holder of any Notes which shall have designated a recipient of such notices in the Schedule of Purchasers attached hereto or by notice in writing to the Company. Each holder of a Note shall receive, on the Business Day immediately preceding the date scheduled for any such prepayment, an Officers' Certificate certifying that the conditions of the Section under which such prepayment is to be made have been fulfilled and specifying the particulars of such fulfillment. In the event that there shall have been a partial prepayment of the Notes under Section 9.2, 9.3 or 9.4, the Company shall promptly give notice to the holders of the Notes, accompanied by an Officers' Certificate setting forth the principal amount of each of the Notes that was prepaid and specifying how each such amount was determined, setting forth the reduced amount of each required prepayment thereafter becoming due with respect to the Notes under Section 9.1, and certifying that such reduction has been computed in accordance with such Section.

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

9.7. Maturity; Surrender, etc. In the case of each prepayment, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make Whole Amount, if any. From and after such date, unless the 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, after such payment or

prepayment in full, 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.

9.8. Acquisition of Notes. Each of the General Partner and the Company shall not, and shall not permit any of their respective Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated final maturity (other than by prepayment pursuant to Section 9.1, 9.2, 9.3 or 9.4 or upon acceleration of such final maturity pursuant to Section 11), or purchase or otherwise acquire, directly or indirectly, Notes held by any holder or any 1995 Notes or Parity Debt (other than pursuant to scheduled prepayments in accordance with the terms of such 1995 Notes or Parity Debt or any other prepayment of indebtedness outstanding under the Bank Credit Facilities or any other Parity Debt of a similar revolving nature). Any Notes prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates shall not be deemed to be outstanding for any purpose under this Agreement.

SECTION 10. BUSINESS AND FINANCIAL COVENANTS OF THE COMPANY.

The Company covenants that from the date of this Agreement through the Closing and thereafter so long as any of the Notes are outstanding:

10.1. Indebtedness. The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except that:

(a) the Company may become and remain liable with respect to the Indebtedness evidenced by the 1995 Notes and the Notes;

(b) the Company and the Restricted Subsidiaries may become and remain liable with respect to Funded Debt incurred by the Company and the Restricted Subsidiaries to finance the making of expenditures for the improvement or repair of or additions to the Assets, or to renew, refund, refinance or replace any such Funded Debt, provided that (i) the aggregate principal amount of Funded Debt incurred under this Section 10.1(b) and outstanding at any time shall not exceed an amount equal to the net cash proceeds received by the Company from the general partner of the Company or from the Public Partnership as a capital contribution or as consideration for the issuance by the Company of additional partnership interests, in each case for the sole purpose of financing such expenditures, and (ii) if such Funded Debt is to be secured under the Security Documents as provided in Section 10.2(i), the agreement or instrument pursuant to

which such Funded Debt is incurred (A) contains no financial or business covenants that are more restrictive on the Company or its Subsidiaries than or that are in addition to those contained in this Section 10 (unless prior to or simultaneously with the incurrence of such Funded Debt this Agreement and the other Agreements are amended to provide the benefits of such more restrictive covenants to the holders of the Notes) and (B) specifies no events of default (other than with respect to the payment of principal and interest on such Funded Debt or the accuracy of representations and warranties made in connection with such agreement or instrument) which are capable of occurring prior to the occurrence of the Events of Default specified in Section 11 (unless prior to or simultaneously with the incurrence of such Funded Debt this Agreement and the other Agreements are amended to provide the benefit of such events of

default to the holders of the Notes);

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

(d) the Company and the Restricted Subsidiaries may become and remain liable with respect to unsecured Indebtedness owing to the general partner of the Company or an Affiliate of the general partner of the Company,

provided that (i) the aggregate principal amount of such Indebtedness of the Company and the Restricted Subsidiaries outstanding at any time shall not be in excess of $10,000,000 and (ii) such Indebtedness is created and is outstanding under an agreement or instrument pursuant to which such Indebtedness is subordinated to the Notes and to Indebtedness secured under the Security Documents at least to the extent provided in the subordination provisions set forth in Exhibit C;

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

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

(ii) in respect of the Working Capital Facility:

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

(2) the aggregate principal amount of loans in respect of the Working Capital Facility at any time outstanding thereunder plus any Tranche A Letter of Credit Exposure (or similar exposure under letters of credit) in respect of the Working Capital Facility (collectively, the "Exposure") shall not be in excess of $24,000,000,

(3) on the date the Exposure exceeds $12,000,000 and on each day thereafter until the date the Exposure no longer exceeds $12,000,000 (x) the ratio of Consolidated Cash Flow to Consolidated Interest Expense will be greater than 2.0 to 1.0, (y) the Exposure shall not exceed the Borrowing Base except that, for purposes hereof, the percentage in respect of Eligible Commodities Inventory included in the definition of Loan Value of Eligible Commodities Inventory shall be 80%, and (z) the Company will deliver a Borrowing Base Certificate to each holder of a Note at the same time it delivers a Borrowing Base Certificate to the Agent or to any Bank under the Bank Credit Facilities;

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

(f) the Company and the Restricted Subsidiaries may become and remain liable with respect to Indebtedness, in addition to that otherwise permitted by the foregoing subdivisions of this Section 10.1, if on the date the Company or any Restricted Subsidiary becomes liable with respect to any such additional Indebtedness and immediately after giving effect thereto and to the substantially concurrent repayment of any other Indebtedness (i) the ratio of Consolidated Cash Flow to Consolidated Pro Forma Debt Service is greater than 2.50 to 1.0 and (ii) the ratio of Consolidated Cash Flow to Maximum Consolidated Pro Forma Debt Service is greater than 1.25 to 1.0, provided that, in addition to the foregoing, if such Indebtedness is Funded Debt incurred by the Company or any Restricted Subsidiary to

finance the making of expenditures for the improvement or repair of or additions to the Assets, and if such Indebtedness is to be secured under the Security Documents as provided in Section 10.2(i), such Indebtedness shall be incurred pursuant to an agreement or instrument which complies with the requirements set forth in clause (ii) of the proviso to Section 10.1(b);

(g) [Intentionally omitted.]

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

(i) so long as no Event of Default or Potential Event of Default has occurred and is continuing, the Company and the Restricted Subsidiaries may become and remain liable with respect to Indebtedness evidenced by Funded Debt incurred for any extension, renewal, refunding or replacement of Indebtedness permitted pursuant to subdivisions (a) and (e) of this Section 10.1, provided that (i) the principal amount of such Funded Debt shall not exceed the principal amount of such Indebtedness being extended, renewed or refunded together with any accrued interest and Make Whole Amount with respect thereto, (ii) such Funded Debt (if it is in respect of the Notes) could be incurred in compliance with the requirements set forth in clauses (i) and (ii) of Section 10.1(f) and (iii) the maturity date of such Funded Debt shall not be sooner than the maturity date of such Indebtedness being extended, renewed or refunded;

(j) so long as no Event of Default or Potential Event of Default has occurred and is continuing, the Company and the Restricted Subsidiaries may become and remain liable with respect to unsecured Indebtedness incurred for any extension, renewal, refunding or replacement of Indebtedness permitted pursuant to subdivisions (a), (b), (e), (f) and (h) of this Section 10.1, or other unsecured Indebtedness permitted by this Section 10.1, provided that (i) the principal amount of such unsecured Indebtedness to be

incurred shall not exceed the principal amount of such Indebtedness or such unsecured Indebtedness being extended, renewed or refunded together with any accrued interest and Make Whole Amount with respect thereto and (ii) the maturity date of such unsecured Indebtedness shall not be sooner than the maturity date of such Indebtedness being extended, renewed or refunded; and

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

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

10.2. Liens, etc. The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly create, incur, assume or permit to exist any Lien on or with respect to any property or asset (including any document or instrument in respect of goods or accounts receivable) of the Company or any Restricted Subsidiary, whether now owned or held or hereafter acquired, or any income or profits therefrom (whether or not provision is made for the equal and ratable securing of the Notes in accordance with the provisions of Section 10.17), except:

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

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

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

(d) any attachment or judgment Lien, unless the judgment it secures shall not, within 60 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall not have been discharged within 60 days after expiration of any such stay;

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

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

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

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

(i) Liens created by any of the Security Documents securing Indebtedness incurred in accordance with Section 10.1(b) or, to the extent incurred to finance the making of capital improvements, repairs and additions to the Company's Assets, Section 10.1(f) (but only to the extent it complies with the requirements thereof), provided that (1) such Liens are effected through an amendment to the Security Documents to the extent necessary to provide the holders of such Indebtedness equal and ratable security in the property and assets subject to the Security Documents with the holders of the Notes and of other Indebtedness secured under the Security Documents as provided in Section 10.1(b) or 10.1(f), (2) the Security Documents are amended to the extent necessary to extend the Lien thereof

to any property or assets acquired or otherwise financed with the proceeds of such Indebtedness, (3) the Company has delivered to the Trustee an Officers' Certificate demonstrating that the principal amount of such Indebtedness does not exceed the lesser of the cost to the Company of such property or assets and the fair market value of such property or assets (as determined in good faith by the general partner of the Company), that such incurrence of Indebtedness pursuant to Section 10.1(b) or 10.1(f), as the case may be, complies in all respects with the requirements of such Section and that the amendments to the Security Documents required by this Section 10.2(i) and the filing and recordation of such amendments and related supplements will not have a Material Adverse Effect, and (4) the Company has delivered to the Trustee an opinion of counsel reasonably satisfactory to the Trustee to the effect that the Lien of the Security Documents has attached and is perfected with respect to such additional property and assets;

(j) Liens existing on any property of any Person at the time it becomes a Restricted Subsidiary, or existing prior to the time of acquisition (and not created in anticipation of such acquisition) upon any property acquired by the Company or any Restricted Subsidiary through purchase, merger or consolidation or otherwise, whether or not assumed by the Company or such Restricted Subsidiary, or created to secure Indebtedness incurred under Section 10.1(f) to pay all or any part of the purchase price ("Purchase Money Lien") of property acquired by the Company or a Restricted Subsidiary, provided that (i) any such Lien shall be confined solely to the item or items of property so acquired and, if required by the terms of the instrument originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired property, (ii) such item or items of property so acquired (other than property (which may include stock or other equity interests) subject to Liens existing prior to the time of acquisition and not created in anticipation of such acquisition) are not required to become part of the Mortgaged Property under the terms of the Security Documents, (iii) the principal amount of the Indebtedness secured by any such Lien shall at no time exceed an amount equal to the lesser of

(A) the cost of such property to the Company or such Restricted Subsidiary, as the case may be, and (B) the fair market value of such property (as determined in good faith by the general partner of the Company) at the time such Person owning such property becomes a Restricted Subsidiary or at the time of such acquisition by the Company or such Restricted Subsidiary, as the case may be, (iv) any such Purchase Money Lien shall be created not later than 90 days after, in the case of prop-

erty, its acquisition, or, in the case of improvements, their completion and (v) any such Lien (other than a Purchase Money Lien) shall not have been created or assumed in contemplation of such Person's becoming a Restricted Subsidiary or such acquisition of property by the Company or any Subsidiary;

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

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

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

10.3. Investments, Guaranties, etc. The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (i) make or own any Investment in any Person, or (ii) create or become liable with respect to any Guaranty, except:

(a) the Company or any Restricted Subsidiary may make and own Investments in

(1) marketable obligations issued or unconditionally guaranteed by the United States of America, or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof,

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

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

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

comparably if the rating system is changed) by Standard & Poor's Ratings Group or Aa3 or better (or comparably if the rating system is changed) by Moody's Investors Service, Inc. ("Permitted Banks"),

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

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

(b) the Company and any Restricted Subsidiary may make and own Investments in any Restricted Subsidiary or Investments in capital stock of, or other equity interests in, any Person which simultaneously therewith becomes a Restricted Subsidiary, and any Restricted Subsidiary may make and permit to be outstanding Investments in the Company and may create or become liable with respect to any Guarantee in respect of the Company's obligations under the Notes and the 1995 Notes;

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

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

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

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

(g) the Company may create and become liable with respect to Commodity Hedging Agreements.

10.4. Restricted Payments. The Company will not directly or indirectly declare, order, pay, make or set apart any sum for any Restricted Payment, except that the Company may make, pay or set apart once during each

calendar quarter a Restricted Payment if (a) such Restricted Payment is in an amount not exceeding Available Cash for the immediately preceding calendar quarter, (b) prior to and immediately after giving effect to any such proposed action no condition or event shall exist which constitutes a Potential Event of Default under Section 11(b) or

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

10.5. Transactions with Affiliates. Except for the transactions or conduct effected pursuant to the Operative Agreements as in effect on the date of the Closing or any other transactions or conduct described in or contemplated by the Registration Statement, the Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any transaction with any Affiliate of the Company, including, without limitation, the purchase, sale or exchange of assets or the rendering of any service, except pursuant to the reasonable requirements of the Company's or such Restricted Subsidiary's business and upon fair and reasonable terms that are no less favorable to the Company or such Restricted Subsidiary, as the case may be, than those which might be obtained in an arm's-length transaction at the time such transaction is agreed upon from Persons which are not such an Affiliate, provided that the foregoing limitations and restrictions shall not apply to any transaction between the Company and any Restricted Subsidiary or between Restricted Subsidiaries.

10.6. Subsidiary Stock and Indebtedness. The Company will not:

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

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

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

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

provided that, (i) any Restricted Subsidiary may sell, assign or otherwise dispose of Indebtedness of the Company if, assuming such Indebtedness were incurred immediately after such sale, assignment or disposition, such

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

10.7. Consolidation, Merger, Sale of Assets, etc. The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly,

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

(i) any Restricted Subsidiary may consolidate with or merge into the Company or a Restricted Subsidiary if, in the case of a consolidation with or merger into the Company, the Company shall be the surviving Person and if, immediately after giving effect to such transaction, no condition or event shall exist which constitutes an Event of Default or Potential Event of Default; and

(ii) any entity (other than a Restricted Subsidiary) may consolidate with or merge into the Company or a Restricted Subsidiary if the Company or such Restricted Subsidiary, as the case may be, shall be the surviving Person and if, immediately after giving effect to such transaction, (w) the Company (1) shall not have a Consolidated Net Worth (determined

in accordance with GAAP applied on a basis consistent with the financial statements of the Company most recently delivered pursuant to Section 7(b)) of less than the Consolidated Net Worth of the Company immediately prior to the effectiveness of such transaction,

(2) shall not be liable with respect to any Indebtedness or allow its property to be subject to any Lien which it could not become liable with respect to or allow its property to become subject to under this Agreement on the date of such transaction, and (3) could incur, if the consolidating or merging entity has outstanding Indebtedness, at least $1 of additional Indebtedness in compliance with Section 10.1(f) after giving effect to such transaction, (x) substantially all of the assets of the Company and the Restricted Subsidiaries shall be located and substantially all of their business shall be conducted within the continental United States, (y) no condition or event shall exist which constitutes an Event of Default or Potential Event of Default and (z) at the expense of the Company, the Notes are promptly, but in any event within 20 Business Days from the date of such transaction, rated by an Approved Rating Agency; and

(iii) the Company may consolidate with or merge into any other entity if (v) the surviving entity is a corporation or limited partnership organized and existing under the laws of the United States of America or a state thereof or the District of Columbia, with substantially all of its properties located and its business conducted within the continental United States, (w) such corporation or limited partnership expressly and unconditionally assumes the obligations of

the Company under this Agreement, each of the other Operating Agreements and the Notes, and delivers to each holder of a Note at the time outstanding in connection with such assumption an opinion of counsel reasonably satisfactory to the Required Holders with respect to such matters incident to such assumption as may be reasonably requested by such holders, including, without limitation, as to the due authorization and execution of the related agreement of assumption and the enforceability of such agreement against such corporation or partnership, (x) immediately after giving effect to such transaction, such corporation or limited partnership (1) shall not have a Consolidated Net Worth (determined in accordance with GAAP applied on a basis consistent with the financial statements of the Company most recently delivered pursuant to Section 7(b)) of less than the Consolidated Net Worth of the Company immediately prior to the effectiveness of such transaction, (2) shall not be liable with respect to

any Indebtedness or allow its property to be subject to any Lien which it could not become liable with respect to or allow its property to become subject to under this Agreement on the date of such transaction and (3) could incur at least $1 of additional Indebtedness in compliance with Section 10.1(f) after giving effect to such transaction, (y)immediately after giving effect to such transaction no condition or event shall exist which constitutes an Event of Default or a Potential Event of Default and (z) at the expense of the Company, the Notes are promptly, but in any event within 20 Business Days from the date of such transaction, rated by an Approved Rating Agency; or

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

(i) any Restricted Subsidiary may sell, lease or otherwise dispose of all or substantially all its assets to the Company or to a Restricted Subsidiary; and

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

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

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

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

(iii) either

(A) the aggregate net proceeds of all property so disposed of (whether or not leased back) by the Company and all Restricted Sub-

sidiaries during the current fiscal year (including property disposed of through dispositions of shares pursuant to Section 10.6 or sales of assets pursuant to Section 10.7(b) and including all proceeds under title insurance policies with respect to real property and all Net Insurance Proceeds (as defined in the Mortgages), self-insurance amount and Net Awards (as defined in the Mortgages) with respect to property lost as a result of damage, destruction or a taking which have not been applied to the cost of Restoration (as defined in the Mortgages)), less the amount of all such net proceeds previously applied in accordance with subdivision (iii)(B) of this Section 10.7(c) and the amount of such net proceeds equal to the purchase price of any assets acquired to the extent that (1) such assets were acquired within 180 days prior to the date of such disposal of property, (2) the purchase price of such assets was not previously applied to reduce the amount of net proceeds of property disposed of under this Section 10.7(c), (3) such assets were acquired for subsequent replacement of the property so disposed of or may be productively used in the United States in the conduct of the Business, (4) such assets are subject to the Lien of the Security Documents, and (5) to the extent such assets were acquired (in whole or in part) with borrowed money, such borrowing has been repaid in full, (x) shall not exceed $5,000,000 during such fiscal year and (y) when aggregated with such net proceeds of all prior transactions under this Section 10.7(c), shall not exceed $15,000,000; or

(B) in the event that such net proceeds (less the amount thereof previously applied in accordance with this subdivision (iii)(B) and the amount thereof equal to the purchase price of any assets acquired to the extent that (1) such assets were acquired within 180 days prior to the date of such disposal of property, (2) the purchase price of such assets was not previously applied to reduce the amount of net proceeds of property disposed of under this Section 10.7(c), (3) such assets were acquired for subsequent replacement of the property so disposed of or may be productively used in the United States in the conduct of the Business, (4) such assets are subject to the Lien of the Security Documents, and (5) to the extent such assets were acquired (in whole or in part) with borrowed money, such

borrowing has been repaid in full) during the current fiscal year exceed $5,000,000 or, when aggregated with such net proceeds of all prior transactions under this Section 10.7(c), exceed $15,000,000 (the larger amount of such excess net proceeds actually realized being herein called "Excess Proceeds"), the Company shall promptly pay over to the Trustee under the Trust Agreement such Excess Proceeds not at the time held by the Trustee for application by the Trustee (x) within 180 days of the date of the disposal or loss of property to the acquisition of assets in replacement of the property so disposed of or lost or of assets which may be productively used in the United States in the conduct of the Business (and such newly acquired assets shall be subjected to the Lien of the Security Documents) or to the cost of Restoration (as defined in the Mortgages), or (y) to the extent of Excess Proceeds not

applied pursuant to the immediately preceding clause (x), to the payment and/or prepayment of the Notes, the 1995 Notes and Parity Debt, if any, pursuant to Section 9.1 and/or 9.3, all as provided in Section 4(d) of the Trust Agreement and such Section 9.1 and/or 9.3, and the Trustee shall have received an Officers' Certificate from the general partner of the Company certifying that the consideration received for such property is at least equal to its fair value (as determined in good faith by the general partner of the Company) and that such consideration has been applied in accordance with the terms of this Agreement, and

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

Notwithstanding the foregoing, the Company and any Restricted Subsidiary may sell or dispose of (i) real property assets sold or disposed of within 12 months of the acquisition of such assets, and (ii) all other assets sold or disposed of within 6 months of the acquisition of such assets, in each case constituting a portion of an acquired business, if (y) such

assets are specifically designated to the holders of any Notes in writing prior to such acquisition as assets to be disposed of, and (z) the Trustee shall have received an Officers' Certificate from the general partner of the Company certifying that the consideration received for such property is at least equal to its fair value (as determined in good faith by the general partner of the Company). Such sales under this paragraph will not be applied towards the annual or cumulative limitations in subdivision (c) of this Section 10.7. The holders of Notes agree to take all actions necessary to cause dispositions of Mortgaged Property made in compliance with this Section 10.7 to be made free and clear of the liens created by the Security Documents.

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

(b) The Company shall not be obligated to preserve its status as a partnership not taxable as a corporation for federal income tax purposes if (i) the Company's failure to preserve such status shall be the result of an amendment to the tax laws enacted by the Congress of the United States and (ii) after giving effect to the loss of such status the ratio of Consolidated Cash Flow to Maximum Consolidated Pro Forma Debt Service, determined as of the date of the loss of such status, would be greater than 1.1 to 1.0, assuming, for the purposes of the computation of Consolidated Cash Flow, that Consolidated Cash Flow would be reduced by taxes at the applicable tax rate of the Company for

such period had the Company been taxable as a corporation.

(c) The Company will not, and will not permit any Restricted Subsidiary to, engage in any lines of business other than the Business as described in the Registration Statement and other activities incidental or related to the Business.

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

10.10. Compliance with ERISA. The Company will not, and will not permit any Subsidiary or Related Person of the Company to:

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

or any Related Person of the Company, which liability could have a Material Adverse Effect; or

(b) as of any date of determination (i) permit the amount of unfunded benefit liabilities under any Plan maintained at such time by the Company or any Subsidiary or Related Persons of the Company to exceed the current value of the assets of any such Plan or (ii) permit the aggregate liability

incurred by the Company and any Subsidiary and Related Persons of the Company pursuant to Title IV of ERISA with respect to one or more terminations of, or one or more complete or partial withdrawals from, any Plan to exceed $1,000,000.

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

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

10.12. Operative Agreements; Security Documents. The Company will, and will cause each Restricted Subsidiary to, perform and comply with all of its obligations under each of the Operative Agreements to which it is a party, will enforce each such Operative Agreement against each other party thereto and will not accept the termination of any such Operative Agreement, unless the taking of or omitting to take any such action would not have a Material Adverse Effect, and will not amend, modify or supplement any Operative Agreement without the prior written consent of the Required Holders, provided that (i) the MLP Agreement and the Partnership Agreement may be amended, modified or supplemented without the prior written consent of the Required Holders if such amendment, modification or supplement would not have a Material Adverse Effect and the Company shall have delivered to each holder of any Notes a copy of such proposed amendment, modification or supplement together with an Officer's

Certificate describing such proposed amendment, modification or supplement and confirming that such proposed amendment, modification or supplement would not have a Material Adverse Effect and (ii) the Bank Credit Facilities may be amended, modified or supplemented without the prior written consent of the Required Holders if such amendment, modification or supplement may be made without the written consent of any holders of the Notes under the Trust Agreement.

10.13. Chief Executive Office. The Company will not move its chief executive office and the office at which it maintains its records relating to the transactions contemplated by this Agreement and the Security Documents unless (a) not less than 45 days' prior written notice of its intention to do so, clearly describing the new location, shall have been given to the Trustee and each holder of a Note and (b) such action, reasonably satisfactory to the Trustee and each holder of a Note, to maintain any security interest in the property subject to the Security Documents at all times fully perfected and in full force and effect shall have been taken.

10.14. Recordation. The Company will promptly, but in any event within 30 days from the date of the Closing, cause to be duly recorded, published, registered and filed all Security Documents (in each case, not previously recorded, published, registered or filed in accordance with Section 4.8), in such manner and in such places as is required by law to establish, perfect, preserve and protect the rights and first priority security interests of the parties thereto and their respective successors and assigns in all of the

Mortgaged Property. The Company will pay all taxes, fees and other charges then due in connection with the execution, delivery, recording, publishing, registration and filing of such documents or instruments in such places.

10.15. Information Required by Rule 144A. The Company covenants that it will, upon the prior written request of the holder of any Note, provide such holder, and any qualified institutional buyer designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act of 1933, as amended, in connection with the resale of Notes, except at such times as the Company is subject to the reporting requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, as amended. For the purpose of this Section 10.16, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act of 1933, as amended.

10.16. Covenant to Secure Notes Equally. The Company covenants that, if it or any Restricted Subsidiary shall create or assume any Lien upon any of its property or assets, whether

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

10.17. Compliance with Laws. The Company will, and will cause each Subsidiary to, comply with all applicable statutes, rules, regulations, and orders of, and all applicable restrictions imposed by, the United States of America, foreign countries, states, provinces and municipalities, and of or by any governmental department, commission, board, regulatory authority, bureau, agency and instrumentality of the foregoing, and of or by any court, arbitrator or grand jury, in respect of the conduct of their respective businesses and the ownership of their respective properties or business (including, without limitation, Environmental Laws), except such as are being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor or the failure to so comply would not be expected to have a Material Adverse Effect.

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

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

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

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

(iii) in the case of a designation as an Unrestricted Subsidiary, (x) if such designation (and all other prior designations of Restricted Subsidiaries or newly acquired or formed Subsidiaries as Unrestricted Subsidiaries during the current fiscal year) were deemed to constitute a sale by the Company of all the assets of the Subsidiary so designated, such sale would be in compliance with subdivision (iii)(A) of Section 10.7(c) and (y) if such designation (and all other prior designations of Restricted Subsidiaries or newly acquired or formed Subsidiaries as Unrestricted Subsidiaries during the current fiscal year) were deemed to constitute an Investment by the Company in respect of all the assets of the Subsidiary so designated, such Investment would be in compliance with Section 10.3(c), in each case with the net proceeds of such sale or the amount of such Investment being deemed to equal the net book value of such assets in the case of a Restricted Subsidiary or the cost of acquisition or formation in the case of a newly acquired or formed Subsidiary, provided, that this subdivision (iii) of this Section 10.19(a) shall not apply to an acquisition or formation by the Company or a Restricted Subsidiary of a newly acquired or formed Unrestricted Subsidiary to the extent such acquisition or formation (1) is funded solely by the net cash proceeds received by the Company from the general partner of the Company or from the Public Partnership as a capital contribution or as consideration for the issuance by the Company of additional partnership interests or (2) the assets involved in such acquisition are acquired in exchange for additional partnership interests of the Company or the Public Partnership;

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

Unrestricted Subsidiary prior to being designated a Restricted Subsidiary;

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

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

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

(b) The Company will cause each Restricted Subsidiary, at the time it

is or is deemed to be designated as a Restricted Subsidiary, to (i) become a party to the Company Security Agreement and the Subsidiary Guarantee Agreement by execution of a Supplemental Agreement and (ii) enter into such documents as may be necessary or as you may request in form and substance satisfactory to the Required Holders as may be acceptable to you and the Other Purchasers in order to secure such Restricted Subsidiary's obligations under the Subsidiary Guarantee Agreement with all or substantially all of the assets of such Restricted Subsidiary.

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

10.20. Rating. If Petro shall voluntarily withdraw from or sell its interest in the general partner of the Company or the general partner of the Company shall no longer own at least 1,200,000 Common or Subordinated Units of the Public Partnership, then the Company at its expense shall promptly, but in any event within 20 Business Days from the date of any such event or condition, have the Notes re-rated by an Approved Rating Agency.

10.21. Accounting Changes. The Company will not, and will not suffer or permit any Restricted Subsidiary to, make any significant change in accounting treatment or reporting practices, except as required by GAAP. The Company will, and

will cause each Restricted Subsidiary to, cause its fiscal year to end on September 30 in each year.

10.22. Certain Real Property. Without affecting the obligations of the Company or any of the Subsidiaries under any of the Security Documents, in the event that the Company or any Subsidiary, at any time after the date hereof, whether directly or indirectly, acquires any interest in any real property, including any fee or other ownership interest in one or more properties with an aggregate cost in excess of $50,000, or any interest under one or more leases of real property for a term in excess of three years and involving aggregate average payments in excess of $100,000 per annum (each such interest, an "After Acquired Property"), the Company will, or will cause such Subsidiary to, as soon as practical provide written notice thereof to each holder of a Note, setting forth with specificity a description of such After Acquired Property, the location of such After Acquired Property, any structures or improvements thereon and an appraisal or its good-faith estimate of the current value of such real property ("Current Value"). The Required Holders may require the Company or the applicable Subsidiary to grant and record a mortgage in favor of the Trustee on such After Acquired Property, provided that no new mortgage on such After Acquired Property shall be required if the costs that would be incurred as a result thereof are excessive in relation to the benefits that would be conferred thereby. In the event a mortgage is granted, the Company or such Subsidiary shall execute and deliver to the Trustee a mortgage, together with such documents or instruments as the Required Holders shall require. In no event shall any title insurance policy for any such After Acquired Property be in an amount which is less than the Current Value of such After Acquired Property. If, at any time, the aggregate cost to the Company and the Subsidiaries of each interest in real property (x) acquired by the Company or any Subsidiary, whether directly or indirectly, at any time after May 31, 1996, at a cost equal to or less than $50,000, (y) at such time, owned directly or indirectly by the Company or any Subsidiary and (z) for which a mortgage in favor of the Trustee is not in effect (the "Aggregate Cost of Unmortgaged Property"), exceeds $500,000, the Company will as soon as practical, and in any event within 10 Business Days, provide written notice thereof to each holder of a Note, setting forth with specificity a description of each such interest in real property, the location

of such real property and an appraisal or its good-faith estimate of the current value of each such real property. The Required Holders may require the Company or the applicable Subsidiary to grant and record a mortgage in favor of the Trustee on one or more of such real property so that the Aggregate Cost of Unmortgaged Property does not exceed $500,000, provided that no new mortgage on any such real property shall be required if the costs that would be incurred as a result thereof are excessive in relation to the benefits that would be conferred thereby. In the

event a mortgage is required, the Company or such Subsidiary shall execute and deliver to the Trustee a mortgage, together with such documents or instruments as the Required Holders shall require. Further, with regard to any interest in real property, including any fee or other ownership interest in real property or any material lease of real property, currently owned or held by the Company or any Subsidiary and which is not encumbered by a mortgage (each such interest, an "Existing Unmortgaged Property"), upon the written request of the Required Holders, the Company will, or will cause any applicable Subsidiary to, execute and deliver to the Trustee a mortgage, together with such documents or instruments as the Required Holders shall require. In no event shall the title insurance policy for any such Existing Unmortgaged Property be in an amount which is less than the Current Value of such Existing Unmortgaged Property. The Company shall pay all fees and expenses, including reasonable attorneys' fees and expenses and expenses of any customary environmental due diligence, and all title insurance charges and premiums, in connection with the obligations of the Company and the Subsidiaries under this Section 10.22.

10.23. Sale and Lease-Back Transactions. The Company will not, and will not cause or permit any of the Restricted Subsidiaries to, enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred.

10.24. Acquisitions. Except as otherwise permitted by Section 10.7, the Company will not, and will not cause or permit any of the Restricted Subsidiaries to, purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or any substantial part of the assets of any other Person, except that (a) the Company and any of the Restricted Subsidiaries may purchase inventory in the ordinary course of business and (b) the Company or any Restricted Subsidiary may engage in any such acquisition if no Event of Default or Potential Event of Default has occurred and is continuing at the time of any such acquisition or would occur immediately after giving effect thereto.

10.25. Impairment of Security Interests. The Company will not, and will not permit any of the Subsidiaries to, take or omit to take any action, which action or omission might or would have the result of materially impairing the security interests in favor of the Trustee with respect to the Mortgaged Property, and the Company will not, and will not permit any of the Subsidiaries to, grant to any Person (other than the Trustee) any interest whatsoever in the Mortgaged Property.

10.26. Limitation on Restrictions on Subsidiary Dividends, etc. The Company will not, and will not cause or permit any of the Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends or make any other distributions on or in respect of its capital stock, or pay any indebtedness owed to the Company or any Restricted Subsidiary, (b) make loans or advances to

the Company or any Restricted Subsidiary or (c) transfer any of its properties or assets to the Company or any Restricted Subsidiary, except for such encumbrances or restrictions existing under or by reason of (i) customary non-assignment provisions in any lease governing a leasehold interest or other contract entered into in the ordinary course of business consistent with past practices or (ii) this Agreement or any other Operative Agreement.

10.27. No Other Negative Pledges. The Company will not, and will not cause or permit any of the Restricted Subsidiaries to, directly or indirectly, enter into any agreement prohibiting the creation or assumption of any Lien upon the properties or assets of the Company or any Restricted Subsidiary, whether now owned or hereafter acquired, or requiring an obligation to be secured if some other obligation is secured, except for the this Agreement, the 1995 Note Agreements and the Bank Credit Facilities.

10.28. Sales of Receivables. The Company will not, and will not cause or permit any of the Restricted Subsidiaries to, sell with recourse, discount or otherwise sell or dispose of its notes or accounts receivable, except for accounts receivable consisting of assets of an operating unit sold as a going concern in accordance with all other provisions of this Agreement.

10.29. Fixed Price Supply Contracts; Certain Policies. (a) The Company will not, and will not permit any of the Restricted Subsidiaries to, at any time be a party or subject to any contract for the purchase or supply by such parties of propane or other product except where (i) the purchase price is set with reference to a spot index or indices substantially contemporaneously with the delivery of such product or (ii) delivery of such propane or other product is to be made no more than one year after the purchase price is agreed to.

(b) The Company will not amend, modify or waive the trading policy or supply inventory position policy existing as of the date of Closing, except that the Company may amend its supply inventory position policy such that such policy provides that neither it nor any of the Restricted Subsidiaries will hold on hand more than 90 days' of commodities inventory. The Company will provide each holder of a Note with prompt written notice of any such new commodity hedging agreement or any such change in

such policy. Subject to the foregoing exception, the Company and the Restricted Subsidiaries will comply in all material respects with such policies at all times.

10.30. Certain Operations. The Company shall not permit Petro or any of its Affiliates (other than the Company and the Restricted Subsidiaries) to acquire a business which derives any revenues from the sale of propane if, after giving effect to such acquisition, Petro's Pro Forma Propane Volumes would equal or exceed the lesser of (a) 15% of the Company's reported propane volumes sold for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of such acquisition and (b) 15 million gallons of propane (such lesser amount, the "maximum permitted amount"). If as a result of an acquisition, Petro's Pro Forma Propane Volumes exceeds the maximum permitted amount, Petro shall not be in violation of this Section 10.30 if within the period of 90 days following such acquisition it completes the disposition of sufficient propane volume to reduce Petro's Pro Forma Propane Volumes below the maximum permitted amount. For purposes of this Section 10.30, "Petro's Pro Forma Propane Volumes" shall mean the actual propane volumes sold by Petro and any of its Affiliates (other than the Company and the Restricted Subsidiaries) for the most recently completed four fiscal quarters which ended at least 90 days prior to the date of determination plus the propane volumes sold of the propane business to be acquired for the most recently completed four fiscal

quarters which ended at least 90 days prior to the date of determination. In addition, in the event Petro or any of its Affiliates (other than the Company and the Restricted Subsidiaries) owns a propane business, the Company shall not permit Petro or any such Affiliate to accept as a customer (except for de minimis, unintentional and isolated acceptances) any Person who is (or was during the last billing cycle of the Company and the Restricted Subsidiaries) a customer of the Company and the Restricted Subsidiaries.

10.31. Independent Corporate Existence. Except as set forth on Schedule 10.31, (a) the Company shall maintain, and shall cause each of its Subsidiaries to maintain, books, records and accounts that are separate from the books, records and accounts of Petro or any of its Subsidiaries (other than the Company and its Subsidiaries) such that: (i) the revenues of the Company and its Subsidiaries will be credited to the accounts of the Company and its Subsidiaries only; (ii) all expenses incurred by the Company and its Subsidiaries shall be paid only from the accounts of the Company and its Subsidiaries (other than those paid by Petro and allocated to the Company in the manner set forth in clause (c) of this Section); (iii) only officers and employees of the general partner of the Company , the Company and its Subsidiaries in their capacity as such shall have the authority to make disbursements with respect to the accounts of the Company and its Subsidiaries; (iv) there shall occur no

sharing of accounts or funds between the Company and its Subsidiaries, on the one hand, and Petro or any of its Subsidiaries (other than the Company and its Subsidiaries), on the other hand; and (v) all cash and funds of the Company and its Subsidiaries shall be managed separately from the cash and funds of Petro or any of its Subsidiaries (other than the Company and its Subsidiaries), and there shall not occur any commingling, including for investment purposes, of funds or assets of the Company and its Subsidiaries with the funds or assets of Petro or any of its Subsidiaries (other than the Company and its Subsidiaries).

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

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

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

10.32. Damage, Destruction, Taking, Etc.: In the event of any

damage, destruction or a taking in respect of all or a portion of the properties subject to any of the Security Documents or in the event there shall be proceeds under title insurance policies with respect to any real property, the Company will not apply any Net Insurance Proceeds (as defined in the Mortgages), self-insurance amounts, Net Awards (as defined in the Mortgages) or title insurance proceeds, if such proceeds (whether

resulting from one or a series of events or circumstances) exceed $25,000,000 in the aggregate, to the cost of Restoration (as defined in the Mortgages) or to replacements or other assets without the prior written consent of the Required Holders.

SECTION 11. EVENTS OF DEFAULT; ACCELERATION.

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

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

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

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

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

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

(f) the Company or any Restricted Subsidiary (as principal or guarantor or other surety) shall default in the payment of any amount of principal of or premium or interest on the Bank Credit Facilities, or other Indebtedness which is outstanding in a principal amount of at least $2,000,000 in the aggregate (other than the Notes); or any event shall occur or condition shall exist in respect of the Bank Credit Facilities, or other Indebtedness which is outstanding in a

principal amount of at least $2,000,000 or under any evidence of any such Indebtedness or of any mortgage, indenture or other agreement relating to the Bank Credit Facilities or such other Indebtedness the effect of which is to cause (or to permit one or more Persons to cause) such Bank Credit Facilities or other Indebtedness to become due before its stated maturity or before its regularly scheduled dates of payment or to permit the holders thereof to cause the Company or any Restricted Subsidiary to repurchase or repay such Bank Credit Facilities or other Indebtedness, and such default, event or condition shall continue for more than the period of grace, if any, specified therein and shall not have been waived pursuant thereto; or

(g) filing by or on the behalf of the Company or the general partner of the Company of a voluntary petition or an answer seeking reorganization, arrangement, readjustment of its debts or for any other relief under any bankruptcy, reorganization, compromise, arrangement, insolvency,

readjustment of debt, dissolution or liquidation or similar act or law, state or federal, now or hereafter existing ("Bankruptcy Law"), or any action by the Company or the general partner of the Company for, or consent or acquiescence to, the appointment of a receiver, trustee or other custodian of the Company, or the general partner of the Company, or of all or a substantial part of its property; or the making by the Company or the general partner of the Company of any assignment for the benefit of creditors; or the admission by the Company or the general partner of the Company in writing of its inability to pay its debts as they become due; or

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

the satisfaction of the court having jurisdiction in the premises or discharged; or

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

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

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

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

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

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

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

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

then, (x) upon the occurrence of any Event of Default described in subdivision (g) or (h) of this Section 11, the unpaid principal amount of and accrued interest on the Notes shall automatically become due and payable, or, (y) upon the occurrence and continuance of any other Event of Default, any holder or holders of 50% or more in principal amount of the Notes at the time outstanding, may at any time (unless all defaults shall theretofore have been remedied in accordance with the terms hereof) at its or their option, by written notice or notices to the Company, declare all the Notes to be due and payable, whereupon the same shall forthwith mature and become due and payable, together with interest accrued thereon and, to the extent permitted by applicable law, the applicable Make Whole Amount, if any, with respect to such Notes, all without presentment, demand, protest or further notice, which are hereby waived,

provided that during the existence of an Event of Default described in

subdivision (a) or (b) (insofar as it relates to interest on any Note) of this Section 11, any holder of the Notes at the time outstanding may, at its option, by notice in writing to the Company, declare the Notes then held by such holder to be due and payable, whereupon the Notes then held by such holder shall forthwith mature and become due and payable, together with interest accrued thereon and, to the extent permitted by applicable law, the applicable Make Whole Amount with respect to such Notes.

At any time after the principal of, and interest accrued on, all the Notes are declared due and payable, the Required Holders, by written notice to the Company, may rescind and annul any such declaration and its consequences (other than in respect of any Note which has been individually accelerated pursuant to the proviso contained in the immediately preceding paragraph) if (x) the Company has paid all overdue interest on the Notes, the principal of and Make Whole Amount, if any, on any such Notes which have become due otherwise than by reason of such declaration, and interest on such overdue principal and the applicable Make Whole Amount and (to the extent permitted by applicable law) overdue interest, at a rate per annum equal to the rate of interest stated on the face of the Notes plus 2.0%, (y) all Events of Default, other than nonpayment of amounts which have become due solely by reason of such declaration, and all conditions and events which constitute Events of Default or

Potential Events of Default have been cured or waived, and (z) no judgment or decree has been entered for the payment of any monies due pursuant to the Notes or this Agreement; but no such rescission and annulment shall extend to or affect any subsequent Event of Default or Potential Event of Default or impair any right consequent thereon.

SECTION 12. REMEDIES ON DEFAULT; RECOURSE, ETC.

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

SECTION 13. DEFINITIONS.

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

Administrative Agent: BankBoston, N.A., in its capacity as administrative agent for the Banks under the Bank Credit Facilities, and its successors in such capacity.

Affiliate: as applied to any Person, any other Person directly or

indirectly controlling or controlled by or under common control with such Person, provided that (i) for purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with")

as used with respect to any Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether as a general partner or through the ownership of voting securities or by contract or otherwise, (ii) as applied to the Company, the term "Affiliate" shall include Petro, the General Partner and the Public Partnership, and (iii) neither you nor any other Person which is an institution shall be deemed to be an Affiliate of the Company solely by reason of ownership of the Notes or other securities issued in exchange for the Notes or by reason of having the benefits of any agreements or covenants contained in this Agreement or the other Operative Agreements.

Aggregate Cost of Unmortgaged Property: the meaning specified in Section 10.22.

Approved Rating Agency: Standard & Poor's Ratings Group, Moody's Investor Service, Inc., Duff and Phelps Credit Rating Co. or Fitch Investors Service, Inc.

Assets: the assets conveyed to the Company pursuant to the Conveyance Agreements and/or the Assets covered by the Security Documents, as the context may require.

Available Cash: with respect to any calendar quarter, (a) the sum of (i) all cash of the Company and the Restricted Subsidiaries on hand at the end of such quarter and (ii) all additional cash of the Company and the Restricted Subsidiaries on hand on the date of determination of Available Cash with respect to such quarter obtained through available borrowings under the Working Capital Facility made after the end of such quarter (provided that such borrowings under the Working Capital Facility shall in no event exceed available borrowings under the Working Capital Facility as of the end of such quarter), less (b) any cash reserves in such amounts as the general partner of the Company shall determine to be necessary or appropriate in its reasonable discretion to (A) provide for the proper conduct of the business of the Company and the Restricted Subsidiaries (including, without limitation, cash reserves for future capital expenditures) or (B) provide funds for distributions under Sections 5.4(a)(i), (ii), and (iii) or 5.4(b)(i) of the MLP Agreement in respect of any one or more of next four quarters or (C) comply with applicable law or any loan agreement (including this Agreement), mortgage, security agreement, debt instrument or other agreement or obligation to which the Company or any Restricted Subsidiary is a party or its assets are subject, (including the payment of principal, Make Whole Amount, if applicable, and interest) of the Company in respect of the Notes; provided that Available Cash shall exclude without duplication (x) in each calendar quarter a reserve equal to at least 50% of the aggregate amount of all interest payments in respect of all Indebtedness of the Company and the Restricted Subsidiaries upon

which interest is due semiannually or less frequently to be made in the next quarter (assuming, in the case of Indebtedness incurred under the Bank Credit Facilities and other Indebtedness bearing interest at fluctuating interest rates

which cannot be determined in advance, that the interest rate in effect on the last Business Day of the immediately preceding calendar quarter will remain in effect until such Indebtedness is due to be paid), (y) with respect to any Indebtedness secured equally and ratably with the Notes of which principal is payable annually, in the third calendar quarter immediately preceding each calendar quarter in which any scheduled principal payment is due with respect to such Notes and other Indebtedness (a "principal payment quarter"), a reserve equal to at least 25% of the aggregate amount of all principal to be paid in respect of such Notes and other such Indebtedness secured equally and ratably with the Notes in such principal payment quarter; in the second calendar quarter immediately preceding a principal payment quarter, a reserve equal to at least 50% of the aggregate amount of all principal to be paid in respect of such Notes and other such Indebtedness in such principal payment quarter; and in the calendar quarter immediately preceding a principal payment quarter, a reserve equal to at least 75% of the aggregate amount of all principal to be paid in respect of such Notes and other such Indebtedness in such principal payment quarter, and (z) with respect to the Notes and any other Indebtedness secured equally and ratably with the Notes of which principal is payable semiannually, in each calendar quarter which immediately precedes a quarter in which principal is payable in respect of such Notes and such Indebtedness a reserve equal to at least 50% of the aggregate amount of all principal to be paid in respect of such Notes and other such Indebtedness in the next quarter; provided further that the amount of such reserve specified in clauses (x), (y) and (z) of this definition for principal amounts to be paid shall be reduced by the aggregate principal amount of all binding, irrevocable letters of credit established to refinance such principal amounts.

Bank Credit Facilities: that Credit Agreement, dated as of December 13, 1995, among the Company, BankBoston, N.A., as administrative agent, NationsBank, N.A., as documentation agent and the lenders named therein, and any extension, renewal, refunding or replacement thereof otherwise permitted to be incurred and outstanding under Section 10.1, pursuant to which the Initial Acquisition Facility and the Working Capital Facility will be made available to the Company.

Bankruptcy Law: the meaning specified in Section 11(g).

Banks: the financial institutions listed in the signature pages of the Bank Credit Facilities, each assignee

which becomes a lender under the Bank Credit Facilities pursuant to the terms thereof and their respective successors.

Business: the operation by the Company and its Subsidiaries of the wholesale and retail sale, distribution and storage of propane gas and related petroleum derivative products and the related retail sale of supplies and equipment, including home appliances.

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

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

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

Cash Collateral Agreement: the Cash Collateral Agreement, dated as of December 13,1995, between the Company and the Administrative Agent, as amended from time to time.

CERCLA: the Federal Comprehensive Environmental Response, Compensation and Liability Act, as amended.

Closing: the meaning specified in Section 3.

Code: the Internal Revenue Code of 1986, as amended from time to time.

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

Common Units: as defined in the MLP Agreement.

Company: the meaning specified in the Introduction and, for purposes of calculating any financial test or financial covenant under this Agreement with respect to the period prior to the date of the Closing, "Company" shall mean the General Partner and its Affiliates (to the extent that any such Affiliate operated a portion of the Business).

Company Security Agreement: the Pledge and Security Agreement, dated as of December 13, 1995, among the Company, the General Partner, the Restricted Subsidiaries and the Trustee, as amended from time to time.

Confirmation of Parity Debt: the Confirmation among the Company, the General Partner, the Restricted Subsidiaries party to the Company Security Agreement, the Public Partnership, the Banks, the Administrative Agent under the Bank Credit Facilities, the Documentation Agent under the Bank Credit Facilities, the holders of the 1995 Notes and the Trustee, in the form attached hereto as Exhibit D, as amended from time to time.

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

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

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

Consolidated Cash Flow shall be calculated after giving effect, on a pro forma

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

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

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

Consolidated Net Income: with reference to any period, the net income (or deficit) of the Company and its Restricted Subsidiaries for such period (taken as a cumulative whole), after deducting all operating expenses, provisions for all taxes and reserves (including reserves for deferred income taxes) and all other proper deductions, all determined in accordance with GAAP on a consolidated basis, after eliminating all intercompany transactions and after deducting portions of income properly attributable to minority interests, if any, in the stock and surplus of Restricted Subsidiaries, provided that there shall be excluded (a) the income (or deficit) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or a Restricted Subsidiary, (b) the income (or deficit) of any Person (other than a Restricted Subsidiary) in which the Company or any Restricted Subsidiary has an ownership interest, except to the extent that any such income has been actually received by the Company or such Restricted Subsidiary in the form of dividends or similar distributions, (c) the undistributed earnings of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary is not at the time permitted by the terms of its charter or any

agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary, (d) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of income accrued during such period, (e) any aggregate net gain (but not any aggregate net loss) during such period arising from the sale, exchange or other disposition of capital assets (such term to include all fixed assets, whether tangible or intangible, all Inventory sold in conjunction with the disposition of fixed assets, and all securities), (f) any write-up of any asset, (g) any net gain from the collection of the proceeds of life insurance policies, (h) any gain arising from the acquisition of any securities, or the extinguishment, under GAAP, of any Indebtedness, of the Company or any Restricted Subsidiary, (i) any net income or gain (but not any net loss) during such period from any change in accounting, from any discontinued operations or the disposition thereof, from any extraordinary events or from any prior period adjustments, (j) any deferred credit representing the excess of equity in any Restricted Subsidiary at the date of acquisition over the cost of the investment in such Restricted Subsidiary, and (k) in the case of a successor to the Company by consolidation or merger or as a transferee of its assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets.

Consolidated Net Worth: as to the Company, the amount by which

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

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

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

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

(ii) total liabilities of such Person and its Subsidiaries appearing on a consolidated balance sheet of such Person and its Subsidiaries prepared in accordance with GAAP as of the date of determination on a consolidated basis,

in each case after eliminating all intercompany transactions.

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

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

Conveyance Agreements: (a) the Contribution, Conveyance and Assumption Agreement, dated as of December 20, 1995, among the General Partner, the Company, Star Gas Partners, L.P., Stellar Propane Services Corp., Star Gas Silgas of Illinois, Inc. and Silgas Inc. and (b) each of the individual

conveyances, assignments and bills of sale delivered to the Company pursuant to the Contribution, Conveyance and Assumption Agreement referred to in the foregoing clause (a).

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

Documentation Agent: NationsBank, N.A., in its capacity as documentation agent for the Banks under the Bank Credit Facilities, and its successors in such capacity.

Dollar and sign "$": lawful money of the United States of America.

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

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

Event of Default: the meaning specified in Section 11.

Excess Proceeds: the meaning specified in Section 10.7(c).

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

GAAP: generally accepted accounting principles in effect in the
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United States from time to time.

General Partner: the meaning specified in the Introduction.

General Partner Guarantee Agreement: the General Partner Guarantee
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Agreement between the General Partner and the Trustee, dated as of December 13, 1995, as amended from time to time.

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

Guaranty: as applied to any Person, any direct or indirect liability,
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contingent or otherwise, of such Person with respect to any indebtedness, lease, dividend or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business) or discounted or sold with recourse by such Person, or in respect of which such Person is otherwise directly or indirectly liable or any other obligation under any contract which, in economic effect, is substantially equivalent to a guaranty, including, without limitation, any such obligation of a partnership in which such Person is a general partner or of a joint venture in which such Person is a joint venturer, and any such obligation in effect guaranteed by such Person through any agreement (contingent or otherwise) to purchase, repurchase or otherwise acquire such obligation or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain the solvency or any balance sheet or other financial condition of the obligor of such obligation, or to make payment for any products, materials or supplies or for any transportation or services regardless of the non-delivery or nonfurnishing thereof, in any such case if the purpose or intent of such agreement is to provide assurance that such obligation will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such obligation will be protected against loss in respect thereof.

Hazardous Materials: any gasoline or petroleum (including crude oil
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or any fraction thereof) or petroleum products, polychlorinated biphenyls, urea-formaldehyde insulation, asbestos or asbestos-containing materials, pollutants, contaminants, radioactivity, and any other materials or substances of any kind, whether or not any such substance is defined as hazardous under any Environmental Law, that is

regulated pursuant to any Environmental Law or that could give rise to liability under any Environmental Law.

Indebtedness: as applied to any Person (without duplication):

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

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

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

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

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

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

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

(h) any preferred stock of any Subsidiary of such Person valued at the sum of the liquidation preference

thereof or any mandatory redemption payment obligations in respect thereof plus, in either case, accrued dividends thereon;

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

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

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

Initial Acquisition Facility: that Initial Acquisition Facility under the Bank Credit Facilities which shall permit borrowings thereunder in an aggregate amount of up to $25,000,000 and which shall be secured by the Mortgaged Property pursuant to the Security Documents, and any extension,

renewal, refunding or replacement thereof otherwise permitted to be incurred and outstanding under Section 10.1.

Intercompany Notes: any and all promissory notes of a Restricted Subsidiary issued to the Company or to another Restricted Subsidiary, in the form attached as Exhibit P to the 1995 Note Agreements or such other form as may be satisfactory to the Required Holders, representing all Indebtedness of such Restricted Subsidiary to the Company or such other Restricted Subsidiary, as the case may be.

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

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

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

Investment Grade: in any case, the lowest of (i) in the case of a rating conducted by Standard & Poors Ratings Group, a rating of at least BBB- or PPR2-, (ii) in the case of a rating conducted by Duff and Phelps Credit Rating Co. or Fitch Investors Service, Inc., a rating of at least BBB- or (iii) in the case of a rating conducted by Moody's Investor Service, Inc., a rating of at least Baa3.

Legal Requirement: any law, statute, ordinance, decree, requirement, order, judgment, rule or regulation (or published official interpretation by any governmental authority of any of the foregoing) of any governmental authority.

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

party as the secured party thereunder to file any financing statement or any other agreement to give or

grant any of the foregoing. For the purposes of this Agreement, a Person shall be deemed to be the owner of any asset which it has placed in trust for the benefit of the holders of Indebtedness of such Person and such trust shall be deemed to be a Lien if such Person remains legally liable therefor, notwithstanding that such Indebtedness is or may be deemed to be extinguished under GAAP.

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

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

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

Maximum Consolidated Pro Forma Debt Service: as of any date of determination, the highest total amount payable by the Company and the Restricted Subsidiaries on a consolidated basis, during any period of four consecutive fiscal quarters, commencing with the fiscal quarter in which such date of determination occurs and ending on the maturity date of the Notes, in respect of scheduled principal payments and all interest charges with respect to all Indebtedness of the Company and the Restricted Subsidiaries outstanding or to be outstanding, after giving effect to any Indebtedness proposed to be incurred on such date and to the substantially concurrent repayment of any other Indebtedness, and (a) including actual payments under Capital Lease obligations, (b) assuming, in the case of Indebtedness (other than Indebtedness incurred under the Bank Credit Facilities) bearing interest at fluctuating interest rates which cannot be determined in advance, that the rate in effect on such date will remain in effect throughout such period, (c) assuming in the case of Indebtedness incurred under the Bank Credit Facilities, that (1) the interest payments payable during such four consecutive calendar quarters next succeeding the date of determination will equal the actual interest payments associated with the Bank Credit Facilities during the most recent four fiscal quarters,

(2) except for the twelve-month period immediately prior to the termination or final maturity thereof (unless extended or renewed) no principal payments will be made under the Working Capital Facility and (3) principal payments relating to the Initial Acquisition Facility will become due based on the assumption that the conversion to the fixed amortization schedule pursuant to Sections 2.01(c) and 2.01(g) of the Bank Credit Facilities, (d) treating the principal amount of all Indebtedness outstanding as of such date of determination under a revolving credit or similar agreement (other than the Bank Credit Facilities) as maturing

and becoming due and payable on the scheduled maturity date or dates thereof (including the maturity of any payment required by any commitment reduction or similar amortization provision), without regard to any provision permitting such maturity date to be extended and (e) including any other designated debt repayments due within twelve months from such date of determination.

Memorandum: the meaning specified in Section 5.4.

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

Mortgage(s): the separate mortgage, security agreement and fixture filings among the Company, the General Partner and the Trustee, substantially in the form of Exhibit D1 to the 1995 Note Agreements, as amended from time to time.

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

Multiemployer Plan: a Plan which is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA.

1995 Note Agreements: the separate Note Agreements, each dated as of December 13, 1995, between the Company and the respective purchasers listed in the Schedule of Purchasers attached thereto.

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

Non-Related Subsidiaries: Subsidiaries of Petro other than (i) the General Partner and (ii) any such Subsidiary which is a Related Person.

Notes: the meaning specified in Section 1.

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

Operative Agreements: this Agreement, the Notes, the Confirmation of Parity Debt, the 1995 Note Agreements, the Bank Credit Facilities, the Security Documents, the Intercompany Notes, the Conveyance Agreements, the MLP Agreement and the Partnership Agreement.

Parity Debt: Indebtedness of the Company incurred in accordance with Section 10.1(b), 10.1(e), 10.1(f) or 10.1(i) and secured by the lien of the Security Documents in accordance with Section 10.2(h) or 10.2(i).

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

Partners Security Agreement: the Pledge and Security Agreement among the Public Partnership, the General Partner and the Trustee, dated as of December 13, 1995, as amended from time to time.

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

Perfection Certificate: a certificate from the Company in substantially the form attached hereto as Exhibit S to the 1995 Note Agreements.

Permitted Banks: the meaning specified in Section 10.3(a).

Permitted Encumbrances: the encumbrances and exceptions to title to the Assets described in the Security Documents.

Permitted Exceptions: the meaning specified in Section 5.8(a).

Permitted Insurers: insurers with ratings of A or better according to Best's Insurance Reports or a comparable rating agency for insurance companies located outside of the

United States and Canada and with assets of no less than $500 million.

Person: a corporation, a firm, a joint venture, an association, a partnership, an organization, a business, a trust or other entity or enterprise, an individual, a government or political subdivision thereof or a governmental agency, department or instrumentality.

Petro: Petroleum Heat and Power Co., Inc., a Minnesota corporation.

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

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

Public Partnership: Star Gas Partners, L.P., a Delaware limited partnership.

Purchase Money Lien: the meaning specified in Section 10.2(j).

QPAM Exemption: the meaning specified in Section 6.2(c).

RCRA: the Federal Resource Conservation and Recovery Act, as amended.

Registration Statement: the Registration Statement on Form S-1 under the Securities Act of 1933, as amended, of the Public Partnership (Registration Number 333-40855) as declared effective by the Securities and Exchange Commission on December 15, 1997, and any and all post-effective amendments

thereto.

Reinvestment Yield: with respect to the Called Principal of any Note, the yield to maturity implied by (i) the yields reported, as of 10:00 a.m. (New York City time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace Page 678 on the Telerate Service) for actively traded U.S. Treasury

securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury constant maturity series yields reported, for the latest day for which such yields shall have been so reported as of the Business Date next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported to various maturities.

Related Person: any trade or business, whether or not incorporated, which, as of any date of determination, would be treated as a single employer together with the General Partner or the Company under Section 414 of the Code.

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

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

Required Holders: the holders of at least 66-2/3% in principal amount of the Notes at the time outstanding.

Responsible Officer: the President, any Vice President, the Chief Financial Officer, the Treasurer and the Secretary of the general partner of the Company and any other officer of the general partner of the Company who is responsible for compliance

with or performance of any obligation under this Agreement or the other

Operative Agreements and any employee of the Company or any employee or officer of Petro performing any of the above functions.

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

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

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

Settlement Date: shall mean, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 9.2, 9.3 or 9.4 or

is declared to be or becomes immediately due and payable pursuant to Section 11, as the context requires.

Subordinated Units: as defined in the MLP Agreement.

Subsidiary: any corporation, association, partnership, joint venture or other business entity at least a majority (by number of votes) of the stock of any class or classes (or equivalent interests) of which is at the time owned by the Company or by one or more Subsidiaries of the Company or by the Company and one or more Subsidiaries of the Company, if the holders of the stock of such class or classes (or equivalent interests) (a) are ordinarily, in the absence of contingencies, entitled to vote for the election of a majority of the directors (or Persons performing similar functions) of such business entity, even though the right so to vote has been suspended by the happening of such a contingency,

or (b) are at the time entitled, as such holders, to vote for the election of
the majority of the directors (or Persons performing similar functions) of such business entity, whether or not the right so to vote exists by reason of the happening of a contingency. Unless the context otherwise requires, any reference to a Subsidiary shall mean a Subsidiary of the Company.

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

Substantial Portion: the meaning specified in Section 7(a).

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

Trust Agreement: the Intercreditor and Trust Agreement, dated as of December 13, 1995, among the Company, the General Partner, the Public Partnership, the Restricted Subsidiaries, the Trustee, the purchasers of the 1995 Notes, the Administrative Agent, the Documentation Agent and the Banks, as amended from time to time.

Trustee: Marine Midland Bank, as Trustee under the Trust Agreement and its successors and assigns thereunder.

Underwriters: the underwriters named in the Underwriting Agreement.

Underwriting Agreement: the Underwriting Agreement, dated December 14, 1995, among the Public Partnership, the General Partner, the Company and the Underwriters, relating to

securities of the Public Partnership registered under the Registration Statement.

Uniform Commercial Code: the Uniform Commercial Code or similar statute in effect from time to time in any jurisdiction.

Units: the units issued and sold by the Public Partnership pursuant to the Underwriting Agreement, representing preference limited partner interests in the Public Partnership.

Unrestricted Subsidiary: any Wholly Owned Subsidiary other than a Restricted Subsidiary which is organized under the laws of the United States of America or any state thereof or the District of Columbia and substantially all of the operating assets of which are located in, and substantially all of the business of which is conducted within the United States and which business consists of the wholesale and retail sale, distribution and storage of propane gas and related petroleum derivative products and the related retail sale of supplies and equipment, including home appliances.

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

Working Capital Facility: that Working Capital Facility under the Bank Credit Facilities which shall permit borrowings thereunder in aggregate amount outstanding at any time no greater than as permitted by Section 10.1(e)

and which shall be secured by the Mortgaged Property pursuant to the Security Documents and any extension, renewal, refunding or replacement thereof otherwise permitted to be incurred and outstanding under Section 10.1.

SECTION 14. REGISTRATION, TRANSFER AND SUBSTITUTION OF NOTES.

14.1. Note Register; Ownership of Notes. Any Notes issued in substantially the form of Exhibit A are in "registered form". The Company will keep at its principal office a register in which the Company will provide for the registration of Notes in registered form and the registration of transfers of Notes in registered form. The Company may treat the Person in whose name any Note is registered on such register as the owner thereof for the purpose of receiving payment of the principal of and the Make Whole Amount, if any, and interest on such Note and for all other purposes, whether or not such Note shall be overdue, and the Company shall not be affected by any notice to the contrary. All references in this Agreement or in a Note to a "holder" of any

Note shall mean the Person in whose name such Note is at the time registered on such register.

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

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

14.4. Notes Held by Company, etc., Deemed Not Outstanding. For the purposes of determining whether the holders of the Notes of the requisite principal amount at the time outstanding have taken any action authorized by this Agreement or any other Operative Agreement with respect to the giving of consents or approvals or with respect to the acceleration upon an Event of Default, any Notes directly or indirectly owned by the Company, the general partner of the Company or any of their respective Affiliates shall be disregarded and deemed not to be outstanding.

SECTION 15. PAYMENTS ON NOTES.

15.1. Place of Payment. Payments of principal, Make Whole Amount, if any, and interest becoming due and payable on the Notes shall be made at the principal office of the Trustee, in the Borough of Manhattan, the City and State of New York, unless the Company, by written notice to each holder of any

Notes, shall designate the principal office of another bank or trust company in such Borough as such place of payment, in which case the principal office of such other bank or trust company shall thereafter be such place of payment.

15.2. Home Office Payment. So long as you or your nominee shall be the holder of any Note, and notwithstanding anything contained in Section 15.1 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 no later than 12:00 noon (New York City time) and by the method and at the address specified for such purpose in Schedule A, or by such other reasonable 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 any Note paid or prepaid in full shall, after such payment or prepayment in full, be surrendered to the Company at its principal office or at the place of payment maintained by the Company pursuant to Section 15.1 for cancellation. Prior to any sale or other disposition of any Note held by you or your nominee you will, at your election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 14.2. The Company will afford the benefits of this Section 15.2 to any institutional investor which is the direct or indirect transferee of any Note purchased by you under this Agreement and which has made the same agreement relating to such Note as you have made in this Section 15.2.

SECTION 16. EXPENSES, INDEMNIFICATION, ETC.

(a) Whether or not the transactions contemplated hereby shall be consummated, the Company will pay all expenses in connection with such transactions and in connection with any amendments or waivers (whether or not the same become effective) under or in respect of this Agreement, the Operative Agreements, the Security Documents or the Notes, including, without limitation: (i) the cost and expenses of preparing and reproducing this Agreement, the Operative Agreements, the Security Documents and the Notes, of furnishing all opinions by counsel for the Company or the general partner of the Company (including any opinions requested by your special counsel, Debevoise & Plimpton, as to any legal matter arising hereunder)

and all certificates on behalf of the Company or the general partner of the Company, and of the Company's or the general partner of the Company's performance of and compliance with all agreements and conditions contained herein on its part to be performed or complied with; (ii) the cost of delivering to your principal office, insured to your satisfaction, the Notes sold to you hereunder and any Notes delivered to you upon any substitution thereof pursuant to Section 14 and of your delivering any Notes, insured to your satisfaction, upon any such substitution; (iii) the fees, expenses and disbursements of your special counsel, Debevoise & Plimpton and your local counsel in connection with such transactions and any such amendments or waivers; (iv) the costs and expenses, including attorneys' fees, incurred by you or any subsequent holder of a Note in enforcing (or determining whether or how to enforce) any rights under this Agreement, any other Operative Agreement or the Notes or in responding to any subpoena or other legal process in connection with this Agreement or the transactions contemplated hereby or by reason of you or any subsequent holder of Notes having acquired any Note, including without limitation costs and expenses incurred in any bankruptcy case; (v) the cost and expenses of obtaining a Private Placement Number for the Notes; and (vi) the reasonable out-of-pocket expenses incurred by you in connection with such transactions and any such amendments or waivers. The Company also will pay, and will save you and each holder of any Notes harmless from, all claims in respect of the fees, if any, of brokers and finders (unless engaged by you) and any and all liabilities with respect to any taxes (including interest and penalties) which may be payable in respect of the execution and delivery hereof, the issue of the Notes hereunder and any amendment or waiver under or in respect hereof or of the Notes. In furtherance of the foregoing, on the date of the Closing the Company will pay the fees and disbursements of your special counsel which are reflected as unpaid

in the statement of Debevoise & Plimpton, your special counsel, delivered to the Company prior to the date of the Closing; and thereafter the Company will pay, promptly upon receipt of supplemental statements therefor from time to time, additional fees, if any, and disbursements of your special counsel in connection with the transactions hereby contemplated (including unposted disbursements as of the date of the Closing).

(b) The Company will protect, indemnify and save harmless the Trustee and each present, future and former holder of any Note and their respective officers, directors, trustees, employees, agents and representatives (individually, an "Indemnified Party" and collectively, the "Indemnified Parties") from and against all losses, liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys' fees and expenses) imposed upon or incurred by or asserted against any Indemnified Party by reason of (a) ownership of the Mortgaged Property, or

any interest therein, or receipt of any rent or other sum therefrom, (b) any accident or injury to or death of persons or loss of or damage to property occurring on or about the Mortgaged Property or any part thereof, (c) any use, non-use or condition of the Mortgaged Property or any part thereof, (d) any failure on the part of the Company, the General Partner or any of their respective Subsidiaries or Affiliates to perform or comply with any of the terms of this Agreement or any other Operative Agreement, (e) the performance of any labor or services or the furnishing of any materials or other property in respect of the Mortgaged Property or any part thereof, (f) any negligence or tortious act on the part of the Company, the General Partner, any of their respective Subsidiaries or Affiliates or any of their respective agents, contractors, sublessees, licensees or invitees, (g) any work in connection with any alterations, changes or construction of the Mortgaged Property, (h) any other relationship that has arisen or may arise between the Company, the General Partner or any of their respective Subsidiaries or Affiliates and the Indemnified Parties or the Mortgaged Property as a result of the delivery or performance of this Agreement, any other Operative Agreement or any action contemplated hereby or thereby or by any other document executed in connection herewith or therewith, (i) the presence or removal, or the discharge, spillage, leakage, emission, release, threat of release or disposal, of any Hazardous Substances on, under, about or from the Mortgaged Property or the noncompliance with any Legal Requirement relating thereto, whether arising prior to the issuance of the Notes or at any time thereafter and whether or not the Company, the General Partner or any of their respective Subsidiaries or Affiliates is responsible therefor or (j) the holding of, or any interest in, any sum deposited or paid under this Agreement, the Notes or any other Operative Agreement, provided that nothing contained herein shall be deemed to require the Company to indemnify the Indemnified Parties for conditions (other than matters covered by clause (f) above) first occurring subsequent to the earlier of (x) the taking of exclusive possession and control of the Mortgaged Property for operational purposes pursuant to Section 21.10 of the Mortgages or Section 6.03 of the Company Security Agreement, or (y) the foreclosure of the lien under any Security Document and the transfer of title to the Trustee.

In case any action, claim, suit or proceeding is brought against an Indemnified Party by reason of any such occurrence, the Company may, and upon the request of such Indemnified Party will, at the Company's expense resist and defend such action, suit or proceeding or cause the same to be resisted and defended by counsel for the insurer of the liability or by counsel designated by the Company and reasonably satisfactory to the Indemnified Party, as the case may be, provided that any Indemnified Party shall be entitled to participate in

any such action, suit or proceeding with counsel of its own choice but at

its own expense. In any event, if the Company fails to assume the defense within a reasonable time after any such request, the Indemnified Party may assume such defense or other indemnification obligation and the fees and expenses of its attorney will be paid by the Company. The obligations of the Company under this Section 16 shall survive any termination or satisfaction of this Agreement. Any amounts payable to any Indemnified Party under this Section 16 which are not paid within 15 days after written demand therefor by any Indemnified Party shall bear interest at the rate of 9.17% per annum from the date of such demand. In the event that the Company shall be required to pay any indemnity under this Section 16, the Company shall pay the Indemnified Party an amount which, after deduction of all taxes required to be paid by such Indemnified Party in respect of the receipt or accrual thereof (after giving credit for any savings in respect of any such taxes by reason of deductions, credits or allowances in respect of the payment of the expense indemnified against, and of any other such taxes), shall be equal to the amount of such indemnity.

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

SECTION 17. SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

All representations and warranties contained in this Agreement or the other Operative Agreements, or made in writing by or on behalf of the General Partner, the Company, the general partner of the Company or any of their Affiliates in connection with the transactions contemplated by this Agreement or the Operative Agreements, shall survive the execution and delivery of this Agreement and the other Operative Agreements, any investigation at any time made by you or on your behalf, the purchase of the Notes by you under this Agreement and any disposition or payment of the Notes. All statements contained in any certificate or other instrument delivered by or on behalf of the Company, any Restricted Subsidiary or the general partner of the

Company pursuant to this Agreement and/or the other Operative Agreements or in connection with any amendment, waiver or modification of this Agreement, any of the other Operative Agreements or the Notes shall be deemed representations and warranties of the Company under this Agreement.

SECTION 18. AMENDMENTS AND WAIVERS.

Any term of this Agreement or of the Notes may be amended and the observance of any term of this Agreement or of the Notes may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Required Holders, provided that, without the prior written consent of the holders of all the Notes at the time outstanding, no such amendment or waiver shall (a) change the maturity or the principal amount of, or change the rate of interest or the time of payment of interest on, or change the amount or the time of payment of any principal or Make Whole Amount payable on any prepayment of, any Note, (b) release any Lien against the Mortgaged Property for the benefit of the holders of the Notes, (c)

reduce the aforesaid percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver or change the rights of the Purchasers with respect thereto, (d) change the percentage of the principal amount of the Notes the holders of which may declare the Notes to be due and payable as provided in Section 11 or change the rights of the Purchasers with respect thereto, (e) decrease the percentage of the principal amount of the Notes the holders of which may rescind and annul any such declaration as provided in Section 11 or (f) modify the provisions of Section 9.8. Any amendment or waiver effected in accordance with this Section 18 shall be binding upon each holder of any Note at the time outstanding, each future holder of any Note and the Company.

SECTION 19. NOTICES, ETC.

Except as otherwise provided in this Agreement, notices and other communications under this Agreement shall be in writing and shall be delivered by hand, by express courier service or by registered or certified mail, return receipt requested, postage prepaid, addressed, (a) if to you, at the address set forth in Schedule A or at such other address as you shall have furnished to the Company in writing, except as otherwise provided in Section 15.2 with respect to payments on Notes held by you or your nominee, or (b) if to any other holder of any Note, at such address as such other holder shall have furnished to the Company in writing, or, until any such other holder so furnishes to the Company an address, then to and at the address of the last holder of such Note who has furnished an address to the Company, or (c) if to the Company, at 2187 Atlantic Street, Stamford, Connecticut, 06902 to the attention of Secretary, Star Gas Propane, L.P., with a copy to Vice President-Finance, Star Gas

Corporation, at the address listed immediately above, or at such other address, or to the attention of such other officer, as the Company shall have furnished to you and each such other holder in writing. Any notice so addressed and mailed shall be deemed to be given three Business Days after being so mailed.

SECTION 20. REPRODUCTION OF DOCUMENTS.

This Agreement, each Operative Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and notifications which 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 General Partner and the Company 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.

SECTION 21. ADJUSTMENT OF INTEREST RATE.

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

SECTION 22. MISCELLANEOUS.

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

original, but all of which together shall constitute one instrument.

SECTION 23. SUBMISSION TO JURISDICTION

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

SECTION 24. WAIVER OF JURY TRIAL.

EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY LEGAL OR EQUITABLE ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE NOTES OR ANY TRANSACTION CONTEMPLATED HEREBY OR THEREBY OR THE SUBJECT MATTER OF ANY OF THE FOREGOING.

SECTION 25. GOVERNING LAW.

THIS AGREEMENT HAS BEEN EXECUTED AND DELIVERED IN THE CITY OF NEW YORK, STATE OF NEW YORK, UNITED STATES OF AMERICA. THIS AGREEMENT AND (UNLESS OTHERWISE EXPRESSLY PROVIDED) ALL AMENDMENTS AND SUPPLEMENTS TO, AND ALL CONSENTS AND WAIVERS PURSUANT TO, THIS AGREEMENT SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS

OF THE STATE OF NEW YORK, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE.

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

Very truly yours,

STAR GAS PROPANE, L.P.

By: STAR GAS CORPORATION,
General Partner

By:

Title:

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

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY

By:

Title:

Exhibit A
to
Note Agreement

Exhibit A1

THIS NOTE IS SUBJECT TO THE TERMS AND CONDITIONS CONTAINED IN THE TRUST AGREEMENT (AS DEFINED IN THE NOTE AGREEMENT), WHICH TRUST AGREEMENT, AMONG OTHER THINGS, ESTABLISHES CERTAIN RIGHTS WITH RESPECT TO THE SECURITY FOR THIS NOTE AND THE SHARING OF PROCEEDS THEREOF WITH CERTAIN OTHER SECURED CREDITORS. COPIES OF SUCH TRUST AGREEMENT WILL BE FURNISHED TO ANY HOLDER OF THIS NOTE UPON REQUEST TO THE COMPANY.

Star Gas Propane, L.P.

7.17% First Mortgage Notes due September 15, 2010

Private Placement No.: 85513@ AB 5

No. R-
$

New York, N.Y.
_____, ____

Star Gas Propane, L.P., a Delaware limited partnership (the "Company"), for value received, hereby promises to pay to _____, or registered assigns, the principal amount of $_____ on September 15, 2010, with interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid balance of such principal amount at a rate equal to 7.17% per annum, from the date hereof through and including September 15, 2010, such interest to be payable semiannually on each March 15 and September 15 after the date hereof, commencing on March 15, 1998, until such unpaid balance shall become due and payable (whether at maturity or at a date fixed for prepayment or by declaration or otherwise), and with interest on any overdue principal (including any overdue prepayment of principal) and premium, if any, and (to the extent permitted by applicable law) on any overdue interest, at a rate equal to 9.17% per annum, until paid, payable semiannually as aforesaid or, at the option of the holder hereof, on demand. Subject to Section 15.2 of the Note Agreement referred to below, payments of principal, premium, if any, and interest on this Note shall be made in lawful money of the United States of America at the principal office of the Trustee (as defined below), in the Borough of Manhattan, the City and State of New York, or at such other office or agency in such Borough as the Company shall have designated by written notice to the holder of this Note as provided in such Note Agreement.

This Note is one of the Company's 7.17% First Mortgage Notes due September 15, 2010 (the "Notes"), originally issued in

the aggregate principal amount of $11,000,000.00 pursuant to the Note Agreement, dated as of January 22, 1998, between the Company and The Northwestern Mutual Life Insurance Company (the "Note Agreement"). The holder of this Note is entitled to the benefits of such Note Agreement and the holder may enforce the agreements of the Company contained therein and exercise the remedies provided for thereby or otherwise available in respect thereof.

The Notes are entitled to the benefits of certain security held by Marine Midland Bank or its successors acting as trustee (the "Trustee") under the Intercreditor and Trust Agreement (the "Trust Agreement"), dated as of December 13, 1995, among the Trustee, the holders of the 1995 Notes, the Company and the Restricted Subsidiaries, the Administrative Agent, the Documentation Agent and the Banks (as such terms are defined or referred to in the Note Agreement). Reference is made to the Trust Agreement for a description of such security.

This Note is a Note in registered form and is transferable only 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 his attorney duly authorized in writing. The Company may treat the person in whose name this Note is registered on the register kept by the Company as provided in such Note Agreement as the owner of this Note for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

The Notes are subject to required and optional prepayment, in whole or in part, in certain cases with a premium and in other cases without a premium, all as specified in such Note Agreement.

In case an Event of Default, as defined in such Note Agreement, shall occur and be continuing, the unpaid balance of the principal of this Note may become due and payable in the manner and with the effect provided in such Note Agreement.

THIS NOTE IS MADE AND DELIVERED IN NEW YORK, NEW YORK, AND SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

STAR GAS PROPANE, L.P.

By: STAR GAS CORPORATION

By_____
Name:
Title:

Exhibit C

Form of Subordination Provisions

Set forth in the form of Intercompany Note attached hereto.

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

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

We consent to the reference to our firm under the heading "Experts" in the Registration Statement on Form S-3 and related Prospectus of Star Gas Partners, L.P. and to the incorporation by reference therein of our report dated November 7, 1997, with respect to the consolidated financial statements and schedule of Star Gas Partners, L.P. and Subsidiary (and its Predecessor), which report appears in the Form 10-K of Star Gas Partners, L.P. for the year ended September 30, 1997.

KPMG Peat Marwick LLP

Stamford, Connecticut

March 4, 1998