UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED AUGUST 31, 2003

OR

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

For the Transition Period from _____ to_____

COMMISSION FILE NUMBER 1-11727

HERITAGE PROPANE PARTNERS, L.P.
(Exact name of registrant as specified in its charter)

DELAWARE	73-1493906
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8801 SOUTH YALE AVENUE, SUITE 310, TULSA, OKLAHOMA 74137
(Address of principal executive offices and zip code)

(918) 492-7272
(Registrant's telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No
--- ---

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

The aggregate market value as of February 28, 2003, of the registrant's Common Units held by nonaffiliates of the registrant, based on the reported closing price of such units on the New York Stock Exchange on such date, was approximately $278,176,413

At November 21, 2003, the registrant had units outstanding as follows:
Heritage Propane Partners, L.P. 18,028,029 Common Units

Documents Incorporated by Reference: None

HERITAGE PROPANE PARTNERS, L.P.

2003 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

PART IV

PART I

ITEM 1. BUSINESS

Heritage Propane Partners, L.P., (the "Registrant" or "Partnership"), a publicly traded Delaware limited partnership, was formed in April 1996 in connection with its initial public offering. The Partnership's common units, representing limited partner interests in the Partnership ("Common Units") are listed on the New York Stock Exchange. In order to simplify the Partnership's obligations under the laws of several jurisdictions in which it conducts business, its business activities are primarily conducted through its subsidiary, Heritage Operating, L.P. (the "Operating Partnership"). The Partnership holds a 98.9899% limited partner interest in the Operating Partnership. The Operating Partnership accounts for nearly all of the consolidated assets, sales and operating earnings of the Partnership. The Partnership and the Operating Partnership are collectively referred to in this report as "Heritage."

The sole general partner of the Partnership and the Operating Partnership is U.S. Propane, L.P. ("U.S. Propane" or "General Partner"), a Delaware limited partnership. U.S. Propane holds a 1% general partner interest in the Partnership and a 1.0101% general partner interest in the Operating Partnership. U.S. Propane is a joint venture among the following four publicly traded utilities: TECO Energy, Inc.; AGL Resources, Inc.; Piedmont Natural Gas Company, Inc.; and Atmos Energy Corporation.

- TECO Energy, Inc. ("TECO") is a diversified, energy-related holding company. TECO's subsidiaries include Florida's largest natural gas distributor, an electric utility, coal, and transportation businesses.

- AGL Resources, Inc. ("AGL Resources"), is a regional energy holding company engaged in natural gas distribution, wholesale and retail energy services, and building telecommunications infrastructure. AGL Resources' principal subsidiary is the second largest pure natural gas distributor in the United States, serving customers in Georgia, Tennessee, and Virginia.

- Piedmont Natural Gas Company, Inc. ("Piedmont Natural Gas") is an energy and services company primarily engaged in the transportation, distribution, and sales of natural gas. Piedmont Natural Gas is the second largest natural gas distributor in the Southeast, serving customers in North Carolina, South Carolina, and Tennessee.

- Atmos Energy Corporation ("Atmos Energy") is an energy and services company primarily engaged in natural gas distribution and non-regulated energy management and gas marketing services. Atmos Energy is one of the largest pure natural gas distributors in the United States, serving customers in 12 states, and through its non-utility businesses, it provides natural gas management and marketing services to customers in 18 states.

The business of the Partnership starting with the formation of Heritage Holdings, Inc. ("Heritage Holdings") in 1989, has grown primarily through acquisitions of retail propane operations and, to a lesser extent, through internal growth. Since its inception in 1989 through August 31, 2003, the Partnership has completed 97 acquisitions for a total purchase price of approximately $675 million, including the August 2000 transfer by U.S. Propane of its propane operations to the Partnership. The U.S. Propane transaction combined five of the nation's 50 largest retail propane operations. Volumes of propane sold to retail customers have increased steadily from 63.2 million gallons for the Partnership's fiscal year ended August 31, 1992 to 375.9 million gallons for the fiscal year ended August 31, 2003.

U.S. PROPANE MERGER

In August 2000, in a series of transactions, U.S. Propane was formed when TECO, AGL Resources, Piedmont Natural Gas, and Atmos Energy combined each company's propane operations. The merger was accounted for as an acquisition using the purchase method of accounting with Peoples Gas being the acquirer for accounting purposes. Following its formation, and also in August 2000, U.S. Propane acquired all of the outstanding common stock of the Partnership's former General Partner, Heritage Holdings, and by virtue of Heritage Holdings' general partner and limited partner interests in the Partnership, U.S. Propane gained control of the Partnership. Simultaneously with that transaction, U.S. Propane transferred its propane operations,

consisting of its interest in four separate limited liability companies, AGL Propane, L.L.C., Peoples Gas Company, L.L.C., United Cities Propane Gas, L.L.C. and Retail Propane Company, L.L.C. (former Piedmont operations) to the Partnership. The Partnership is the surviving entity for legal purposes; however, the combined operations that formed U.S. Propane was the acquirer for accounting purposes, with Peoples Gas described as the accounting acquirer since Peoples Gas was the acquirer in the transaction that formed U.S. Propane. The financial information describing the propane operations of the Partnership and its subsidiaries prior to the series of transactions with U.S. Propane are identified as Predecessor Heritage and those describing the operations of the Partnership and its subsidiaries following the combination of the operations of U.S. Propane and Predecessor Heritage are identified as Heritage. Peoples Gas had a fiscal year-end of December 31. The eight-month period ended August 31, 2000 was treated as a transition period under the rules of the Securities and Exchange Commission. However, the Form 10-K for the year ended August 31, 2000 was not a transition report as the Partnership continues to have an August 31 fiscal year-end.

On February 4, 2002, at the Special Meeting of the Common Unitholders of the Partnership, the Common Unitholders approved the substitution of U.S. Propane as the general partner of the Partnership and the Operating Partnership, replacing the former general partner, Heritage Holdings. U.S. Propane, L.L.C. ("USPLLC"), a Delaware limited liability company, is the general partner of U.S. Propane. The membership interests of USPLLC are owned by AGL Energy Corporation, United Cities Propane Gas, Inc., TECO Propane Ventures, LLC, and Piedmont. The substitution of U.S. Propane as the general partner did not alter the management of the Partnership, as all of the directors of Heritage Holdings became members of the Board of Managers of USPLLC, and the management and employees of Heritage Holdings became the management and employees of U.S. Propane.

RECENT DEVELOPMENTS

On November 6, 2003, the Partnership publicly announced the signing of definitive agreements to combine its operations with those of La Grange Energy, L.P. ("La Grange Energy"), which is engaged in the midstream natural gas business through its subsidiary, La Grange Acquisition, L.P., whose midstream operations are conducted under the name Energy Transfer Company ("Energy Transfer Company"), and are primarily located in major natural gas producing regions of Texas and Oklahoma. The combination of Heritage and Energy Transfer Company will create a diversified master limited partnership by adding natural gas midstream operations to Heritage's existing retail propane operations. As part of the transactions, La Grange Energy has agreed to acquire U.S. Propane, the General Partner of Heritage. La Grange Energy is owned by Natural Gas Partners VI, L.P., a private equity fund, Ray C. Davis, Kelcy L. Warren, and a group of institutional investors.

In connection with the transaction, La Grange Energy will contribute interests in Energy Transfer Company and certain related assets to Heritage in exchange for:

- $300 million in cash, subject to certain adjustments including (1) a reduction for any accounts payable of Energy Transfer Company at closing, (2) a reduction to the extent that the long-term debt of Energy Transfer Company at closing is greater than $151.5 million, (3) an increase to the extent that the long-term debt of Energy Transfer Company at closing is less than $151.5 million and (4) an increase by up to $80 million to reimburse La Grange Energy for certain mutually agreed upon capital expenditures paid by La Grange Energy to third parties prior to the closing, and

- 15,883,234 units, comprising limited partner interests in the Partnership. The units will be comprised of the following:

    - a number of Common Units totaling 19.99% of the number of Common Units of Heritage outstanding immediately prior to the closing;

    - a number of Class D Units that will equal the difference between 12,140,719 and the number of Common Units issued to La Grange Energy in the transaction; and

    - 3,742,515 Special Units.

The Units to be issued in connection with the transactions are subject to the approval of the New York Stock Exchange, and, thus, their terms may be modified from the description herein. Generally, the Class D Units will receive the same quarterly distributions as Common Units. The Common Units do not have priority over the Class D Units with respect to quarterly distributions, but they do have priority with respect to liquidation distributions. Under the terms of an amendment to the Partnership Agreement creating the Class D Units, the Partnership is required, as promptly as practicable following the issuance of the Class D Units, to submit to a vote of its Unitholders the approval of the conversion of the Class D Units into Common Units. Upon receipt of the required vote, each Class D Unit may be converted automatically into one Common Unit upon request of the holder. If Heritage's Unitholders do not approve the conversion prior to six months following the closing of the acquisition of Energy Transfer Company, or if the matter has been submitted for approval of the Unitholders in documents filed with the Securities and Exchange Commission prior to this six month period and not approved by such vote, then the distribution rate for all distributions to Class D Units will increase to 115% of the Common Unit distribution rate in effect from time to time. The Class D Units generally have voting rights that are identical to the voting rights of the Common Units and vote with the Common Units as a single class on each matter with respect to which the Common Units are entitled to vote.

The Special Units are being issued by the Partnership as consideration for a natural gas pipeline currently being constructed by Energy Transfer Company, known as the Bossier Pipeline, and certain related contracts. The Bossier Pipeline is expected to be an extension and expansion of its existing pipeline that will create a 78-mile pipeline that connects natural gas supplies in east Texas to Energy Transfer Company's Katy Pipeline in Grimes County. Energy Transfer Company has secured contracts with three separate companies to transport natural gas on this pipeline, including a nine-year fee-based contract with a major producer. The Special Units will initially be non-voting and will generally not be entitled to share in partnership distributions. Under the terms of an amendment to the Partnership Agreement creating the Special Units, Heritage is required, as promptly as practicable following the issuance of the Special Units, to submit to a vote of Heritage's Unitholders the approval of the conversion of the Special Units into Common Units in accordance with the terms of the Special Units. Following Unitholder approval, and upon the Bossier Pipeline becoming "commercially operational", such that Energy Transfer Company is entitled to receive payments under each of the three referenced contracts, each Special Unit will automatically be converted into one Common Unit upon the request of the holder. If the Bossier Pipeline does not become operational by December 1, 2004 and, as a result, a party to one of the three contracts exercises rights to acquire the Bossier Pipeline, the Special Units will no longer be considered outstanding. If Heritage's Unitholders do not approve the conversion of the Special Units in accordance with their terms prior to the time the Bossier Pipeline becomes commercially operational, such that the Special Units become qualified to be converted, then each Special Unit will be entitled to receive 115% of the quarterly amount distributed on each Common Unit on a pari passu basis with distributions on Common Units.

As a part of the above transaction, La Grange Energy has agreed to purchase all of the partnership interests of U.S. Propane, L.P., the General Partner of Heritage, and all of the member interests of U.S. Propane, L.L.C., the general partner of U.S. Propane, L.P. (which are collectively referred to as the "General Partner"), from subsidiaries of AGL Resources, Inc., Atmos Energy Corporation, TECO Energy, Inc. and Piedmont Natural Gas Company, Inc. (the "Previous Owners") for $30 million in cash. Prior to the sale of the General Partner to La Grange Energy, certain assets of the General Partner, including all of the stock of Heritage Holdings, and 180,028 Common Units of Heritage, will be distributed by the General Partner to an affiliate of the Previous Owners. Currently, U.S. Propane, L.P.'s general partner interest in Heritage and its general partner interest in Heritage's operating partnership, Heritage Operating, L.P. (the "Operating Partnership") equals a 2% general partner interest on a combined basis. As part of the acquisition of Heritage's General Partner, U.S. Propane, L.P. will make a capital contribution of its interest in the Operating Partnership to Heritage in exchange for an additional 1% general partner interest in Heritage, such that following the capital contribution, U.S. Propane, L.P. will own a 2% general partner interest in Heritage.

Also in conjunction with these transactions, Heritage will acquire from the affiliate of the Previous Owners all of the stock of Heritage Holdings, which owns approximately 4.4 million Common Units of Heritage (the "HHI Units"), for $50 million in cash and a $50 million promissory note secured by a pledge of the HHI Units. In conjunction with the Partnership's purchase of the capital stock of Heritage Holdings, the HHI Units will be converted into Class E Units. The Class E Units will generally be entitled to the same cash distributions as Common Units, except that distributions may not exceed an amount equal to the percentage that the Class E units are of the total number of outstanding units upon the closing of the Energy Transfer Company transaction, or 11.1% of cash distributions, to unitholders and may not include any amounts attributable to cash distributions received by the Partnership from Heritage Holdings. Cash distributions on the Class E Units may not exceed $2.82 per unit. Pursuant to their terms, the Class E Units may be convertible back into Common Units with a market value of $100 million in the event of a default under the terms of the $50 million promissory note and the pledge securing payment of the note.

In connection with these transactions, ETC Holdings, L.P., the parent of La Grange Energy; ET GP, L.L.C., the general partner of ETC Holdings, L.P.; La Grange Energy; LE GP, L.L.C., the general partner of La Grange Energy; Ray C.

Davis; and Kelcy L. Warren (the "ETC Restricted Parties") have agreed to enter into a Noncompete Agreement, whereby the ETC Restricted Parties will not engage, invest or participate, directly or indirectly, in any business activities involving (a) the purchase, sale, exchange, marketing, trading, storage or transportation of propane or (b) the purchase, gathering, treating, processing, marketing, sales, storage, transportation, fractionation or distribution of natural gas and natural gas liquids, subject to certain limited exceptions. The ETC Restricted Parties will not engage in these activities until the earlier of (i) the third anniversary of the closing of the acquisition of Energy Transfer Company or (ii) the date the ETC Restricted Party ceases to be engaged in the business of Heritage as conducted at the closing of the acquisition of Energy Transfer Company as an owner, officer, director or employee, as the case may be.

Also in connection with the transactions, the Previous Owners have agreed to enter into a Noncompete Agreement (the "Previous Owners Noncompete Agreement") with Heritage. Pursuant to the Previous Owners Noncompete Agreement, the Previous Owners will not engage, invest or participate, directly or indirectly, in any business activities involving the purchase, sale, exchange, marketing, trading, storage or transportation of propane, subject to certain limited exceptions. The Previous Owners have agreed not to engage in these activities until the third anniversary of the closing of the acquisition of Energy Transfer Company.

These transactions are subject to customary conditions to closing, including existing lender and regulatory approvals, and obtaining the requisite debt and equity financing for the transaction. There can be no assurance that Heritage will be able to obtain the requisite approval or financing, or that the other conditions to closing will be satisfied.

ENERGY TRANSFER COMPANY

Energy Transfer Company is a growth-oriented midstream natural gas company with operations primarily located in major natural gas producing regions of Texas and Oklahoma. Energy Transfer Company's primary assets consist of two large gathering and processing systems in the Gulf Coast area of Texas and western Oklahoma and the Oasis Pipeline, an intrastate natural gas pipeline that runs from the Permian Basin in west Texas to natural gas supply and market areas in southeast Texas. Energy Transfer Company's operations consist of the following:

- the gathering of natural gas from over 1,400 producing wells;
- the compression of natural gas to facilitate its flow from the wells through Energy Transfer Company's gathering systems;
- the treating of natural gas to remove impurities such as carbon dioxide and hydrogen sulfide to ensure that the natural gas meets pipeline quality specifications;
- the processing of natural gas to extract natural gas liquids, or NGLs; the sale of the pipeline quality natural gas, or "residue gas," remaining after it is processed; and the sale of the NGLs to third parties at fractionation facilities where the NGLs are separated into their individual components, including ethane, propane, mixed butanes and natural gasoline;
- the transportation of natural gas on its Oasis Pipeline to industrial end-users, independent power plants, utilities and other pipelines; and
- the purchase for resale of natural gas from producers connected to its systems and from other third parties.

Energy Transfer Company owns or has an interest in over 3,850 miles of natural gas pipeline systems, three natural gas processing plants connected to its gathering systems with a total processing capacity of approximately 400 MMcf/d, and seven natural gas treating facilities with a total treating capacity of approximately 425 MMcf/d.

Energy Transfer Company divides its operations into two primary business segments, the Midstream segment, which consists of its natural gas gathering, compression, treating, processing and marketing operations, and the Transportation segment, which consists of the Oasis Pipeline.

The Midstream segment consists of the following:

- the Southeast Texas System, a 2,500-mile integrated system located in southeast Texas that gathers, compresses, treats, processes and transports natural gas from the Austin Chalk trend. The Southeast Texas System, initially constructed in the late 1970's, is a large natural gas gathering system covering thirteen counties between Austin and Houston. The system includes the La Grange processing plant

and five treating facilities. This system is connected to the Katy Hub through the 55-mile Katy Pipeline and is also connected to the Oasis Pipeline, as well as two power plants.

- the Elk City System, a 315-mile gathering system located in western Oklahoma that gathers, compresses, treats and processes natural gas from the Anadarko Basin. The Elk City System, initially constructed in the 1980's, also includes the Elk City processing plant and one treating facility. The Elk City System is connected, either directly or indirectly, to six major interstate and intrastate natural gas pipelines providing access to natural gas markets throughout the United States.

- an interest in various midstream assets located in Texas and Louisiana, including the Vantex System, the Rusk County Gathering System, the Whiskey Bay System and the Chalkley Transmission System. On a combined basis, these assets have a capacity of approximately 265 MMcf/d.

- marketing operations through Energy Transfer Company's producer services business, in which it markets the natural gas that flows through its assets and attracts other customers by marketing volumes of natural gas that do not move through its assets.

The Transportation segment consists of the Oasis Pipeline, a 583-mile natural gas pipeline that directly connects the Waha Hub to the Katy Hub. The Oasis Pipeline, constructed in the early 1970's, is primarily a 36-inch diameter natural gas pipeline. It has bi-directional capability with approximately 1 Bcf/d of throughput capacity moving west-to-east and greater than 750 MMcf/d of throughput capacity moving east-to-west and has many interconnections with other pipelines, power plants, processing facilities, municipalities and producers.

GENERAL

Heritage believes it is presently the fourth largest retail marketer of propane in the United States (as measured by retail gallons sold). Heritage currently serves more than 650,000 active residential, commercial, industrial and agricultural customers from nearly 300 customer service locations in 29 states. Heritage's operations extend from coast to coast with concentrations in the western, upper midwestern, northeastern, and southeastern regions of the United States.

Following is a summary of the retail sales volumes per fiscal year for the last three fiscal years.

For the Years Ended August 31,	-- 2001	2002	2003
RETAIL GALLONS SOLD (IN MILLIONS):	330.2	329.6	375.9

Management believes that Heritage's competitive strengths include: (i) experience in identifying, evaluating, and completing acquisitions, (ii) operations that are focused in areas experiencing higher-than-average population growth, (iii) a low-cost administrative infrastructure, and (iv) a decentralized operating structure and entrepreneurial workforce. These competitive strengths enabled Heritage to achieve performance levels per retail gallon sold that management believes are among the highest of any publicly traded propane partnership. Management believes that as a result of Heritage's geographic diversity and the impact its local customer service-level incentive compensation program has on its operational results, Heritage has been able to reduce the effect of adverse weather conditions on Heritage's operating results, including those experienced during the warmer-than-normal winters of 1998-1999, 1999-2000, and 2001-2002, recorded as three of the warmest winters in the last 100 years. Management believes that Heritage's concentration in higher-than-average population growth areas provides a strong economic foundation for expansion through acquisitions and internal growth. Management does not believe that Heritage is significantly more vulnerable than its competitors to displacement by natural gas distribution systems because the majority of Heritage's areas of

operations are located in rural areas where natural gas is not readily available.

BUSINESS STRATEGY

Heritage's goal is to increase distributions to the Partnership's Unitholders by being a low-cost, growth oriented retail propane distribution company. The three critical elements to this strategy are described below.

Acquisitions. Acquisitions are the principal means of growth for Heritage, as the retail propane industry is mature and overall demand for propane is expected to experience limited growth in the foreseeable future. Management believes that the fragmented nature of the propane industry provides significant opportunities for growth through acquisition. Heritage follows a disciplined acquisition strategy that concentrates on propane companies that (i) are located in geographic areas experiencing higher-than-average population growth, (ii) provide a high percentage of sales to residential customers, (iii) have a strong reputation for quality service, and (iv) own a high percentage of the propane tanks used by their customers. In addition Heritage attempts to capitalize on the reputations of the companies it acquires by maintaining local brand names, billing practices, and employees, thereby creating a sense of continuity and minimizing customer loss. Management believes that this strategy has helped to make Heritage an attractive buyer for many propane acquisition candidates from the seller's viewpoint.

Since inception through August 31, 2003, Heritage completed 97 acquisitions including the merger with U.S. Propane on August 10, 2000. Heritage will focus on propane acquisition candidates in its existing areas of operations, but will consider core acquisitions in other higher-than-average population growth areas, in which it presently has no presence, in order to further reduce the impact adverse weather patterns in any one region may have on Heritage's overall operations. While Heritage is currently evaluating numerous acquisition candidates, there can be no assurance that Heritage will identify attractive acquisition candidates in the future, that Heritage will be able to acquire such businesses on economically acceptable terms or successfully integrate them into existing operations and make cost-saving changes, that any acquisition will not dilute earnings and distributions to Unitholders, or that any additional debt incurred to finance an acquisition will not adversely affect the ability of Heritage to make distributions to Unitholders.

In order to facilitate Heritage's acquisition strategy, the Operating Partnership maintains a Bank Credit Facility with a total of $115 million available for borrowing. The Bank Credit Facility consists of a $50 million Acquisition Facility to be used for acquisitions and improvements and a $65 million Working Capital Facility to be used for working capital and other general partnership purposes. Heritage also has the ability to fund acquisitions through the issuance of additional partnership interests and through long-term debt. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Description of Indebtedness."

Heritage announced on November 6, 2003, that it had entered into definitive agreements to acquire Energy Transfer Company, a company engaged in the midstream natural gas business. This proposed acquisition demonstrates Heritage's intention to create a diversified master limited partnership by adding natural gas midstream operations to its retail propane operations. The addition of midstream operations will provide Heritage an opportunity to offset to some extent the seasonal nature of its current business and reduce the impact weather volatility can have on Heritage's operating results. Energy Transfer Company is a growth-oriented business involved in gathering, compressing, treating, processing and transporting natural gas and natural gas liquids. The Energy Transfer Company will continue to be managed by its current management whose focus to expand its midstream operations includes the expansion of its operations in southeast Texas with the construction of the proposed Bossier Pipeline.

Low-Cost, Decentralized Operations. Heritage focuses on controlling costs at both the corporate level and the customer service location level. While Heritage realizes certain economies of scale as a result of its acquisitions, it attributes its low operating costs primarily to its decentralized structure. By delegating all customer billing and collection activities to the customer service location level, Heritage has been able to operate without a large corporate staff. Of the 2,418 full-time employees as of August 31, 2003, only 92, or approximately 4%, were general and administrative. In addition, Heritage's customer service location level incentive compensation program encourages customer service location employees at all levels to control costs while increasing revenues.

Internal Growth. In addition to pursuing expansion through acquisitions, Heritage has aggressively focused on internal growth at its existing customer service locations. Heritage believes that, by concentrating its operations in areas experiencing higher-than-average population growth, it is well positioned to achieve internal growth by

adding new customers. Heritage also believes that its decentralized operations foster an entrepreneurial corporate culture by: (i) having operational decisions made at the customer service location and regional level, (ii) retaining billing, collection and pricing responsibilities at the local and regional levels, and (iii) rewarding employees for achieving financial targets at the local level.

WEATHER AND SEASONALITY

Heritage's propane distribution business is largely seasonal and dependent upon weather conditions in its service areas. Propane sales to residential and commercial customers are affected by winter heating season requirements. This generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues and, in some cases, net losses or lower net income during the period from April through September of each year. Sales to industrial and agricultural customers are much less weather sensitive.

Gross profit margins are not only affected by weather patterns but also by changes in customer mix. For example, sales to residential customers generate higher margins than sales to other customer groups, such as commercial or agricultural customers. Wholesale margins are substantially lower than retail margins. In addition, gross profit margins vary by geographic region. Accordingly, a change in customer or geographic mix can affect gross profit without necessarily affecting total revenues.

INDUSTRY BACKGROUND AND COMPETITION

Propane, a by-product of natural gas processing and petroleum refining, is a clean-burning energy source recognized for its transportability and ease of use relative to alternative forms of stand-alone energy sources. Retail propane use falls into three broad categories: (i) residential applications, (ii) industrial, commercial, and agricultural applications, and (iii) other retail applications, including motor fuel sales. Residential customers use propane primarily for space and water heating. Industrial customers use propane primarily as fuel for forklifts, stationary engines, furnaces, as a cutting gas in mining operations, and in other process applications. Commercial customers, such as restaurants, motels, laundries, and commercial buildings, use propane in a variety of applications, including cooking, heating, and drying. In the agricultural market, propane is primarily used for tobacco curing, crop drying, poultry brooding, and weed control. Other retail uses include motor fuel for cars and trucks, outdoor cooking and other recreational uses, propane resales, and sales to state and local governments. In its wholesale operations, Heritage sells propane principally to large industrial end-users and other propane distributors.

Propane is extracted from natural gas at processing plants or separated from crude oil during the refining process. Propane is normally transported and stored in a liquid state under moderate pressure or refrigeration for ease of handling in shipping and distribution. When the pressure is released or the temperature is increased, it is usable as a flammable gas. Propane is naturally colorless and odorless. An odorant is added to allow its detection. Like natural gas, propane is a clean burning fuel and is considered an environmentally preferred energy source.

Propane competes with other sources of energy, some of which are less costly for equivalent energy value. Heritage competes for customers against suppliers of electricity, natural gas, and fuel oil. Competition from alternative energy sources has been increasing as a result of reduced utility regulation. Except for certain industrial and commercial applications, propane is generally not competitive with natural gas in areas where natural gas pipelines already exist because natural gas is a significantly less expensive source of energy than propane. The gradual expansion of the nation's natural gas distribution systems has resulted in the availability of natural gas in many areas that previously depended upon propane. Although the extension of natural gas pipelines tends to displace propane distribution in areas affected, Heritage believes that new opportunities for propane sales arise as more geographically remote neighborhoods are developed. Even though propane is similar to fuel oil in certain applications and market demand, propane and fuel oil compete to a lesser extent primarily because of the cost of converting from one to another. Based upon industry publications, propane accounts for three to four percent of household energy consumption in the United States.

In addition to competing with alternative energy sources, Heritage competes with other companies engaged in the retail propane distribution business. Competition in the propane industry is highly fragmented and generally occurs on a local basis with other large multi-state propane marketers, thousands of smaller local independent marketers, and farm cooperatives. Most of Heritage's customer service locations compete with five or more

marketers or distributors. Each retail distribution outlet operates in its own competitive environment because retail marketers tend to locate in close proximity to customers. The typical retail distribution outlet generally has an effective marketing radius of approximately 50 miles although in certain rural areas the marketing radius may be extended by satellite locations.

The ability to compete effectively further depends on the reliability of service, responsiveness to customers, and the ability to maintain competitive prices. Heritage believes that its safety programs, policies, and procedures are more comprehensive than many of its smaller, independent competitors and give it a competitive advantage over such retailers. Heritage also believes that its service capabilities and customer responsiveness differentiate it from many of these smaller competitors. Heritage's employees are on call 24-hours-a-day, 7-days-a-week for emergency repairs and deliveries.

The wholesale propane business is highly competitive. For fiscal year 2003, Heritage's domestic wholesale operations (excluding MP Energy Partnership) accounted for only 3.9% of its total gallons sold in the United States and approximately 1% of its gross profit. Heritage does not emphasize wholesale operations, but it believes that limited wholesale activities enhance its ability to supply its retail operations.

PRODUCTS, SERVICES AND MARKETING

Heritage distributes propane through a nationwide retail distribution network consisting of nearly 300 customer service locations in 29 states. Heritage's operations are concentrated in large part in the western, upper midwestern, northeastern, and southeastern regions of the United States. Heritage serves more than 650,000 active customers. Historically, approximately two-thirds of Heritage's retail propane volumes and in excess of 80% of EBITDA, as adjusted, were attributable to sales during the six-month peak-heating season from October through March, as many customers use propane for heating purposes. Consequently, sales and operating profits are normally concentrated in the first and second fiscal quarters while cash flows from operations are generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak season. To the extent necessary, Heritage will reserve cash from peak periods for distribution to Unitholders during the warmer seasons.

Typically, customer service locations are found in suburban and rural areas where natural gas is not readily available. Generally, such locations consist of a one to two acre parcel of land, an office, a small warehouse and service facility, a dispenser, and one or more 18,000 to 30,000 gallon storage tanks. Propane is generally transported from refineries, pipeline terminals, leased storage facilities, and coastal terminals by rail or truck transports to Heritage's customer service locations where it is unloaded into storage tanks. In order to make a retail delivery of propane to a customer, a bobtail truck is loaded with propane from the storage tank. Propane is then delivered to the customer by the bobtail truck, which generally holds 2,500 to 3,000 gallons of propane, and pumped into a stationary storage tank on the customer's premises. The capacity of these customer tanks ranges from approximately 100 gallons to 1,200 gallons, with a typical tank capacity of 100 to 300 gallons in milder climates and from 500 to 1,000 gallons in colder climates. Heritage also delivers propane to retail customers in portable cylinders, which typically have a capacity of 5 to 35 gallons. When these cylinders are delivered to customers, empty cylinders are picked up for refilling at Heritage's distribution locations or are refilled on site. Heritage also delivers propane to certain other bulk end-users of propane in tractor-trailer transports, which typically have an average capacity of approximately 10,500 gallons. End-users receiving transport deliveries include industrial customers, large-scale heating accounts, mining operations, and large agricultural accounts.

Heritage encourages its customers whose propane needs are temperature sensitive to implement a regular delivery schedule. Many of Heritage's residential customers receive their propane supply pursuant to an automatic delivery system which eliminates the customer's need to make an affirmative purchase decision and allows for more efficient route scheduling. Heritage also sells, installs, and services equipment related to its propane distribution business, including heating and cooking appliances.

Heritage owns, through its subsidiaries, a 60% interest in MP Energy Partnership, a Canadian partnership that supplies Heritage with propane as described below under "Propane Supply and Storage."

Approximately 96% of the domestic gallons sold by Heritage in the fiscal year ended August 31, 2003 were to retail customers and 4% to wholesale customers. For the year ended August 31, 2003, retail gallons sold by Heritage, were 60% to residential customers, 25% to industrial, commercial and agricultural customers, and 15% to other retail users. Sales to residential customers in the fiscal year ended August 31, 2003 accounted for 58% of total domestic gallons sold but accounted for approximately 72% of Heritage's gross profit from propane sales. Residential sales have a greater profit margin and a more stable customer base than other markets served by Heritage. Industrial, commercial and agricultural sales accounted for 18% of Heritage's gross profit from propane sales for the fiscal year ended August 31, 2003, with all other retail users accounting for 9%. Additional volumes sold to wholesale customers contributed 1% of gross profit from propane sales. No single customer accounts for 10% or more of revenues.

The propane business is very seasonal with weather conditions significantly affecting demand for propane. Heritage believes that the geographic diversity of its operations helps to reduce its overall exposure to less than favorable weather conditions in any particular region of the United States. Although overall demand for propane is affected by climate, changes in price, and other factors, Heritage believes its residential and commercial business to be relatively stable due to the following characteristics:

- residential and commercial demand for propane has been relatively unaffected by general economic conditions due to the largely non-discretionary nature of most propane purchases,

- loss of customers to competing energy sources has been low due to the lack of availability or the high cost of alternative fuels,

- the tendency of Heritage's customers to remain with Heritage due to the product being delivered pursuant to a regular delivery schedule and to Heritage's ownership of 90% of the storage tanks utilized by its customers, which prevents fuel deliveries from competitors, and

- the historic ability of Heritage to more than offset customer losses through internal growth of its customer base in existing markets.

Since home heating usage is the most sensitive to temperature, residential customers account for the greatest usage variation due to weather. Variations in the weather in one or more regions in which Heritage operates can significantly affect the total volumes of propane sold by Heritage and the margins realized thereon and, consequently, Heritage's results of operations. Heritage believes that sales to the commercial and industrial markets, while affected by economic patterns, are not as sensitive to variations in weather conditions as sales to residential and agricultural markets.

PROPANE SUPPLY AND STORAGE

Supplies of propane from Heritage's sources historically have been readily available. Heritage purchases from over 50 energy companies and natural gas processors at numerous supply points located in the United States and Canada. In the fiscal year ended August 31, 2003, Enterprise Products Operating L.P. ("Enterprise") and Dynegy Liquids Marketing and Trade ("Dynegy") provided approximately 29% and 13% of Heritage's total propane supply, respectively. In addition, M-P Oils, Ltd., Heritage's wholly owned subsidiary that owns a 60% interest in MP Energy Partnership, a Canadian partnership, procured 19% of Heritage's total propane supply during the fiscal year ended August 31, 2003 through MP Energy Partnership. MP Energy Partnership buys and sells propane for its own account and supplies propane to Heritage for its northern United States operations.

Heritage believes that if supplies from Enterprise and Dynegy were interrupted it would be able to secure adequate propane supplies from other sources without a material disruption of its operations. Aside from Enterprise, Dynegy, and the supply procured by M-P Oils, Ltd., no single supplier provided more than 10% of Heritage's total domestic propane supply during the fiscal year ended August 31, 2003. Heritage believes that its diversification of suppliers will enable it to purchase all of its supply needs at market prices without a material disruption of its operations if supplies are interrupted from any of its existing sources. Although no assurances can be given that supplies of propane will be readily available in the future, Heritage expects a sufficient supply to continue to be

available. However, increased demand for propane in periods of severe cold weather, or otherwise, could cause future propane supply interruptions or significant volatility in the price of propane.

Heritage typically enters into one-year supply agreements. The percentage of contract purchases may vary from year to year. Supply contracts generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major delivery or storage points, and some contracts include a pricing formula that typically is based on these market prices. Most of these agreements provide maximum and minimum seasonal purchase guidelines. Heritage receives its supply of propane predominately through railroad tank cars and common carrier transport.

Because Heritage's profitability is sensitive to changes in wholesale propane costs, it generally seeks to pass on increases in the cost of propane to customers. Heritage has generally been successful in maintaining retail gross margins on an annual basis despite changes in the wholesale cost of propane, but there is no assurance that Heritage will always be able to pass on product cost increases fully, particularly when product costs rise rapidly. Consequently, Heritage's profitability will be sensitive to changes in wholesale propane prices. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-General."

Heritage leases space in larger storage facilities in New York, Georgia, Michigan, South Carolina, Arizona, New Mexico, Texas, Alberta, Canada, and smaller storage facilities in other locations and has the opportunity to use storage facilities in additional locations when it "pre-buys" product from sources having such facilities. Heritage believes that it has adequate third party storage to take advantage of supply purchasing advantages as they may occur from time to time. Access to storage facilities allows Heritage to buy and store large quantities of propane during periods of low demand, which generally occur during the summer months, or at favorable prices, thereby helping to ensure a more secure supply of propane during periods of intense demand or price instability.

PRICING POLICY

Pricing policy is an essential element in the marketing of propane. Heritage relies on regional management to set prices based on prevailing market conditions and product cost, as well as local management input. All regional managers are advised regularly of any changes in the posted price of each customer service location's propane suppliers. In most situations, Heritage believes that its pricing methods will permit Heritage to respond to changes in supply costs in a manner that protects Heritage's gross margins and customer base. In some cases, however, Heritage's ability to respond quickly to cost increases could occasionally cause its retail prices to rise more rapidly than those of its competitors, possibly resulting in a loss of customers.

BILLING AND COLLECTION PROCEDURES

Customer billing and account collection responsibilities are retained at the local customer service locations. Heritage believes that this decentralized approach is beneficial for several reasons:

- the customer is billed on a timely basis;
- the customer is more apt to pay a "local" business;
- cash payments are received more quickly, and
- local personnel have a current account status available to them at all times to answer customer inquiries.

GOVERNMENT REGULATION

Heritage is subject to various federal, state, and local environmental, health and safety laws and regulations. Generally, these laws impose limitations on the discharge of pollutants and establish standards for the handling of solid and hazardous wastes. These laws include the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), the Clean Air Act, the Occupational Safety and Health Act, the Emergency Planning and Community Right-to-Know Act, the Clean Water Act, and comparable state statutes. CERCLA, also known as the "Superfund" law, imposes joint and several liability in most instances, without regard to fault or the legality of the original conduct, on certain classes of persons that are considered to have contributed to the release or threatened release of a "hazardous substance" into the environment. Propane is not a hazardous substance within the meaning of CERCLA. However, certain automotive waste products generated by Heritage's truck fleet, as well as "hazardous substances" or "hazardous waste" disposed of during past operations by third parties on Heritage's properties, could subject Heritage to liability under CERCLA. Such laws and regulations could result in civil or criminal penalties in cases of non-compliance and impose liability for remediation costs. In addition, third parties may make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous or toxic substances or waste.

In connection with all acquisitions of retail propane businesses that involve the acquisition of any interests in real estate, Heritage conducts an environmental review in an attempt to determine whether any substance other than propane has been sold from, or stored on, any such real estate prior to its purchase. Such review includes questioning the seller, obtaining representations and warranties concerning the seller's compliance with environmental laws, and conducting inspections of the properties. Where warranted, independent environmental consulting firms are hired to look for evidence of hazardous substances or the existence of underground storage tanks.

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to six sites on which Heritage presently has, or formerly had, operations. These sites were evaluated at the time of their acquisition. In all cases, remediation operations have been or will be undertaken by others, and in all six cases Heritage obtained indemnification for expenses associated with any remediation from the former owners or related entities. Heritage has not been named as a potentially responsible party at any of these sites, nor has the Partnership's operations contributed to the environmental issues at these sites. Accordingly, no amounts have been recorded in the Partnership's August 31, 2003 or 2002 consolidated balance sheets for any liability that may be attributable to any required remediation. Based on information currently available to Heritage, such projects are not expected to have a material adverse effect on Heritage's financial condition or results of operations.

In July 2001, Heritage acquired a company that had previously received a request for information from the U.S. Environmental Protection Agency (the "EPA") regarding potential contribution to a widespread groundwater contamination problem in San Bernardino, California, known as the Newmark Groundwater Contamination. Although the EPA has indicated that the groundwater contamination may be attributable to releases of solvents from a former military base located within the subject area that occurred long before the facility acquired by Heritage was constructed, it is possible that the EPA may seek to recover all or a portion of groundwater remediation costs from private parties under CERCLA. Based upon information currently available to Heritage, it is not believed that Heritage's liability, if such action were to be taken by the EPA, would have a material adverse effect on Heritage's financial condition or results of operations.

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

Heritage has implemented environmental programs and policies designed to avoid potential liability and cost under applicable environmental laws. It is possible, however, that Heritage will have increased costs due to stricter pollution control requirements or liabilities resulting from non-compliance with operating or other regulatory permits. It is not anticipated that Heritage's compliance with or liabilities under environmental, health and safety laws and regulations, including CERCLA, will have a material adverse effect on Heritage. To the extent that there are any environmental liabilities unknown to Heritage or environmental, health and safety laws or regulations are made more stringent, there can be no assurance that Heritage's results of operations will not be materially and adversely affected.

EMPLOYEES

As of August 31, 2003, Heritage had 2,418 full time employees who were employed by the General Partner or subsidiaries of the Partnership, of whom 92 were general and administrative and 2,326 were operational employees. Of its operational employees, 57 are represented by labor unions. The General Partner believes that its relations with its employees are satisfactory. Historically, the General Partner has also hired seasonal workers to meet peak winter demands.

SEC REPORTING

Heritage electronically files certain documents with the SEC. Heritage files annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K (as appropriate); along with any related amendments and supplements thereto. From time-to-time, Heritage may also file registration and related statements pertaining to equity or debt offerings. You may read and copy any materials Heritage files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information regarding the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Heritage provides electronic access to its periodic and current reports on the Partnership's internet website, www.heritagepropane.com, free of charge. These reports are available on the Partnership's website as soon as reasonably practicable after the Partnership electronically files such materials with the SEC.

ITEM 2. PROPERTIES

Heritage operates bulk storage facilities at nearly 300 customer service locations. Heritage owns substantially all of these facilities and has entered into long-term leases for those that it does not own. Heritage believes that the increasing difficulty associated with obtaining permits for new propane distribution locations makes its high level of site ownership and control a competitive advantage. Heritage owns approximately 34 million gallons of above ground storage capacity at its various plant sites and has leased an aggregate of approximately 50 million gallons of underground storage facilities in New York, Georgia, Michigan, South Carolina, Arizona, New Mexico, Texas and Alberta, Canada. Heritage does not own or operate any underground storage facilities (excluding customer and local distribution tanks) or propane pipeline transportation assets (other than local delivery systems).

Heritage also owns a 50% interest in Bi-State Propane, a California general partnership that conducts business in California and Nevada. Bi-State Propane operates twelve customer service locations that are included on a gross basis in Heritage's site, customer, and other property descriptions contained herein. However, Heritage's 50% interest is accounted for under the equity method.

The transportation of propane requires specialized equipment. The trucks and railroad tank cars used for this purpose carry specialized steel tanks that maintain the propane in a liquefied state. As of August 31, 2003, Heritage utilized approximately 52 transport truck tractors, 50 transport trailers, 12 railroad tank cars, 1,063 bobtails and 1,749 other delivery and service vehicles, all of which Heritage owns. As of August 31, 2003, Heritage owned approximately 625,000 customer storage tanks with typical capacities of 120 to 1,000 gallons that are leased or available for lease to customers. These customer storage tanks are pledged as collateral to secure Heritage's obligations to its Banks and the holders of its Notes.

Heritage believes that it has satisfactory title to or valid rights to use all of its material properties. Although some of such properties are subject to liabilities and leases, liens for taxes not yet due and payable, encumbrances securing payment obligations under non-competition agreements, and immaterial encumbrances, easements, and restrictions, Heritage does not believe that any such burdens will materially interfere with the continued use of such properties by Heritage in its business, taken as a whole. In addition, Heritage believes that it has, or is in the process of obtaining, all required material approvals, authorizations, orders, licenses, permits, franchises, and consents of, and has obtained or made all required material registrations, qualifications and filings with, the various state and local government and regulatory authorities which relate to ownership of Heritage's properties or the operations of its business.

Heritage utilizes a variety of trademarks and tradenames that it owns or has secured the right to use, including "Heritage Propane." These trademarks and tradenames have been registered or are pending registration before the United States Patent and Trademark Office or the various jurisdictions in which the marks or tradenames are used. Heritage believes that its strategy of retaining the names of the companies it has acquired has maintained the local identification of these companies and has been important to the continued success of these businesses. Some of Heritage's most significant trade names include AGL Propane, Balgas, Bi-State Propane, Blue Flame Gas of Charleston, Blue Flame Gas of Mt. Pleasant, Blue Flame Gas, Carolane Propane Gas, Gas Service Company, EnergyNorth Propane, Gibson Propane, Guilford Gas, Holton's L. P. Gas, Ikard & Newsom, Northern Energy, Sawyer Gas, Peoples Gas Company, Piedmont Propane Company, ProFlame, Rural Bottled Gas and Appliance, ServiGas, V-1 Propane, and TECO Propane. Heritage regards its trademarks, tradenames, and other proprietary rights as valuable assets and believes that they have significant value in the marketing of its products.

ITEM 3. LEGAL PROCEEDINGS.

Propane is a flammable, combustible gas. Serious personal injury and significant property damage can arise in connection with its storage, transportation or use. In the ordinary course of business, Heritage is sometimes threatened with or is named as a defendant in various lawsuits seeking actual and punitive damages for product liability, personal injury, and property damage. Heritage maintains liability insurance with insurers in amounts and with coverages and deductibles it believes are reasonable and prudent, and which are generally accepted in the industry. However, there can be no assurance that the levels of insurance protection currently in effect will continue to be available at reasonable prices or that such levels will remain adequate to protect Heritage from material expenses related to product liability, personal injury or property damage in the future. Of the pending or threatened matters in which Heritage is a party, none have arisen outside the ordinary course of business except for an action filed by Heritage on November 30, 1999, that is currently pending in the Court of Common Pleas, State of South Carolina, Richland County, against SCANA Corporation, Cornerstone Ventures, L.P. and Suburban Propane, L.P. (the "SCANA litigation"). Heritage has asserted under a number of contract and fraud causes of action that SCANA litigation defendants materially breached its contract with Heritage to sell its assets to Heritage, and is seeking an unspecified amount of compensatory and punitive damages. The defendants have denied the claims and discovery is ongoing. Although any litigation is inherently uncertain, based on past experience, the information currently available and the availability of insurance coverage, Heritage does not believe that pending or threatened litigation matters will have a material adverse effect on its financial condition or results of operations.

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

No matters were submitted to a vote of the security holders of the Partnership during the fourth quarter of the fiscal year ended August 31, 2003.

PART II

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

MARKET PRICE OF AND DISTRIBUTIONS ON THE COMMON UNITS AND RELATED UNITHOLDER MATTERS

The Partnership Common Units are listed on the New York Stock Exchange under the symbol "HPG". The following table sets forth, for the periods indicated, the high and low sales prices per Common Unit, as reported on the New York Stock Exchange Composite Tape, and the amount of cash distributions paid per Common Unit for the period indicated.

	Price Range	
Cash Distribution(1)	High	Low
2003 FISCAL YEAR		
Fourth Quarter Ended August 31, 2003	$32.540	$29.600
$0.6500		
Third Quarter Ended May 31, 2003	$29.900	$27.760
$0.6375		
Second Quarter Ended February 28, 2003	$29.570	$27.050
$0.6375		
First Quarter Ended November 30, 2002	$28.090	$24.500
$0.6375		
2002 FISCAL YEAR		
Fourth Quarter Ended August 31, 2002	$27.600	$22.500
$0.6375		
Third Quarter Ended May 31, 2002	$29.000	$26.500
$0.6375		
Second Quarter Ended February 28, 2002	$30.550	$25.510
$0.6375		
First Quarter Ended November 30, 2001	$28.990	$24.650
$0.6375		

(1) Distributions are shown in the quarter with respect to which they were declared. For each of the indicated quarters for which distributions have been made, an identical per unit cash distribution was paid on any Subordinated Units outstanding at such time.

DESCRIPTION OF UNITS

As of September 30, 2003, there were approximately 16,800 individual Common Unitholders, which includes Common Units held in street name. Common Units and Class C Units represent limited partner interests in the Partnership that entitle the holders to the rights and privileges specified in the Heritage Propane Partners, L.P. Partnership Agreement (the "Partnership Agreement"). As of November 7, 2003, there were 18,028,029 Common Units representing, an aggregate 98% limited partner interest in the Partnership. Except as described below, the Common Units generally participate pro rata in Heritage's income, gains, losses, deductions, credits, and distributions. There are also 1,000,000 Class C Units outstanding that are entitled only to participate in distributions that Heritage may make that are attributable to amounts received by Heritage in connection with the SCANA litigation.

No person is entitled to preemptive rights in respect of issuances of securities by the Partnership, except that U.S. Propane, the General Partner, has the right to purchase sufficient partnership securities to maintain its equity interest in the Partnership.

Common Units. The Partnership's Common Units are registered under the Securities Exchange Act of 1934. Each holder of a Common Unit is entitled to one vote per unit on all matters presented to the Limited Partners for a vote. However, if at any time any person or group (other than the General Partner and its affiliates) owns beneficially 20% or more of all Common Units, any Common Units owned by that person or group may not be voted on any matter and are not

considered to be outstanding when sending notices of a meeting of Unitholders (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under our Partnership Agreement. The Common Units are entitled to distributions of Available Cash as described below under "Cash Distribution Policy."

Class C Units. In conjunction with the transaction with U.S. Propane and the change of control of the former General Partner, Heritage Holdings, the Partnership issued 1,000,000 newly created Class C Units to Heritage Holdings in conversion of that portion of its Incentive Distribution Rights that entitled it to receive any distribution made by the Partnership attributable to the net amount received by the Partnership in connection with the settlement, judgment, award or other final nonappealable resolution of the SCANA litigation filed by Heritage prior to the transaction with U.S. Propane. The Class C Units have zero initial capital account balance and were distributed by Heritage Holdings to its former stockholders in connection with the transaction with U.S. Propane. Thus, U.S. Propane will not receive any distributions made with respect to the SCANA litigation that would have gone to Heritage Holdings to the extent of its General Partner interest and Incentive Distribution Rights had it remained the General Partner of the Partnership.

All decisions of the General Partner relating to the SCANA litigation will be determined by a special litigation committee consisting of one or more independent directors of the General Partner. As soon as practicable after the time, if any, that the Partnership receives the final cash payment as a result of the resolution of the SCANA litigation, the special litigation committee will determine the aggregate net amount of such proceeds distributable by the Partnership by deducting from the amounts received all costs and expenses incurred by the Partnership and its affiliates in connection with the SCANA litigation and such cash reserves as the special committee deems necessary or appropriate. Until the special litigation committee decides to distribute the distributable proceeds, none of the distributable proceeds will be deemed to be "Available Cash" under the Partnership Agreement. Please read "Cash Distribution Policy" below for a discussion of Available Cash. When the special litigation committee decides to distribute the distributable proceeds, the amount of the distribution will be distributed in the same manner as the Partnership's distribution of Available Cash, as described below under "Cash Distribution Policy," except that the amount of distributable proceeds that would normally be distributed to holders of Incentive Distribution Rights will instead be distributed to the holders of the Class C Units, pro rata. The Partnership cannot predict whether it will receive any cash payments as a result of the SCANA litigation and, if so, when such distributions might be received.

Each holder of Class C Units receiving a distribution of cash in any taxable year of the Partnership will be allocated items of gross income with respect to such taxable year in an amount equal to the cash distributed to the holder. The holders of Class C Units will not be allocated any other items of income, gain, loss deduction or credit. The Class C Units do not have any rights to share in any of the assets or distributions upon dissolution and liquidation of the Partnership, except to the extent that any such distributions consist of proceeds from the SCANA litigation to which the Class C Unitholders would have otherwise been entitled. The Class C Units may not be converted into any other unit. The Class C Units have no voting rights except to the extent provided by Delaware law with respect to a vote as a class, in which case each Class C Unit will be entitled to one vote.

Incentive Distribution Rights. Incentive distribution rights represent the contractual right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution has been paid. Please read "--Cash Distribution Policy" below. The General Partner owns all of the incentive distribution rights, except that in conjunction with the August 2000 transaction with U.S. Propane, the Partnership issued 1,000,000 Class C Units to Heritage Holdings, its general partner at that time, in conversion of that portion of Heritage Holdings' incentive distribution rights that entitled it to receive any distribution made by the Partnership of funds attributable to the net amount received in connection with the settlement, judgment, award or other final nonappealable resolution of the SCANA litigation. Any amount payable on the Class C Units in the future will reduce the amount otherwise distributable to holders of incentive distribution rights at the time the distribution of such litigation proceeds is made and will not reduce the amount distributable to holders of Common Units. No payments to date have been made on the Class C Units.

CASH DISTRIBUTION POLICY

The Partnership Agreement requires that the Partnership will distribute all of its Available Cash to its Unitholders and its General Partner within 45 days following the end of each fiscal quarter. The term Available Cash generally means, with respect to any fiscal quarter of the Partnership, all cash on hand at the end of such quarter, plus working capital borrowings after the end of the quarter, less reserves established by the General Partner in its sole discretion to provide for the proper conduct of the Partnership's business, comply with applicable law or any Heritage debt instrument or other agreement, or to provide funds for future distributions to partners with respect to any one or more of the next four quarters. Available Cash is more fully defined in the Partnership Agreement previously filed as an exhibit.

Heritage currently distributes Available Cash, excluding any Available Cash to be distributed to the Class C Unitholders, as follows:

- First, 98% to all Unitholders, pro rata, and 2% to the General Partner, until all Unitholders have received $0.50 per unit for such quarter and prior quarters (the "minimum quarterly distribution");

- Second, 98% to all Unitholders, pro rata, and 2% to the General Partner, until all Unitholders have received $0.55 per unit for such quarter (the "first target distribution");

- Third, 85% to all Unitholders, pro rata, 13% to the holders of Incentive Distribution Rights, pro rata, and 2% to the General Partner, until all Common Unitholders have received at least $0.635 per unit for such quarter (the "second target distribution");

- Fourth, 75% to all Unitholders, pro rata, 23% to the holders of Incentive Distribution Rights, pro rata, and 2% to the General Partner, until all Common Unitholders have received at least $0.825 per unit for such quarter; (the "third target distribution"); and

- Fifth, thereafter 50% to all Unitholders, pro rata, 48% to the holders of Incentive Distribution Rights, pro rata, and 2% to the General Partner

The total amount of distributions for the 2003 fiscal year on Common Units, the general partner interests and the Incentive Distribution Rights totaled $43.7 million, $0.9 million and $1.0 million, respectively. All such distributions were made from Available Cash from Operating Surplus.

CHANGES IN SECURITIES AND RECENT SALES OF UNREGISTERED SECURITIES

A total of 2,500 Common Units were issued by the Partnership to a director and to a former director of Heritage that had previously been awarded under the terms of the Partnership's Restricted Unit Plan, and 66,118

restricted Common Units under the terms of the Partnership's Long Term Incentive Plan were issued by the Partnership to seven executive officers upon the attainment of the performance targets required for such awards. The foregoing units were not registered with the Securities and Exchange Commission and the Partnership relied on an exemption under section 4(2) of the Securities Act of 1933 for their issuance.

EQUITY COMPENSATION PLAN INFORMATION

At the time of its initial public offering, the Board of Directors of the Partnership's General Partner adopted a Restricted Unit Plan, amended and restated as of February 4, 2002 as the Partnership's Second Amended and Restated Restricted Unit Plan (the "Restricted Unit Plan"), which provided for the awarding of Common Units to key employees. See "Executive Compensation--Restricted Unit Plan" for a description of the Restricted Unit Plan.

In conjunction with the U.S. Propane merger, the Partnership adopted a long term incentive plan (the "Long Term Incentive Plan"), which provides for awarding Common Units to the executive officers of the General Partner of the Partnership and certain other persons that may be designated by the Board of Directors. The Long Term Incentive Plan provides for a maximum award of 500,000 Common Units provided that certain targeted levels of cash distributions are reached. See "Executive Compensation--Long Term Incentive Plan" for a description of the Long Term Incentive Plan.

The following table sets forth in tabular format, a summary of the Partnership's equity plan information:

Plan Category (a)	Number of securities to be issued upon exercise of outstanding options, warrants and rights (b)	Weighted-average exercise price of outstanding options, warrants and rights (c)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	26,100 (1)	$946,125	14,300
Equity compensation plans not approved by security holders	- -	---	424,993
Total	26,100 (2)	$946,125	439,293

(1) Valued as of November 7, 2003. Actual exercise price may differ depending on the Common Unit price on the date such units vest.

(2) As of November 7, 2003.

ITEM 6. SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

HERITAGE

The following table sets forth, for the periods and as of the dates indicated, selected historical financial and operating data for Heritage Propane Partners, L.P. and its subsidiaries. Information presented represents financial and operating data prior to and following the transactions with U.S. Propane. Although the Partnership was the surviving entity for legal purposes, Peoples Gas following the transactions with U.S. Propane was the accounting acquirer. The years ended December 31, 1998 and 1999, and the eight-month period ended August 31, 1999 reflect the results of Peoples Gas on a stand-alone basis. The eight-month period ended August 31, 2000 was treated as a transition period, and represents seven months of Peoples Gas stand-alone and one month of Heritage. The years ended August 31, 2001, 2002 and 2003 reflect the results of the Partnership following the transactions with U.S. Propane. The selected historical financial and operating data should be read in conjunction with the financial statements of Heritage Propane Partners, L.P. included elsewhere in this report and "Management's Discussion and

Analysis of Financial Condition and Results of Operations" also included elsewhere in this report. The amounts in the table below, except per unit data, are in thousands.

HERITAGE PROPANE PARTNERS, L.P. (FORMERLY PEOPLES GAS):

Years ended December 31,	Eight Months Ended August 31,	Years Ended August 31,				
1998	1999	1999	2000	2001	2002	2003
		(Unaudited)				
Statements of Operating Data:						
Revenues	$ 30,187	$ 34,045	$ 21,766	$ 51,534	$ 543,975	$ 462,325	$ 571,476
Gross profit (a)	17,904	19,196	13,299	21,572	237,419	224,140	274,320
Depreciation and amortization	2,855	3,088	2,037	4,686	40,431	36,998	37,959
Operating income (loss)	3,961	2,885	2,666	(714)	54,423	40,961	70,193
Interest expense	--	--	--	2,409	35,567	37,341	35,740
Income (loss) before income taxes and minority interests	3,483	2,895	2,677	(3,547)	20,524	5,476	33,041
Provision for income taxes	1,412	1,127	1,035	379	--	--	1,023
Net income (loss)	2,071	1,768	1,642	(3,846)	19,710	4,902	31,142
Net income (loss) per unit (b)	1.19	1.02	0.94	(0.37)	1.43	0.25	1.79
Cash dividends/distributions per unit	1.13	1.30	1.30	0.87	2.38	2.55	2.56

As of December 31,	As of August 31,					
1998	1999	1999	2000	2001	2002	2003
(Unaudited)						
Balance Sheet Data						

Current assets $ 4,310 $ 6,643 $ 4,326 $ 84,869 $ 138,263 $ 95,387 $ 94,138

Total assets 37,206 43,724 39,481 615,779 758,167 717,264 738,839

Current liabilities 13,671 19,636 15,716 102,212 127,655 122,069 151,027

Long-term debt -- -- -- -- 361,990 423,748 420,021 360,762

Minority interests -- -- -- 4,821 5,350 3,564 4,002

Partners' capital - general partner (b) 39 37 37 939 1,875 1,585 2,190

Partners' capital - limited partners (b) 15,557 15,070 14,944 145,817 206,080 173,677 221,207

Years ended Eight Months Ended December 31, August 31, Years ended August 31,

1998	1999	2000	2001	2002	2003
Operating					

Data (unaudited): EBITDA, as adjusted (c) $ 6,816 $ 5,973 $ 4,703 $ 4,507 $ 97,444 $ 81,536 $ 110,963 Cash flows from operating activities 9,219 9,353 -- 14,508 28,056 65,453 95,199 Cash flows from investing activities (7,047) (7,191) -- (183,037) (122,313) (33,417) (48,389) Cash flows from financing activities (2,317) (2,257) -- 173,353 95,038 (33,071) (44,289) Capital expenditures (d) Maintenance and growth 5,328 6,176 2,544 3,559 23,854 27,072 27,294 Acquisition 1,719 1,015 1,015 177,067 94,860 19,742 24,956 Retail gallons sold 30,921 33,608 22,118 38,268 330,242 329,574 375,939

(a) Gross profit is computed by reducing total revenues by the direct cost of the products sold.

(b) Net income (loss) per unit is computed by dividing the limited partner's interest in net income (loss) by the weighted average number of units outstanding. Although equity accounts of Peoples Gas survive the merger, Heritage's partnership structure and partnership units survive. Accordingly, the equity accounts of Peoples Gas have been restated based on general partner interest and Common Units received by Peoples Gas in the merger.

(c) EBITDA, as adjusted is defined as the Partnership's earnings before interest, taxes, depreciation, amortization and other non-cash items, such as compensation charges for unit issuances to employees, gain or loss on disposal of assets, and other expenses. We present EBITDA, as adjusted, on a Partnership basis which includes both the general and

limited partner interests. Non-cash compensation expense represents charges for the value of the Common Units awarded under the Partnership's compensation plans that have not yet vested under the terms of those plans and are charges which do not, or will not, require cash settlement. Non-cash income such as the gain arising from our disposal of assets is not included when determining EBITDA, as adjusted. EBITDA, as adjusted (i) is not a measure of performance calculated in accordance with generally accepted accounting principles and (ii) should not be considered in isolation or as a substitute for net income, income from operations or cash flow as reflected in our consolidated financial statements.

EBITDA, as adjusted is presented because such information is relevant and is used by management, industry analysts, investors, lenders and rating agencies to assess the financial performance and operating results of the Partnership's fundamental business activities. Management believes that the presentation of EBITDA, as adjusted is useful to lenders and investors because of its use in the propane industry and for master limited partnerships as an indicator of the strength and performance of the Partnership's ongoing business operations, including the ability to fund capital expenditures, service debt and pay distributions. Additionally, management believes that EBITDA, as adjusted provides additional and useful information to the Partnership's investors for trending, analyzing and benchmarking the operating results of the Partnership from period to period as compared to other companies that may have different financing and capital structures. The presentation of EBITDA, as adjusted allows investors to view the Partnership's performance in a manner similar to the methods used by management and provides additional insight to the Partnership's operating results.

EBITDA, as adjusted is used by management to determine our operating performance, and along with other data as internal measures for setting annual operating budgets, assessing financial performance of the Partnership's numerous business locations, as a measure for evaluating targeted businesses for acquisition and as a measurement component of incentive compensation. The Partnership has a large number of business locations located in different regions of the United States. EBITDA, as adjusted can be a meaningful measure of financial performance because it excludes factors which are outside the control of the employees responsible for operating and managing the business locations, and provides information management can use to evaluate the performance of the business locations, or the region where they are located, and the employees responsible for operating them. To present EBITDA, as adjusted on a full Partnership basis, we add back the minority interest of the general partner because net income is reported net of the general partner's minority interest. Our EBITDA, as adjusted includes non-cash compensation expense which is a non-cash expense item resulting from our unit based compensation plans that does not require cash settlement and is not considered during management's assessment of the operating results of the Partnership's business. By adding these non-cash compensation expenses in EBITDA, as adjusted allows management to compare the Partnership's operating results to those of other companies in the same industry who may have compensation plans with levels and values of annual grants that are different than the Partnership's. Other expenses include other finance charges and other asset non-cash impairment charges that are reflected in the Partnership's operating results but are not classified in interest, depreciation and amortization. We do not include gain on the sale of assets when determining EBITDA, as adjusted since including non-cash income resulting from the sale of assets increases the performance measure in a manner that is not related to the true operating results of the Partnership's business. In addition, Heritage's debt agreements contain financial covenants based on EBITDA, as adjusted. For a description of these covenants, please read "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Description of Indebtedness."

There are material limitations to using a measure such as EBITDA, as adjusted, including the difficulty associated with using it as the sole measure to compare the results of one company to another, and the inability to analyze certain significant items that directly affect a company's net income or loss. In addition, Heritage's calculation of EBITDA, as adjusted may not be consistent with similarly titled measures of other companies and should be viewed in conjunction with measurements that are computed in accordance with GAAP. EBITDA, as adjusted for the periods described herein is calculated in the same manner as presented by Heritage in the past. Management compensates for these limitations by considering EBITDA, as adjusted in conjunction with its analysis of other GAAP financial measures, such as gross profit, net income (loss), and cash flow from operating activities. A reconciliation of EBITDA, as adjusted to net income (loss) is presented below. Please read "-Reconciliation of EBITDA, As Adjusted to Net Income" below.

(d) Capital expenditures fall generally into three categories: (i) maintenance capital expenditures of approximately $15.1 and $12.8 million in fiscal years 2003, and 2002, respectively, which include

expenditures for repairs that extend the life of the assets and replacement of property, plant and equipment, (ii) growth capital expenditures, which include expenditures for purchase of new propane tanks and other equipment to facilitate retail customer base expansion, and (iii) acquisition expenditures which include expenditures related to the acquisition of retail propane operations and other business, and the portion of the purchase price allocated to intangibles associated with such acquired businesses.

RECONCILIATION OF EBITDA, AS ADJUSTED, TO NET INCOME

The following tables set forth the reconciliation of EBITDA, as adjusted, to net income of Heritage Propane Partners, L.P. for the periods indicated:

	Years ended December 31,	Eight Months Ended August 31,	In thousands Years ended August 31,									
	1998	1999	1999	2000	2001	2002	2003					
NET INCOME RECONCILIATION												
Net income (loss)	$ 2,071	$ 1,768	$ 1,642	$ (3,846)	$ 19,710	$ 4,902	$ 31,142					
Depreciation and amortization	2,855	3,088	2,037	4,686	40,431	36,998	37,959					
Interest	--	--	--	2,409	35,567	37,341	35,740					
Taxes	1,412	1,127	1,035	379	--	--	1,023					
Non-cash compensation expense	--	--	--	549	1,079	1,878	1,159					
Other expenses	478	(10)	(11)	478	394	294	3,213					
Depreciation, amortization, and interest and taxes of investee	--	--	--	73	792	743	901					
Minority interest in the Operating Partnership	--	--	--	(100)	283	192	256					
Less: Gain on disposal of assets	--	--	--	(121)	(812)	(812)	(430)					
EBITDA, as adjusted (a)	$ 6,816	$										

5,973 $ 4,703
$ 4,507 $
97,444 $
81,536 $
110,963
==========
==========
==========
==========
==========
==========
==========

(a) Please read footnote (c) under "Item 6. Selected Historical Financial and Operating Data - Heritage Propane Partners L.P. (formerly Peoples Gas)" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Description of Indebtedness" for a more detailed discussion of EBITDA, as adjusted.

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

The following is a discussion of the historical financial condition and results of operations of Heritage Propane Partners, L.P. and its subsidiaries, and should be read in conjunction with the Partnership's historical consolidated financial statements and Notes thereto included elsewhere in this annual report on Form 10-K.

FORWARD-LOOKING STATEMENTS

CERTAIN MATTERS DISCUSSED IN THIS REPORT, EXCLUDING HISTORICAL INFORMATION, AS WELL AS SOME STATEMENTS BY HERITAGE IN PERIODIC PRESS RELEASES AND SOME ORAL STATEMENTS OF HERITAGE OFFICIALS DURING PRESENTATIONS ABOUT THE PARTNERSHIP, INCLUDE CERTAIN "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. STATEMENTS USING WORDS SUCH AS "ANTICIPATE," "BELIEVE," "INTEND," "PROJECT," "PLAN," "CONTINUE," "ESTIMATE," "FORECAST," "MAY," "WILL," OR SIMILAR EXPRESSIONS HELP IDENTIFY FORWARD-LOOKING STATEMENTS. ALTHOUGH HERITAGE BELIEVES SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON REASONABLE ASSUMPTIONS AND CURRENT EXPECTATIONS AND PROJECTIONS ABOUT FUTURE EVENTS, NO ASSURANCE CAN BE GIVEN THAT EVERY OBJECTIVE WILL BE REACHED.

ACTUAL RESULTS MAY DIFFER MATERIALLY FROM ANY RESULTS PROJECTED, FORECASTED, ESTIMATED OR EXPRESSED IN FORWARD-LOOKING STATEMENTS SINCE MANY OF THE FACTORS THAT DETERMINE THESE RESULTS ARE SUBJECT TO UNCERTAINTIES AND RISKS, DIFFICULT TO PREDICT, AND BEYOND MANAGEMENT'S CONTROL. SUCH FACTORS INCLUDE:

- THE GENERAL ECONOMIC CONDITIONS IN THE UNITED STATES OF AMERICA AS WELL AS THE GENERAL ECONOMIC CONDITIONS AND CURRENCIES IN FOREIGN COUNTRIES;
- THE POLITICAL AND ECONOMIC STABILITY OF PETROLEUM PRODUCING NATIONS;
- THE EFFECT OF WEATHER CONDITIONS ON DEMAND FOR PROPANE;

- THE EFFECTIVENESS OF RISK-MANAGEMENT POLICIES AND PROCEDURES AND THE ABILITY OF HERITAGE'S LIQUIDS MARKETING COUNTERPARTIES TO SATISFY THEIR FINANCIAL COMMITMENTS;

- ENERGY PRICES GENERALLY AND SPECIFICALLY, AND THE PRICE OF PROPANE TO THE CONSUMER COMPARED TO THE PRICE OF ALTERNATIVE AND COMPETING FUELS;

- THE GENERAL LEVEL OF PETROLEUM PRODUCT DEMAND AND THE AVAILABILITY AND PRICE OF PROPANE SUPPLIES;

- HERITAGE'S ABILITY TO OBTAIN ADEQUATE SUPPLIES OF PROPANE FOR RETAIL SALE IN THE EVENT OF AN INTERRUPTION IN SUPPLY OR TRANSPORTATION AND THE AVAILABILITY OF CAPACITY TO TRANSPORT PROPANE TO MARKET AREAS;

- HAZARDS OR OPERATING RISKS INCIDENTAL TO TRANSPORTING, STORING AND DISTRIBUTING PROPANE THAT MAY NOT BE FULLY COVERED BY INSURANCE;

- THE MATURITY OF THE PROPANE INDUSTRY AND COMPETITION FROM OTHER PROPANE DISTRIBUTORS;

- ENERGY EFFICIENCIES AND TECHNOLOGICAL TRENDS;

- LOSS OF KEY PERSONNEL;

- THE AVAILABILITY AND COST OF CAPITAL AND HERITAGE'S ABILITY TO ACCESS CERTAIN CAPITAL SOURCES;

- CHANGES IN LAWS AND REGULATIONS TO WHICH WE ARE SUBJECT, INCLUDING TAX, ENVIRONMENTAL, TRANSPORTATION AND EMPLOYMENT REGULATIONS;

- THE COSTS AND EFFECTS OF LEGAL AND ADMINISTRATIVE PROCEEDINGS; AND

- HERITAGE'S ABILITY TO SUCCESSFULLY IDENTIFY AND CONSUMMATE STRATEGIC ACQUISITIONS AT PURCHASE PRICES THAT ARE ACCRETIVE TO HERITAGE'S FINANCIAL RESULTS.

GENERAL

The retail propane business is a "margin-based" business in which gross profits depend on the excess of sales price over propane supply costs. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which Heritage will have no control. Product supply contracts are typically one-year agreements subject to annual renewal and generally provide for pricing in accordance with posted prices at the time of delivery or the current prices established at major delivery or storage points. In addition, some contracts include a pricing formula that typically is based on these market prices. Most of these agreements provide maximum and minimum seasonal purchase guidelines. The number of contracts entered into may vary from year to year. Since rapid increases in the wholesale cost of propane may not be immediately passed on to retail customers, such increases could reduce gross profits. Heritage generally has attempted to reduce price risk by purchasing propane on a short-term basis. Heritage has on occasion purchased significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at its customer service locations and in major storage facilities for future resale.

The retail propane business of Heritage consists principally of transporting propane purchased in the contract and spot markets, primarily from major fuel suppliers, to its customer service locations and then to tanks located on the customers' premises, as well as to portable propane cylinders. In the residential and commercial markets, propane is primarily used for space heating, water heating, and cooking. In the agricultural market, propane is primarily used for crop drying, tobacco curing, poultry brooding, and weed control. In addition, propane is used for certain industrial applications, including use as an engine fuel for internal combustion engines that power vehicles and forklifts and as a heating source in manufacturing and mining processes.

Heritage's propane distribution business is largely seasonal and dependent upon weather conditions in its service areas. Propane sales to residential and commercial customers are affected by winter heating season

requirements. Historically, approximately two-thirds of Heritage's retail propane volume and in excess of 80% of Heritage's EBITDA, as adjusted, is attributable to sales during the six-month peak-heating season of October through March. This generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues, and, in some cases, net losses or lower net income during the period from April through September of each year. Consequently, sales and operating profits are concentrated in the first and second fiscal quarters, while cash flow from operations is generally greatest during the second and third fiscal quarters when customers pay for propane purchased during the six-month peak-heating season. Sales to industrial and agricultural customers are much less weather sensitive.

A substantial portion of Heritage's propane is used in the heating-sensitive residential and commercial markets resulting in the temperatures realized in Heritage's areas of operations, particularly during the six-month peak-heating season, having a significant effect on its financial performance. In any given area, sustained warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater propane use. Heritage uses information based on normal temperatures in understanding how temperatures that are colder or warmer than normal affect historical results of operations and in preparing forecasts of future operations.

Gross profit margins are not only affected by weather patterns, but also vary according to customer mix. For example, sales to residential customers generate higher margins than sales to certain other customer groups, such as commercial or agricultural customers. Wholesale margins are substantially lower than retail margins. In addition, gross profit margins vary by geographical region. Accordingly, a change in customer or geographic mix can affect gross profit without necessarily affecting total revenues.

On November 6, 2003, Heritage publicly announced that it had entered into agreements to acquire Energy Transfer Company, a company engaged in the midstream natural gas business. Upon consummation of the transactions contemplated by such agreements, Heritage will operate the midstream business of Energy Transfer Company in conjunction with its retail propane operations.

The following is a discussion of the historical financial condition and results of operations of Heritage Propane Partners, L.P. and its subsidiaries, and should be read in conjunction with the historical Financial and Operating Data and Notes thereto included elsewhere in this annual report on Form 10-K.

ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS - HERITAGE PROPANE PARTNERS, L.P.

Amounts discussed below reflect 100% of the results of MP Energy Partnership. MP Energy Partnership is a general partnership in which Heritage owns a 60% interest. Because MP Energy Partnership is primarily engaged in lower-margin wholesale distribution, its contribution to Heritage's net income is not significant and the minority interest of this partnership not owned by Heritage is excluded from the EBITDA, as adjusted, calculation. All other financial information and operating data included in management's discussion and analysis of financial condition and results of operations includes references to the foreign wholesale results of MP Energy Partnership.

FISCAL YEAR ENDED AUGUST 31, 2003 COMPARED TO THE FISCAL YEAR ENDED AUGUST 31, 2002

Volume. Total retail gallons sold in fiscal year 2003 were 375.9 million, an increase of 46.3 million from the 329.6 million gallons sold in fiscal year 2002. Of the increase in volume, approximately 6.0 million gallons was attributable to the volume added through acquisitions and approximately 40.3 million gallons was attributable to more favorable weather conditions in 2003 in some of Heritage's areas of operations, offset by warmer than normal weather conditions in other areas of operations.

Heritage sold approximately 74.3 million wholesale gallons during fiscal year 2003 of which 15.3 million were domestic wholesale and 59.0 million were foreign wholesale. In fiscal year 2002, Heritage sold 16.8 million domestic wholesale gallons and 65.3 million foreign wholesale gallons. The 6.3 million gallon decrease in foreign wholesale volumes of MP Energy Partnership was primarily due to an exchange contract that was in effect during fiscal year 2002, which was not economical to renew during fiscal year 2003.

Revenues. Total revenues for fiscal year 2003 were $571.4 million, an increase of $109.1 million, as compared to $462.3 million in fiscal year 2002. Retail revenues for fiscal year 2003 were $463.4 million as

compared to $365.3 million for fiscal year 2002, an increase of $98.1 million, of which $40.9 million was primarily due to higher selling prices, and $49.8 million was primarily due to the increase in gallons sold as a result of colder weather conditions, and $7.4 million was due to the increase in gallons sold by customer service locations added through acquisitions. Selling prices in all the reportable segments increased from last year in response to higher supply costs. Domestic wholesale revenues increased $0.7 million to $10.7 million, due to an increase of approximately $1.7 million related to higher selling prices, offset by a decrease of approximately $1.0 million related to a decrease in gallons sold. Foreign wholesale revenues were $36.6 million for fiscal year 2003 as compared to $31.2 million for fiscal year 2002, an increase of $5.4 million primarily due to an approximate $9.3 million increase related to higher selling prices offset by an approximate $3.9 million related to decreased volumes as described above. Net liquids marketing revenues increased from $0.5 million in fiscal year 2002 to $1.3 million in fiscal year 2003, primarily due to more favorable movement in product prices in the current fiscal year. Other domestic revenues increased by $4.1 million to $59.4 million for fiscal year 2003, compared to $55.3 million for fiscal year ended 2002 primarily as a result of acquisitions.

Cost of Products Sold. Total cost of sales increased $58.9 million to $297.1 million as compared to $238.2 million for fiscal year 2002. Retail fuel cost of sales increased $51.7 million to $236.3 million for fiscal year 2003, of which approximately $29.1 million was due to increased volumes, and approximately $22.6 million was due to higher supply costs. U.S. wholesale cost of sales decreased $0.1 million to $9.6 million. Foreign wholesale cost of sales increased $4.7 million to $34.0 million, of which approximately $8.4 million was due to increased product costs this fiscal year, offset by an approximate decrease of $3.7 million attributable to the decreased volumes described above. Other cost of sales increased $2.6 million to $17.2 million for fiscal year 2003 primarily due to acquisitions.

Gross Profit. Total gross profit increased to $274.3 million in fiscal year 2003 as compared to $224.1 million in fiscal year 2002, due to the aforementioned increases in volumes and revenues described above, and the results of acquisitions, offset in part by the increases in product costs. For fiscal year 2003, retail fuel gross profit was $227.1 million, domestic wholesale fuel gross profit was $1.1 million, liquids marketing gross profit was $1.3 million, other gross profit was $42.2 million, and foreign wholesale gross profit was $2.6 million. As a comparison, for fiscal year 2002, Heritage recorded retail fuel gross profit of $180.7 million, domestic wholesale fuel gross profit of $0.3 million, liquids marketing gross profit of $0.5 million, other gross profit of $40.6 million, and foreign wholesale gross profit of $2.0 million.

Operating Expenses. Operating expenses were $152.1 million for fiscal year 2003 as compared to $133.2 million for fiscal year 2002. The increase of $18.9 million is primarily the result of $6.8 million of additional operating expenses incurred for employee wages and benefits related to the growth of Heritage from acquisitions made during fiscal year 2002, an increase of $5.5 million in the performance-based compensation plan expense due to higher operating performance, an increase of approximately $5.5 million in operating expenses in certain areas of the Partnership's operations due to acquisitions and to accommodate increased winter demand, and industry-wide increases in business insurance costs of $1.1 million.

Selling, General and Administrative. Selling, general and administrative expenses were $14.0 million for fiscal year 2003 as compared to $13.0 million for fiscal year 2002. This increase is primarily related to the performance-based compensation plan expense in 2003 that was not incurred in 2002, offset by a $0.7 million decrease in deferred compensation expense related to the adoption of FASB Statement No. 123 Accounting for Stock-Based Compensation (SFAS 123).

Depreciation and Amortization. Depreciation and amortization for fiscal year 2003 was $37.9 million, an increase of $0.9 million as compared to $37.0 million in fiscal year 2002. The increase is attributable to current year acquisitions.

Operating Income. Heritage reported operating income of $70.2 million in fiscal year 2003 as compared to the operating income of $41.0 million for fiscal year 2002. This increase is a combination of increased gross profit and a $0.7 million increase due to the adoption of SFAS 123, offset by increased operating expenses described above.

Interest Expense. Interest expense for fiscal year 2003 was $35.7 million, a decrease of $1.6 million as compared to $37.3 million in fiscal year 2002. The decrease was primarily attributable to the retirement of a portion of outstanding debt during the year.

Other Expense. Other expense for fiscal year 2003 was $3.2 million, an increase of $2.9 million as compared to $0.3 million in fiscal year 2002. The increase was primarily attributable to the reclassification into earnings of a $2.8 million loss on marketable securities in fiscal year 2003 that was previously recorded as accumulated other comprehensive loss on the balance sheet.

Taxes. Taxes for the year ended August 31, 2003 were $1.0 million due to the tax expense incurred by Heritage's corporate subsidiaries and other franchise taxes owed. Of the $1.0 million increase, $0.3 million was incurred in connection with the liquidation of Guilford Gas Service, Inc. during the fiscal year ended August 31, 2003. There was no tax expense for these subsidiaries for the year ended August 31, 2002.

Net Income. Heritage reported net income of $31.1 million, or $1.79 per limited partner unit, for fiscal year 2003, an increase of $26.2 million from net income of $4.9 million for fiscal year 2002. The increase is primarily the result of the increase in operating income, which includes a $0.7 million decrease in expenses due to the adoption of SFAS 123, partially offset by the increase in other expenses and taxes described above.

EBITDA, as adjusted. EBITDA, as adjusted, increased $29.5 million to $111.0 million for fiscal year 2003, as compared to EBITDA, as adjusted, of $81.5 million for fiscal year 2002. This increase is due to the operating conditions described above and is a record level of EBITDA, as adjusted, for the fiscal year results of Heritage. Please read footnote (c) under "Item 6. Selected Historical Financial and Operating Data - Heritage Propane Partners, L.P. (formerly Peoples Gas)" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Description of Indebtedness" for a more detailed discussion of EBITDA, as adjusted.

FISCAL YEAR ENDED AUGUST 31, 2002 COMPARED TO THE FISCAL YEAR ENDED AUGUST 31, 2001

Volume. Total retail gallons sold in fiscal year 2002 were 329.6 million, a decrease of 0.6 million from the 330.2 million gallons sold in fiscal year 2001. This decrease resulted from an approximate 36.2 million gallon reduction in gallons sold primarily due to the significantly warmer than normal weather in fiscal year 2002, offset by an approximate 35.6 million gallon increase realized from acquisitions that were not included in the year ended August 31, 2001. Temperatures in the Partnership's area of operations were an average of 10% warmer in 2002 than in 2001 and 12% warmer than normal.

Heritage sold approximately 82.1 million wholesale gallons during fiscal year 2002 of which 16.8 million were domestic wholesale and 65.3 million were foreign wholesale. In fiscal year 2001, Heritage sold 12.7 million domestic wholesale gallons and 88.9 million foreign wholesale gallons. The increase of 4.1 million in domestic wholesale gallons in fiscal year 2002 compared to fiscal year 2001 is due to an approximate 10.1 million gallon increase related to acquisitions, offset by an approximate 6.0 million gallon decrease in volume sold primarily due to warmer temperatures in fiscal year 2002. The 23.6 million gallon decrease in foreign wholesale volumes is primarily due to a decrease in volume sold as a result of the warmer temperatures in fiscal year 2002.

Revenues. Total revenues for fiscal year 2002 were $462.3 million, a decrease of $81.6 million, as compared to $543.9 million in fiscal year 2001. Retail revenues for fiscal year 2002 were $365.3 million as compared to $440.5 million for fiscal year 2001, a decrease of $75.2 million, of which $74.5 million was primarily due to lower selling prices and $40.2 million was primarily due to the decrease in gallons sold as a result of warmer weather conditions, offset by an approximate $39.5 million increase due to gallons added through acquisitions. Selling prices in all the reportable segments decreased from last year in response to lower supply costs. Domestic wholesale revenues increased $0.1 million to $10.0 million, due to an increase of approximately $6.0 million in acquisition related volumes, offset by decreases of approximately $2.3 million due to lower selling prices and approximately $3.6 million related to a decrease in gallons sold as a result of the warmer weather conditions in fiscal year 2002 as compared to fiscal year 2001. Foreign wholesale revenues were $31.2 million for fiscal year 2002 as compared to $50.0 million for fiscal year 2001, a decrease of $18.8 million primarily due to a combination of an approximate $11.3 million in decreased volumes due to warmer weather and an approximate $7.5 million decrease related to lower selling prices. Net liquids marketing revenues decreased from $0.8 million in fiscal year 2001 to $0.5 million in fiscal year 2002, primarily due to an overall reduction in the number of contracts entered into during

fiscal year 2002 and lower commodity prices as compared to fiscal year 2001. Other domestic revenues increased by $12.6 million to $55.3 for fiscal year 2002, compared to $42.7 million for fiscal year ended 2001 as a result of acquisitions and an increase in other service fees that are not weather sensitive.

Cost of Products Sold. Total cost of sales decreased $68.4 million to $238.2 million as compared to $306.6 million for fiscal year 2001. Retail fuel cost of sales decreased $53.5 million to $184.6 million for fiscal year 2002, due to decreases in the cost of propane as compared to fiscal year 2001. Although the market price for propane for the year ended August 31, 2002 was well below the price for the year ended August 31, 2001, the average cost per gallon sold for fiscal year 2002 was negatively impacted by the higher cost of pre-bought inventory that was absorbed into cost of sales throughout the year ended August 31, 2002. U. S. wholesale cost of sales increased $0.6 million due to an increase of approximately $2.3 million as a result of acquisition volumes offset by an approximate $1.7 million decrease due to lower cost of propane. Foreign wholesale cost of sales decreased $18.7 million of which approximately $10.6 million was due to decreased product costs in fiscal year 2002 and approximately $ 8.1 million was due to decreased volumes described above. Other cost of sales increased $3.2 million to $14.6 million for fiscal year 2002 primarily due to acquisitions.

Gross Profit. Total gross profit decreased to $224.1 million in fiscal year 2002 as compared to $237.4 million in fiscal year 2001, due to the aforementioned decreases in volumes and revenues described above, offset in part by the decreases in product costs and the results of acquisitions. For fiscal year 2002, retail fuel gross profit was $180.7 million, domestic wholesale fuel gross profit was $0.3 million, liquids marketing gross profit was $0.5 million, other gross profit was $40.6 million, and foreign wholesale gross profit was $2.0.million. As a comparison, for fiscal year 2001, Heritage recorded retail fuel gross profit of $202.4 million, domestic wholesale fuel gross profit was $0.8 million, liquids marketing gross profit was $1.5 million, other gross profit was $30.7 million, and foreign wholesale gross profit was $2.0 million for a total gross profit of $237.4 million.

Operating Expenses. Operating expenses were $133.2 million for fiscal year 2002 as compared to $126.8 million for fiscal year 2001. The increase of $6.4 million is primarily the result of $10.8 million of additional operating expenses incurred for employee wages and benefits related to the growth of Heritage from acquisitions since the fiscal year ended August 31, 2001, offset by a $4.4 million decrease in the short-term incentive compensation plan expense and cost reduction efforts initiated to address the decreased operating income encountered during the unusually warm winter of fiscal year 2002.

Selling, General and Administrative. Selling, general and administrative expenses were $13.0 million for fiscal year 2002 as compared to $15.7 million for fiscal year 2001. This decrease is primarily attributable to the additional expenses incurred in fiscal year 2001 related to the executive short-term incentive compensation plan that did not reoccur during fiscal year 2002.

Depreciation and Amortization. Depreciation and amortization for fiscal year 2002 was $37.0 million, a decrease of $3.4 million as compared to $40.4 million in fiscal year 2001. The decrease is primarily attributable to the adoption of FASB Statement No. 142, Goodwill and Other Intangible Assets ("SFAS 142") on September 1, 2001, which resulted in goodwill no longer being amortized. The adoption of SFAS 142 resulted in $5.7 million less amortization expense for the year ended August 31, 2002 because of the impact on the amortization of goodwill. Goodwill amortization totaled $4.9 million for the year ended August 31, 2001. This decrease was offset by increased depreciation related to property, plant and equipment, and intangible assets from the businesses acquired during fiscal year 2002.

Operating Income. Heritage reported operating income of $41.0 million in fiscal year 2002 as compared to the operating income of $54.4 million for fiscal year 2001. The decrease of $13.4 million is due to the related decrease in gross profit and increase in operating expenses described above offset by the decrease in selling, general and administrative expenses and the decrease in deprecation and amortization previously discussed.

Interest Expense. Interest expense for fiscal year 2002 was $37.3 million, an increase of $1.7 million as compared to $35.6 million in fiscal year 2001. In May 2001, Heritage issued $70.0 million of fixed rate Senior Secured Notes. Interest expense related to these notes was recorded for four months in 2001 and twelve months in 2002, causing interest expense to increase approximately $3.6 million in fiscal year 2002 compared to fiscal year 2001. This increase was offset by a $0.6 million decrease in interest expense on the Working Capital Facility and a $1.3 million decrease in interest expense on the Acquisition Facility.

Net Income. Heritage reported net income of $4.9 million, or $0.25 per limited partner unit, for fiscal year 2002, a decrease of $14.8 million from net income of $19.7 million for fiscal year 2001. This reduction is primarily due to the decreased operating income described above, and a $1.7 million increase in interest expense, offset by a decrease in minority interest expense due to decreased net income, a decrease in other expenses, and an increase in earnings from affiliates.

EBITDA, as adjusted. EBITDA, as adjusted, decreased $15.9 million to $81.5 million for fiscal year 2002, as compared to EBITDA, as adjusted, of $97.4 million for fiscal year 2001. This decrease is related to the decrease in gross margin realized during the year ended August 31, 2002 as compared to the year ended August 31, 2001, resulting in reduced operating income. Please read footnote (c) under "Item 6. Selected Historical Financial and Operating Data - Heritage Propane Partners, L.P. (formerly Peoples Gas)" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations--Description of Indebtedness" for a more detailed discussion of EBITDA, as adjusted.

LIQUIDITY AND CAPITAL RESOURCES

The ability of Heritage to satisfy its obligations will depend on its future performance, which will be subject to prevailing economic, financial, business, and weather conditions, and other factors, many of which are beyond its control. Future capital requirements of Heritage are expected to be provided by cash flows from operating activities. To the extent future capital requirements exceed cash flows from operating activities:

a) working capital will be financed by the working capital line of credit and repaid from subsequent seasonal reductions in inventory and accounts receivable;

b) growth capital expenditures, mainly for customer tanks, will be financed by the revolving acquisition line of credit; and

c) acquisition capital expenditures will be financed by the revolving acquisition line of credit, other lines of credit, long-term debt, the issuance of additional Common Units or a combination thereof.

Cash Flows

Operating Activities. Cash provided by operating activities for fiscal year 2003 was $95.2 million as compared to cash provided by operating activities of $65.4 million for fiscal year 2002. The net cash provided from operations of $95.2 million for fiscal year 2003 consisted of net income of $31.1 million and non-cash charges of $43.2 million, primarily depreciation and amortization, and a decrease in working capital items of $20.9 million.

Investing Activities. Heritage completed six acquisitions during fiscal year 2003 investing $24.9 million, net of cash received. This capital expenditure amount is reflected in the cash used in investing activities of $48.4 million along with $15.1 million invested for maintenance needed to sustain operations at current levels and $12.2 million for customer tanks and other expenditures to support growth of operations. Investing activities also includes proceeds from the sale of property of $3.8 million.

Financing Activities. Cash used in financing activities of $44.3 million during fiscal year 2003, was primarily a net decrease in short-term debt of $3.5 million, a net decrease in long-term debt of $42.1 million, and $43.4 million of cash distributions paid to Unitholders and the General Partner, offset by $44.5 million of net proceeds from the issuance of Common Units, and $0.2 million contributed by the General Partner to maintain its general partner interest in the Partnership.

Financing and Sources of Liquidity

Heritage has a Bank Credit Facility with various financial institutions, which includes a Working Capital Facility, providing for up to $65.0 million of borrowings to be used for working capital and other general partnership purposes, and an Acquisition Facility, providing for up to $50.0 million of borrowings to be used for acquisitions and improvements. The Working Capital Facility expires June 30, 2004 and the Acquisition Facility expires December 31, 2003, at which time the outstanding balance on the Acquisition Facility will convert to a term loan

payable in quarterly installments with a final maturity of June 30, 2006. The weighted average interest rate was 2.49125% for the amounts outstanding at August 31, 2003 on both the Working Capital Facility and the Acquisition Facility. At August 31, 2003, there was $38.3 million available for borrowing on the Working Capital Facility and $25.3 million available on the Acquisition Facility. See Note 4 - "Working Capital Facility and Long-Term Debt" to the Consolidated Financial Statements beginning on Page F-1 of this report.

Upon consummation of the transactions announced on November 6, 2003, Heritage expects to maintain separate sources of financing for potential acquisitions or other expansion of Energy Transfer Company's midstream operations, including a separate revolving credit facility. Consummation of the transaction is conditioned upon Heritage's obtaining sufficient financing to complete the transactions. Heritage may acquire financing to fund its acquisition of La Grange through a combination of equity and debt financing. The debt financings may take the form of bank debt, a private debt placement with institutional investors, a public debt offering, or a combination of one or more of the foregoing. Heritage's current Bank Credit Facility described above will be used only in conjunction with Heritage's retail propane operations.

The Partnership uses its cash provided by operating and financing activities to provide distributions to Unitholders and to fund acquisition, maintenance and growth capital expenditures. Acquisition capital expenditures, which include expenditures related to the acquisition of retail propane operations and intangibles associated with such acquired businesses, were $24.9 million for the fiscal year ended August 31, 2003 as compared to $19.7 million for fiscal year 2002. In addition to the $24.9 million of cash expended for acquisitions during fiscal year 2003, $15.0 million of Common Units and $0.9 million for notes payable on non-compete agreements were issued and $1.0 million in liabilities were assumed in connection with certain acquisitions. In comparison, in addition to the $19.7 million of cash expended for acquisitions during the fiscal year ended August 31, 2002, $2.7 million for notes payable on non-compete agreements were issued in connection with acquisitions.

Under the Partnership Agreement, the Partnership will distribute to the General Partner and its Limited Partners, 45 days after the end of each fiscal quarter, an amount equal to all of its Available Cash for such quarter. Available Cash generally means, with respect to any quarter of the Partnership, all cash on hand at the end of such quarter less the amount of cash reserves established by the General Partner in its reasonable discretion that is necessary or appropriate to provide for future cash requirements. The Partnership's commitment to its Unitholders is to distribute the increase in its cash flow while maintaining prudent reserves for the Partnership's operations. The distribution was $0.6375 per unit ($2.55 annually) for each of the quarters ended February 28, 2002 through and including May 31, 2003. Heritage raised the quarterly distribution $0.0125 per unit for the quarter ended August 31, 2003, to $0.65 per unit ($2.60 annually). The current distribution level includes incentive distributions payable to the General Partner to the extent the quarterly distribution exceeds $0.55 per unit ($2.20 annually).

The assets utilized in the propane business do not typically require lengthy manufacturing process time or complicated, high technology components. Accordingly, the Partnership does not have any significant financial commitments for capital expenditures. In addition, the Partnership has not experienced any significant increases attributable to inflation in the cost of these assets or in its operations.

DESCRIPTION OF INDEBTEDNESS

In connection with its initial public offering, on June 25, 1996, Heritage entered into a Note Purchase Agreement whereby Heritage issued $120 million principal amount of 8.55% Senior Secured Notes (the "Notes") with institutional investors. Interest is payable semi-annually in arrears on each December 31 and June 30. The Notes have a final maturity of June 30, 2011, with ten equal mandatory repayments of principal, which began on June 30, 2002. At August 31, 2003, $96 million of principal debt was outstanding under the Senior Secured Notes.

On November 19, 1997, Heritage entered into a Note Purchase Agreement ("Medium Term Note Program") that provided for the issuance of up to $100 million of senior secured promissory notes if certain conditions were met. An initial placement of $32 million (Series A and B), at an average interest rate of 7.23% with an average 10-year maturity, was completed at the closing of the Medium Term Note Program. Interest is payable semi-annually in arrears on each November 19 and May 19. An additional placement of $15 million (Series C, D and E), at an average interest rate of 6.59% with an average 12-year maturity, was completed in March 1998. Interest is payable on Series C and D semi-annually in arrears on each September 13 and March 13. The proceeds of the placements were used to refinance amounts outstanding under the Acquisition Facility. No future placements are

permitted under the unused portion of the Medium Term Note Program. During the fiscal year ended August 31, 2003, Heritage used $3.9 million and $5.0 million of the proceeds from the issuance of 1,610,000 of Common Units to retire the balance of the Series D and Series E Senior Secured Notes, respectively. At August 31, 2003, $34.1 million of principal debt was outstanding under the Medium Term Note Program.

On August 10, 2000, Heritage entered into a Note Purchase Agreement ("Senior Secured Promissory Notes") that provided for the issuance of up to $250 million of fixed rate senior secured promissory notes if certain conditions were met. An initial placement of $180 million (Series A through F) at an average rate of 8.66% with an average 13-year maturity, was completed in conjunction with the merger with U.S. Propane. Interest is payable quarterly. The proceeds were used to finance the transaction with U.S. Propane and retire a portion of existing debt. On May 24, 2001, Heritage issued an additional $70 million (Series G through I) of the Senior Secured Promissory Notes to a group of institutional lenders with 7-, 12- and 15-year maturities and an average coupon rate of 7.66%. Heritage used the net proceeds from the Senior Secured Promissory Notes to repay the balance outstanding under the Acquisition Facility and to reduce other debt. Interest is payable quarterly. During the fiscal year ended August 31, 2003, Heritage used $7.5 million and $19.5 million of the proceeds from the issuance of 1,610,000 of Common Units to retire a portion of the Series G and Series H Senior Secured Promissory Notes, respectively. At August 31, 2003, $223 million of principal debt was outstanding under the Senior Secured Promissory Notes.

The Note Agreements for each of the Senior Secured Notes, Medium Term Note Program and Senior Secured Promissory Notes, and the Bank Credit Facility contain customary restrictive covenants applicable to the Operating Partnership, including limitations on the level of additional indebtedness, creation of liens, and sale of assets. These covenants require the Operating Partnership to maintain ratios of Consolidated Funded Indebtedness to Consolidated EBITDA (as these terms are similarly defined in the Bank Credit Facility and the Note Agreements) of not more than 5.00 to 1 for the Bank Credit Facility and not more than 5.25 to 1 for the Note Agreements and Consolidated EBITDA to Consolidated Interest Expense (as these terms are similarly defined in the Bank Credit Facility and the Note Agreements) of not less than 2.25 to 1. The Consolidated EBITDA used to determine these ratios is calculated in accordance with these debt agreements. For purposes of calculating the ratios under the Bank Credit Facility and the Note Agreements, Consolidated EBITDA is based upon Heritage's EBITDA, as adjusted, during the most recent four quarterly periods and modified to give pro forma effect for acquisitions and divestures made during the test period, and is compared to Consolidated Funded Indebtedness as of the test date and the Consolidated Interest Expense for the most recent twelve months. The debt agreements also provide that the Operating Partnership may declare, make, or incur a liability to make, a restricted payment during each fiscal quarter, if: (a) the amount of such restricted payment, together with all other restricted payments during such quarter, do not exceed Available Cash with respect to the immediately preceding quarter; and (b) no default or event of default exists before such restricted payment and after giving effect thereto. The debt agreements further provide that Available Cash is required to reflect a reserve equal to 50% of the interest to be paid on the notes. In addition, in the third, second and first quarters preceding a quarter in which a scheduled principal payment is to be made on the notes, Available Cash is required to reflect a reserve equal to 25%, 50%, and 75%, respectively, of the principal amount to be repaid on such payment dates.

Failure to comply with the various restrictive and affirmative covenants of the Operating Partnership's Bank Credit Facility and the Note Agreements could negatively impact the Operating Partnership's ability to incur additional debt and Heritage's ability to pay distributions. The Operating Partnership is required to measure these financial tests and covenants quarterly and was in compliance or had no continuing defaults with all financial requirements, tests, limitations, and covenants related to financial ratios under the Senior Secured Notes, Medium Term Note Program, Senior Secured Promissory Notes, and the Bank Credit Facility at August 31, 2003.

The following table summarizes our long-term debt and other contractual obligations as of August 31, 2003:

In thousands Payments Due by Period ---					
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	More Than	

	Years 3-5	Years 5 Years - --	
Long-term debt $	399,071 $	38,309 $	88,762 $
Operating lease obligations	8,856	2,916	3,231
	1,863	846	
Totals $	407,927 $	41,225 $	91,993 $

83,737 $	188,263	
85,600 $	189,109	

See Note 4 - "Working Capital Facility and Long-Term Debt" to the Consolidated Financial Statements beginning on Page F-1 of this report for further discussion of the long-term debt classifications and the maturity dates and interest rates related to long-term debt.

NEW ACCOUNTING STANDARDS

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. Heritage adopted the provisions of SFAS 146 effective for exit or disposal activities that are initiated after December 31, 2002. The adoption did not have a material impact on the Partnership's consolidated financial position or results of operations.

In November 2002, the FASB issued Financial Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 expands the existing disclosure requirements for guarantees and requires that companies recognize a liability for guarantees issued after December 31, 2002. The implementation of FIN 45 did not have a significant impact on Heritage's financial position or results of operations.

In January of 2003, the FASB issued Financial Interpretation No. 46 Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51 (FIN 46). FIN 46 clarifies Accounting Research Bulletin No. 51, Consolidated Financial Statements. If certain conditions are met, this interpretation requires the primary beneficiary to consolidate certain variable interest entities in which equity investors lack the characteristics of a controlling interest or do not have sufficient equity investment at risk to permit the variable interest entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for variable interest entities created or obtained after January 31, 2003. For variable interest entities acquired before February 1, 2003, the interpretation is effective for the first fiscal year or interim period beginning after June 15, 2003. Management does not believe FIN 46 will have a significant impact on Heritage's financial position or results of operations.

In April 2003, the FASB issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Heritage adopted SFAS 149 as of July 1, 2003. The adoption of SFAS 149 did not have a material impact on the Partnership's consolidated financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Heritage adopted the provisions of SFAS 150 as of September 1, 2003. The adoption did not have a material impact on the Partnership's consolidated financial position or results of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to establish accounting policies and make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of

the financial statements and the reported amounts of revenues and expenses during the reporting period. Heritage evaluates its policies and estimates on a regular basis. Actual results could differ from these estimates.

The Partnership's significant accounting policies are discussed in Note 2 --"Summary of Significant Accounting Policies and Balance Sheet Detail" to the Consolidated Financial Statements beginning on page F-1 of this report. Heritage believes the following are critical accounting policies:

Marketable Securities. Heritage has marketable securities that are classified as available-for-sale. Unrealized holding losses occur as a result of declines in the market value of the Partnership's holdings. The fair market value of the Partnership's holdings is determined based upon the market price of the securities, which are publicly traded securities. Based on the performance of the securities over the preceding nine-month period, Heritage reviews the fair market value to determine if an other-than temporary impairment should be recorded.

Long-Lived Assets. Heritage reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Heritage performs this review by considering if the carrying values of the assets exceed the undiscounted cash flows expected to result from the use and eventual disposition of the assets. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, Heritage reduces the carrying amount of such assets to fair value. Heritage has never recorded an impairment as a result of this review.

Stock Based Compensation Plans. Heritage accounts for its stock compensation plans following the fair value recognition method. Heritage adopted this accounting method on a prospective basis beginning on September 1, 2002 for all stock based compensation granted to date by Heritage. This method was adopted as Heritage believes it is the preferable method of accounting for stock based compensation. Please see the caption "Stock Based Compensation Plans" in Note 2 - "Summary of Significant Accounting Policies and Balance Sheet Detail" to the Consolidated Financial Statements beginning on page F-1 of this report for additional information about this adoption and a comparison to amounts recorded in prior periods.

Depreciation of Property, Plant, and Equipment. Heritage calculates depreciation using the straight-line method based on the estimated useful lives of the assets ranging from 5 to 30 years. Changes in the estimated useful lives of the assets could have a material effect on Heritage's results of operation. Heritage does not anticipate future changes in the estimated useful live of its property, plant, and equipment.

Amortization of Intangible Assets. Heritage calculates amortization using the straight-line method over periods ranging from 2 to 15 years. Heritage uses amortization methods and determines asset values based on management's best estimate using reasonable and supportable assumptions and projections. Changes in the amortization methods or asset values could have a material effect on Heritage's results of operations. Heritage does not anticipate future changes in the estimated useful lives of its intangible assets.

Fair Value of Derivative Commodity Contracts. Heritage enters into commodity forward, swaps, and options contracts involving propane and related products, which, in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", are not accounting hedges, but are used for risk management trading purposes. To the extent such contracts are entered into at fixed prices and thereby subject Heritage to market risk, the contracts are accounted for using the fair value method. Under this valuation method, derivatives are carried in the consolidated balance sheets at fair value with changes in value recognized in earnings. Heritage classifies all gains and losses from these derivative contracts entered into for risk management purposes as liquids marketing revenue in the consolidated statement of operations. Heritage utilizes published settlement prices for exchange-traded contracts, quotes provided by brokers, and estimates of market prices based on daily contract activity to estimate the fair value of these contracts. Changes in the methods used to determine the fair value of these contracts could have a material effect on our results of operations. Heritage does not anticipate future changes in the methods used to determine the fair value of these derivative contracts.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Exposure

Heritage has little cash flow exposure due to interest rate changes for long-term debt obligations. Heritage had $51.4 million of variable rate debt outstanding as of August 31, 2003. The variable rate debt consists of the Bank Credit Facility described elsewhere in this report. The balance in the Bank Credit Facility generally fluctuates throughout the year. A theoretical change of 1% in the interest rate on the balance outstanding at August 31, 2003 would result in an approximate $514 thousand change in net income. Heritage primarily incurs debt obligations to support general corporate purposes including capital expenditures and working capital needs. Heritage's long-term debt instruments are typically issued at fixed interest rates. When these debt obligations mature, Heritage may refinance all or a portion of such debt at then-existing market interest rates which may be more or less than the interest rates on the maturing debt.

Commodity price risk arises from the risk of price changes in the propane inventory that Heritage buys and sells. The market price of propane is often subject to volatile changes as a result of supply or other market conditions over which Heritage has no control. In the past, price changes have generally been passed along to Heritage's customers to maintain gross margins, mitigating the commodity price risk. In order to help ensure adequate supply sources are available to Heritage during periods of high demand, Heritage at times will purchase significant volumes of propane during periods of low demand, which generally occur during the summer months, at the then current market price, for storage both at its customer service locations and in major storage facilities and for future resale.

Propane Hedging

Heritage also attempts to minimize the effects of market price fluctuations for its propane supply by entering into certain financial contracts. In order to manage a portion of its propane price market risk, Heritage uses contracts for the forward purchase of propane, propane fixed-price supply agreements, and derivative commodity instruments such as price swap and option contracts. The swap instruments are a contractual agreement to exchange obligations of money between the buyer and seller of the instruments as propane volumes during the pricing period are purchased. The swaps are tied to a fixed price bid by the buyer and a floating price determination for the seller based on certain indices at the end of the relevant trading period. Heritage had entered into these swap instruments in the past to hedge the projected propane volumes to be purchased during each of the one-month periods during the projected heating season.

At August 31, 2003, Heritage had no outstanding propane hedges. Heritage continues to monitor propane prices and may enter into additional propane hedges in the future. Inherent in the portfolio from the liquids marketing activities of the Partnership are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counter parties to a contract. Heritage takes an active role in managing and controlling market and credit risk, and has established control procedures, which are reviewed on an ongoing basis. Heritage monitors market risk through a variety of techniques, including routine reporting to senior management. Heritage attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures.

Liquids Marketing

Heritage buys and sells derivative financial instruments, which are within the scope of SFAS 133 and that are not designated as accounting hedges. Heritage also enters into energy trading contracts, which are not derivatives, and therefore are not within the scope of SFAS 133. EITF Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 98-10), applied to energy trading contracts not within the scope of SFAS 133 that were entered into prior to October 25, 2002. The types of contracts Heritage utilizes in its liquids marketing segment include energy commodity forward contracts, options, and swaps traded on the over-the-counter financial markets. In accordance with the provisions of SFAS 133, derivative financial instruments utilized in connection with Heritages' liquids marketing activity are accounted for using the mark-to-market method. Additionally, all energy trading contracts entered into prior to October 25, 2002 were accounted for using the

mark-to-market method in accordance with the provisions of EITF 98-10. Under the mark-to-market method of accounting, forwards, swaps, options, and storage contracts are reflected at fair value, and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. As of August 31, 2002, Heritage adopted the applicable provisions of EITF Issue No. 02-3, Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3), which requires that gains and losses on derivative instruments be shown net in the statement of operations if the derivative instruments are held for trading purposes. Net realized and unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the statement of operations as liquids marketing revenue. Changes in the assets and liabilities from the liquids marketing activities result primarily from changes in the market prices, newly originated transactions, and the timing and settlement of contracts. EITF 02-3 also rescinds EITF 98-10 for all energy trading contracts entered into after October 25, 2002 and specifies certain disclosure requirements. Consequently, Heritage does not apply mark-to-market accounting for any contracts entered into after October 25, 2002 that are not within the scope of SFAS 133. Heritage attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on management's assessment of anticipated market movements.

The notional amounts and terms of these financial instruments as of August 31, 2003 and 2002 include fixed price payor for 45,000 and 1,180,000 barrels of propane, respectively, and fixed price receiver of 195,000 and 1,076,900 barrels of propane, respectively. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Heritage's exposure to market or credit risks.

The fair value of the financial instruments related to liquids marketing activities as of August 31, 2003 and 2002 was assets of $83 thousand and $2.3 million, respectively, and liabilities of $80 thousand and $1.8 million, respectively.

Sensitivity Analysis

Estimates related to Heritage's liquids marketing activities are sensitive to uncertainty and volatility inherent in the energy commodities markets and actual results could differ from these estimates. A theoretical change of 10% in the underlying commodity value of the liquids marketing contracts would result in an approximate $345 thousand change in the market value of the contracts as there were approximately 6.3 million gallons of net unbalanced positions at August 31, 2003.

Disclosures about Liquids Marketing Activities Accounted for at Fair Value

The following table summarizes the fair value of Resources' contracts, aggregated by method of estimating fair value of the contracts as of August 31, 2003 and 2002, where settlement had not yet occurred. Resources' contracts all have a maturity of less than 1 year. The market prices used to value these transactions reflect management's best estimate considering various factors including closing average spot prices for the current and outer months plus a differential to consider time value and storage costs.

August 31, 2003	August 31, 2002	Source of Fair Value
Prices actively quoted	$ 80	$ 1,276
Prices based on other valuation methods	3	1,025
Assets from liquids marketing	$ 83	$ 2,301
Prices actively		

quoted $ 80
$ 669
Prices
based on
other
valuation
methods --
1,149 -----
------- ---

Liabilities
from
liquids
marketing $
80 $ 1,818
==========
==========
Unrealized
gains $ 3 $
483
==========
==========

The following table summarizes the changes in the unrealized fair value of Resources' contracts where settlement had not yet occurred for the fiscal years ended August 31, 2003, 2002 and 2001.

	August 31, 2003	August 31, 2002	August 31, 2001
Unrealized gains (losses) in fair value of contracts outstanding at the beginning of the period	$ 483	$ (665)	$ 591
Unrealized gains (losses) recognized at inception of contracts	- -	--	--
Unrealized gains (losses) recognized as a result of changes in valuation techniques and assumptions	--	--	--
Other unrealized gains (losses) recognized during the period	850	1,207	250
Less: Realized gains (losses) recognized during the period	1,330	59	1,506
Unrealized gains (losses) in fair value of contracts outstanding at the end of the period	$ 3	$ 483	$ (665)

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial statements set forth on pages F-1 to F-32 of this report are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Partnership maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Partnership files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. An evaluation was performed under the supervision and with the participation of the Partnership's management, including the Chief Executive Officer and the Chief Financial Officer of the General Partner of the Partnership, of the effectiveness of the design and operation of the Partnership's disclosure controls and procedures (as such terms are defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, management, including the Chief Executive Officer and the Chief Financial Officer of the General Partner of the Partnership, concluded that the Partnership's disclosure controls and procedures were adequate and effective as of August 31, 2003. There has been no change in the Partnership's internal controls over financial reporting (as defined in Rule 13(a)-15 or Rule 15(d)-15(f) of the Exchange Act) or in other factors during the Partnership's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Partnership's internal controls over financial reporting, and there have been no corrective actions with respect to significant deficiencies and material weaknesses in our internal controls.

It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable and not absolute assurance that the objectives of the system are met. In addition, the design of any system of disclosure controls and procedures is based in part upon assumptions about the likelihood of future events. Because of these and other inherent limitations of any such system, there can be no assurance that any design will always succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

PARTNERSHIP MANAGEMENT

The Partnership does not directly employ any persons responsible for its management or operations. Prior to the February 4, 2002 Special Meeting of the Common Unitholders of the Partnership, all of the Partnership's activities were managed and operated by its General Partner, Heritage Holdings. Persons employed to manage and operate the activities of the Partnership and its subsidiaries were employees, officers or directors of Heritage Holdings.

Following Common Unitholder approval of the substitution of U.S. Propane as General Partner of the Partnership, the Partnership's activities have been managed and operated by U.S. Propane L.P. Former employees of Heritage Holdings became employees of U.S. Propane L.P. Officers and directors of Heritage Holdings were appointed officers and directors of U.S. Propane's General Partner, USP LLC. Each of the thirteen members of the Board of Directors of Heritage Holdings was appointed, individually, a manager of USP LLC, and collectively, such persons are referred to as the Board of Directors. The Board of Directors of USP LLC is comprised of its Chairman, its President and Chief Executive Officer, two persons designated by each of its four members, and three independent persons approved by a majority of the members. In the event the transactions announced on November 6, 2003 are completed, the agreements referenced in the announcement provide that effective concurrently with the closing of these transactions, ten members of the thirteen members of the Board of Directors of the General Partner (the "Board"), including the eight members of the Board appointed by the Previous Owners, will resign, and the remaining three independent members have agreed to resign upon the request of La Grange Energy. La Grange Energy will have the right to appoint individuals to fill 12 of the 13 vacancies on the Board, and the Previous Owners will have the right to appoint one individual to serve as a member of the Board for as long as the promissory note for the HHI Units remains outstanding.

The Board of Directors appoints members of the Board to serve on the Independent Committee with the authority to review specific matters to which the Board of Directors 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 Independent 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 or its Board of Directors of any duties they may owe the Partnership or the Unitholders. Bill W. Byrne, Stephen L. Cropper, and J. Charles Sawyer were appointed to serve as the members of the Independent Committee of the Board of Directors of Heritage Holdings in October of 2001, appointed as members of the Independent Committee of the Board of Directors of USP LLC on February 4, 2002, and reappointed in October 2002.

AUDIT COMMITTEE

The Board of Directors appoints persons who are neither officers of USP LLC nor employees of the General Partner or any affiliate of the Partnership to serve on its Audit Committee. The Board has determined that based on relevant experience, audit committee member Stephen L. Cropper is an Audit Committee financial expert. A description of Mr. Cropper's qualifications may be found elsewhere in this Item 10 under "Directors and Executive Officers of the General Partner." The Board has also determined that Mr. Cropper is independent of management. The Audit Committee meets on a scheduled basis with the Partnership's independent accountants and is available to meet at their request. The Audit Committee has the authority and responsibility to review external financial reporting of the Partnership, to review the Partnership's procedures for internal auditing and the adequacy of the Partnership's internal accounting controls, to consider the qualifications and independence of the Partnership's independent accountants, to engage the Partnership's independent accountants, and to review the letter of engagement and statement of fees relating to the scope of the annual audit work and special audit work which may be recommended or required by the independent accountants. The Audit Committee reviews and discusses the audited financial statements with management, discusses with the Partnership's independent auditors matters required to be discussed by SAS 61, Communications with Audit Committees, and makes recommendations to the Board of Directors relating to the Partnership's audited financial statements. On February 4, 2002, the Board of Directors of

USP LLC adopted the Charter for the Audit Committee previously adopted by Heritage Holdings. 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 or its Board of Directors of any duties they may owe the Partnership or the Unitholders. Bill W. Byrne, Stephen L. Cropper, and J. Charles Sawyer were appointed to serve as members of the Audit Committee of the Board of Directors of Heritage Holdings in October of 2001, appointed as members of the Audit Committee of the Board of Directors of USP LLC on February 4, 2002, and reappointed in October 2002.

CODE OF ETHICS

The Board has adopted a code of ethics for our General Partner's principal executive officer, principal financial officer, principal accounting officer or controller and/or those persons performing similar functions. This code can be viewed on Heritage's website at www.heritagepropane.com. Amendments to, or waivers from, the code will be available on Heritage's website, however, any technical, administrative or other non-substantive amendments to the code may not be posted. Please note that the preceding Internet address is for information purposes only and is not intended to be a hyperlink. Accordingly, no information found and/or provided at such Internet addresses or at Heritage's website in general is intended or deemed to be incorporated by reference herein.

EMPLOYEE MATTERS

The Partnership does not directly employ any of the persons responsible for managing or operating the Partnership. As of August 31, 2003, the General Partner or subsidiaries of the Partnership employed 2,418 full time individuals. The employment agreements with Messrs. Bertelsmeyer and Krimbill specify that they serve as Chairman of the Board and President and Chief Executive Officer, respectively.

DIRECTORS AND EXECUTIVE OFFICERS OF THE GENERAL PARTNER

The following table sets forth certain information with respect to the executive officers and members of the Board of Directors as of October 31, 2003. Executive officers and directors are elected for one-year terms.

Name	Age	Position with General Partner
H. Michael Krimbill	(1) 50	President and Chief Executive Officer, and Director
James E. Bertelsmeyer	61	Chairman of the Board and Director
R. C. Mills	66	Executive Vice President and Chief Operating Officer
Michael L Greenwood	(2) 48	Vice President and Chief Financial Officer
Bradley K. Atkinson	48	Vice President of Corporate Development
Mark A. Darr	(3) 43	Vice President -

Southern Operations		
Thomas H. Rose (3)	59	Vice President - Northern Operations
Curtis L. Weishahn (3)	50	Vice President - Western Operations
Bill W. Byrne	73	Director of the General Partner
J. Charles Sawyer	67	Director of the General Partner
Stephen L. Cropper (4)	53	Director of the General Partner
J. Patrick Reddy (1)	50	Director of the General Partner
Royston K. Eustace (1)	62	Director of the General Partner

Name	Age	Position with General Partner
William N. Cantrell (1)	51	Director of the General Partner
David J. Dzuricky (1)	52	Director of the General Partner
JD Woodward III (5)	53	Director of the General Partner
Richard T. O'Brien (5)	49	Director of the General Partner
Kevin M. O'Hara (6)	45	Director of the General Partner
Andrew W. Evans (7)	37	Director of the General Partner

(1) Elected to the Board of Directors August 2000.

(2) Elected Vice President and Chief Financial Officer July 2002.

(3) Elected an Executive Officer July 2000.

(4) Elected to the Board of Directors April 2000.

(5) Elected to the Board of Directors October 2001.

(6) Elected to the Board of Directors April 2002.

(7) Elected to the Board of Directors October 2002.

H. Michael Krimbill. Mr. Krimbill joined Heritage as Vice President and Chief Financial Officer in 1990 and was previously Treasurer of a publicly traded, fully integrated oil company. Mr. Krimbill was promoted to President of Heritage in April 1999 and to Chief Executive Officer in March 2000.

James E. Bertelsmeyer. Mr. Bertelsmeyer has over 28 years of experience in the propane industry, including six years as President of Buckeye Gas Products Company, at the time the nation's largest retail propane marketer. Mr. Bertelsmeyer founded Heritage and served as Chief Executive Officer of Heritage since its formation until the election of H. Michael Krimbill in March 2000. Mr. Bertelsmeyer began his career with Conoco Inc. where he spent ten years in positions of increasing responsibility in the pipeline and gas products departments. Mr. Bertelsmeyer has been a director of the NPGA for the past 28

years, and is a former president of the NPGA.

R. C. Mills. Mr. Mills has over 40 years of experience in the propane industry. Mr. Mills joined Heritage in 1991 as Executive Vice President and Chief Operating Officer. Before coming to Heritage, Mr. Mills spent 25 years with Texgas Corporation and its successor, Suburban Propane, Inc. At the time he left Suburban in 1991, Mr. Mills was Vice President of Supply and Wholesale.

Michael L. Greenwood. Mr. Greenwood became Heritage's Vice President and Chief Financial Officer, on July 1, 2002. Prior to joining Heritage, Mr. Greenwood was Senior Vice President, Chief Financial Officer and Treasurer for Alliance Resource Partners, L.P., a publicly traded master limited partnership involved in the production and marketing of coal. Mr. Greenwood brings to Heritage over 20 years of diverse financial and management experience in the energy industry during his career with several major public energy companies including MAPCO Inc., Penn Central Corporation, and The Williams Companies.

Bradley K. Atkinson. Mr. Atkinson joined Heritage on April 16, 1998 as Vice President of Administration. Prior to joining Heritage, Mr. Atkinson spent twelve years with MAPCO/Thermogas, eight of which were spent in the acquisitions and business development of Thermogas. Mr. Atkinson was promoted to Vice President of Corporate Development in August 2000.

Mark A. Darr. Mr. Darr has 18 years in the propane industry. Mr. Darr joined Heritage in 1991 and has held various positions including District Manager and Vice President and Regional Manager before his election to Vice President - Southern Operations, in July 2000. Prior to joining Heritage, Mr. Darr held various positions with Texgas Corporation, and its successor, Suburban Propane. He is a past President of the Florida Propane Gas Association, the Florida Director of the NPGA, and a member of the LP Gas Bureau State Advisory Council

Thomas H. Rose. Mr. Rose has 27 years of experience in the propane industry. Mr. Rose joined Heritage in November 1994 as Vice President and Regional Manager. Prior to joining Heritage, Mr. Rose held Regional

Manager positions with Texgas Corporation, its successor, Suburban Propane, and later Vision Energy of Florida. Mr. Rose was appointed Vice President - Northern Operations in July 2000.

Curtis L. Weishahn. Mr. Weishahn has 25 years experience in the propane industry. Mr. Weishahn joined Heritage in 1995 as Vice President and Regional Manager and was elected Vice President - Western Operations in July 2000. Prior to joining Heritage, Mr. Weishahn owned his own propane business, which was acquired by Heritage. Prior to that time, Mr. Weishahn spent twelve years with Amerigas/CalGas where, at the time of departing, he was Director of Marketing/Strategic Development for the Western United States.

Bill W. Byrne. Mr. Byrne is the principal of Byrne & Associates, LLC, a gas liquids consulting group based in Tulsa, Oklahoma, and has held that position since 1992. Prior to that time, he served as Vice President of Warren Petroleum Company, the gas liquids division of Chevron Corporation, from 1982-1992. Mr. Byrne has served as a director of Heritage since 1992, is a member of both the Independent Committee and the Compensation Committee, and is Chairman of the Audit Committee. Mr. Byrne is a former president and director of the NPGA.

J. Charles Sawyer. Mr. Sawyer is the President and Chief Executive Officer of Sawyer Cellars. Mr. Sawyer is also the President and Chief Executive Officer of Computer Energy, Inc., a provider of computer software to the propane industry since 1981. Mr. Sawyer was Chief Executive Officer of Sawyer Gas Co., a regional propane distributor, until it was purchased by Heritage in 1991. Mr. Sawyer has served as a director of Heritage since 1991 and is a member of both the Independent Committee and the Audit Committee. Mr. Sawyer is a former president and director of the NPGA.

Stephen L. Cropper. Mr. Cropper spent 25 years with The Williams Companies before retiring in 1998, as President and Chief Executive Officer of Williams Energy Services. Mr. Cropper is a director of Rental Car Finance Corporation, a subsidiary of Dollar Thrifty Automotive Group. He is a director and serves as the audit committee financial expert of Berry Petroleum Company. Mr. Cropper also serves as a director, chairman of the audit committee and member of the compensation committee of Sun Logistics Partners L.P. Mr. Cropper is a director and serves as the chairman of the compensation committee of QuikTrip Corporation. Mr. Cropper has served as a director of Heritage since April 2000 and is a member of the both the Independent Committee and the Audit Committee.

J. Patrick Reddy. Mr. Reddy is the Senior Vice President and Chief Financial Officer of Atmos Energy and has held that position since October 2000. Prior to being named to that position, Mr. Reddy served as Atmos Energy's Senior Vice President, Chief Financial Officer and Treasurer from March 2000 to September 2000, and its Vice President of Corporate Development and Treasurer during the period from December 1998 to April 2000. Prior to joining Atmos Energy in August 1998 as Vice President, Corporate Development, Mr. Reddy held a number of management positions with Pacific Enterprises, Inc. during the period from 1980 to 1998, including Vice President, Planning & Advisory Services from 1995 to August 1998. Mr. Reddy has served as a director of Heritage since August 2000 and is a member of the Compensation Committee.

Royston K. Eustace. Mr. Eustace is the Senior Vice President of Business Development for TECO, and has held that position since 1998. Mr. Eustace has also served as the President of TECO Coalbed Methane since 1991 and as the President of TECO Oil & Gas since 1995. Mr. Eustace joined TECO in 1987 as its Vice President of Strategic Planning and Business Development. Mr. Eustace has served as a director of Heritage since August 2000 and is Chairman of the Compensation Committee.

William N. Cantrell. Mr. Cantrell currently serves as President of Tampa Electric Company, the largest TECO subsidiary, engaged in the regulated electric and gas industry. Mr. Cantrell has been employed with TECO since 1975. At the time of the formation of U.S. Propane, Mr. Cantrell was the President of Peoples Gas Company, a regional propane distributor serving the Florida market. Mr. Cantrell has served as a director of Heritage since August 2000.

David J. Dzuricky. Mr. Dzuricky is the Senior Vice President and Chief Financial Officer of Piedmont Natural Gas and has served in that capacity since May 1995. Prior to being named to that position, Mr. Dzuricky held a variety of executive officer positions with Consolidated Natural Gas Company during the period from 1982 to 1995. Mr. Dzuricky has served as a director of Heritage since August 2000.

JD Woodward III. Mr. Woodward has served as Senior Vice President of Non-Utility Operations of Atmos Energy since April 2001, and is responsible for Atmos Energy's non-regulated business activities. Prior to being named to that position, Mr. Woodward held the position of President of Woodward Marketing, L.L.C., in Houston, Texas from January 1995 to March 2001. Mr. Woodward was named a director of Heritage in October 2001.

Richard T. O'Brien. Mr. O'Brien is Executive Vice President and Chief Financial Officer of AGL Resources and has held that position since May 2001. Prior to being named to that position, he was Vice President of Mirant (formerly Southern Energy) and President of Mirant Capital Management, LLC from March 2000 to April 2001 in Atlanta, Georgia. Prior to that time, Mr. O'Brien held various executive positions with PacifiCorp in Portland, Oregon during the period from 1983 to 2000. Mr. O'Brien was named a director of Heritage October 2001.

Kevin M. O'Hara. Mr. O'Hara is Vice President of Corporate Planning for Charlotte-based Piedmont Natural Gas. Mr. O'Hara joined Piedmont Natural Gas in 1987 and his current responsibilities include the development and implementation of corporate strategies related to system expansion and organization development. In addition, Mr. O'Hara has responsibility for non-regulated business activities of Piedmont Natural Gas. His prior work experience was with Andersen Consulting (now Accenture) where he started his career in their Chicago office. Mr. O'Hara was elected a director of Heritage in April 2002.

Andrew W. Evans. Mr. Evans is the Vice President of Finance and Treasurer of AGL Resources. He has held that position since May 2002. Prior thereto Mr. Evans was with Mirant Corporation where he served as Vice President of Corporate Development for Mirant Americas business unit, and prior to that Vice President and Treasurer for Mirant Americas. During his tenure with Mirant, he oversaw market analysis and structured product development for the energy marketing business. He also served as Director of Finance for Mirant's trading business, Mirant Americas Energy Marketing. Prior to Mirant, Evans was employed by the Cambridge, MA office of National Economic Research Associates and the Federal Reserve Bank of Boston. Mr. Evans was named a director of Heritage in October 2002.

COMPENSATION OF THE GENERAL PARTNER

The General Partner does not receive any management fee or other compensation in connection with its management of the Partnership and the Operating Partnership. The General Partner and its affiliates performing services for the Partnership and the Operating Partnership are reimbursed at cost for all expenses incurred on behalf of Heritage, including the costs of employee compensation allocable to Heritage, and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, Heritage. These costs totaled approximately $108.9 million for the year ended August 31, 2003, $95.7 million for the year ended August 31, 2002, and $93.4 million for the year ended August 31, 2001.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES AND EXCHANGE ACT

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

Based solely on the Partnership's review of the copies of such forms received by it, or written representations from certain reporting persons that no Form 5s were required for those persons, the Partnership believes that during fiscal year ending August 31, 2003, all filing requirements applicable to its officers, directors, and greater than 10% beneficial owners were met in a timely manner, other than one late Form 4 filing for each of James E. Bertelsmeyer, Stephen L. Cropper, Mark A. Darr, U.S. Propane, L.L.C., and U.S. Propane, L.P.

ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth the annual salary, bonus and all other compensation awards and payouts for each of the past three fiscal years earned by: (i) all persons serving as the Chief Executive Officer of the General Partner of the Partnership during fiscal year 2003; (ii) the four next highly compensated executive officers other than the Chief Executive Officer, who served as executive officers of the General Partner of the Partnership during fiscal year 2003 and (iii) any persons who would have been reported had they been an executive officer of the General Partner of the Partnership at the end of fiscal year 2003.

Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation (1)	All Other Compensation (2) (3)
James E. Bertelsmeyer	2003	$ 46,154	$ --	$ 61	$ --
Chairman of the Board	2002	$ 193,500	$ --	$ 501	$ --
	2001	$ 193,500	$ --	$ 400	$ --
H. Michael Krimbill	2003	$ 350,000	$ 60,000	$ 325	$ 356,878
President and Chief	2002	$ 350,000	$ 350,000	$ 242	$ --
Executive Officer	2001	$ 350,000	$ 280,000	$ 242	$ --
R. C. Mills	2003	$ 335,000	$ 60,000	$ 2,052	$ 356,878
Executive Vice President	2002	$ 335,000	$ 350,000	$ 1,700	$ --
and Chief Operating Officer	2001	$ 335,000	$ 280,000	$ 1,066	$ --
Michael L. Greenwood (4)	2003	$ 240,000	$ --	$ 184	$

118,950
Vice
President
and 2002 $
240,000 $ -
- $ -- $ --
Chief
Financial
Officer
2001 $ -- $
-- $ -- $ -
- Bradley
K. Atkinson
2003 $
220,000 $
60,000 $
165 $
356,878
Vice
President -
2002 $
220,000 $
410,944 $
158 $ --
Corporate
Development
2001 $
200,000 $
280,000 $
145 $ --

(1) Bonuses are earned based on the results of operations for each fiscal year. The payment in any one fiscal year is limited and the excess bonus earned is deferred until the next fiscal year.

(2) Consists of life insurance premiums.

(3) Consists of the value of Common Units issued pursuant to awards under the Long-Term Incentive Plan.

(4) Mr. Greenwood was named Chief Financial Officer in July of 2002. Mr. Greenwood's 2002 salary was annualized.

EMPLOYMENT AGREEMENTS

The General Partner has entered into employment agreements (the "Employment Agreements") with Messrs. Bertelsmeyer, Krimbill, Mills, Greenwood, Atkinson, Weishahn, Rose, and Darr. The summary of such Employment Agreements contained herein does not purport to be complete and is qualified in its entirety by reference to the Employment Agreements, which have been filed previously as exhibits.

The Employment Agreement for Mr. Bertelsmeyer had an initial term of two years starting August 2000, with an annual base salary of $193,500. At the expiration of the term on August 10, 2002, Mr. Bertelsmeyer's employment agreement became "at will." On April 1, 2003, Mr. Bertelsmeyer's employment agreement was amended to provide that from and after April 1, 2003, Mr. Bertelsmeyer shall receive no cash salary for his services to the Partnership, but shall be entitled to receive, when issued Partnership Common Units from time to time. The number of Common Units issuable shall be determined on each March 1 and September 1. The number of Common Units issuable will be determined at the rate of the full number of Common Units resulting from dividing $6,250 by the numerical average of the ten closing prices of the Common Units on the stock exchange where they are listed for the ten trading days immediately preceding the calculation date times the number of full months served under the

agreement since the next preceding calculation date. Each semiannual grant shall vest and be issued five years following the calculation date, provided Mr. Bertelsmeyer shall have faithfully performed his obligations under the employment agreement up to and including the applicable issue date. The Employment Agreements for Messrs. Krimbill, Mills, and Atkinson, (each an "Executive") had an initial term of three years starting August 2000. However, for each Executive with the three year Employment Agreement, beginning on the second anniversary of the effective date and on each day thereafter the expiration date shall be automatically extended one additional day unless either party (i) shall give written notice to the other that the Term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other by delivering notice to the Chairman of the Board, or in the event of the Executive's death. The Employment Agreement for Mr. Greenwood (an "Executive") has an initial term of one year and one month starting on July 1, 2002. However, beginning on August 10, 2002 and on each day thereafter the expiration date shall be automatically extended one additional day unless either party (i) shall give written notice to the other that their term shall cease to be so extended beginning immediately after the date of such notice or (ii) shall give a Notice of Termination to the other party to the Board and the President and Chief Executive Officer of the Company, or in the event of the Executive's death. The Employment Agreements for each of Messrs, Krimbill, Mills, Greenwood, and Atkinson, provide for an annual base salary of $350,000, $335,000, $240,000, and $200,000, respectively. The Board shall review the Base Salary at least annually and may adjust the amount of the Base Salary at any time, as the Board may deem appropriate in its sole discretion; provided, however, that in no event may the Base Salary be decreased below the above stated amount without the prior written consent of the employee. The Employment Agreements provide for the Executives to participate in bonus and incentive plans. The Employment Agreements also provide for the Executive and, where applicable, the Executive's dependents, to have the right to participate in benefit plans made available to other executives of Heritage including the Restricted Unit Plan and the Long-Term Incentive Plan described below.

The Employment Agreements provide that in the event of a change of control of the ownership of the General Partner or in the event an Executive (i) is involuntarily terminated (other than for "misconduct" or "disability") or (ii) voluntarily terminates employment for "good reason" (as defined in the agreements), such Executive will be entitled to continue receiving his base salary and to participate in all group health insurance plans and programs that may be offered to executives of the General Partner for the remainder of the term of the Employment Agreement or, if earlier, the Executive's death, and the Executive will vest immediately in the Minimum Award of the number of Common Units to which the Executive is entitled under the Long Term Incentive Plan to the extent not previously awarded, and if the executive is terminated as a result of the foregoing, all restrictions on the transferability of the units purchased by such executive under the Subscription Agreement dated as of June 15, 2000, previously filed as an exhibit, shall automatically lapse in full on such date. Pursuant to the transactions announced November 6, 2003, the "change of control" provisions of the Employment Agreements will be triggered upon consummation of the acquisition by La Grange Energy of Heritage's general partner, and will result in the payment of approximately $1.5 million and the issuance of up to 194,993 Common Units pursuant to their terms. Each Employment Agreement also provides that if any payment received by an Executive is subject to the 20% federal excise tax under Section 4999(a) of the Code of the Internal Revenue Service, the Payment will be grossed up to permit the Executive to retain a net amount on an after-tax basis equal to what he would have received had the excise tax and all other federal and state taxes on such additional amount not been payable. In addition, each Employment Agreement contains non-competition and confidentiality provisions.

RESTRICTED UNIT PLAN

The Partnership adopted the Amended and Restated Restricted Unit Plan dated August 10, 2000, amended February 4, 2002 as the Second Amended and Restated Restricted Unit Plan. (the "Restricted Unit Plan"), previously filed as exhibits, for certain directors and key employees of the General Partner and its affiliates. The Restricted Unit Plan covers rights to acquire 146,000 Common Units. The right to acquire the Common Units under the Restricted Unit Plan, including any forfeiture or lapse of rights are available for grant to key employees on such terms and conditions (including vesting conditions) as the Compensation Committee of the General Partner shall determine. Each director shall automatically receive a Director's grant with respect to 500 Common Units on each September 1 that such person continues as a director. Newly elected directors are also entitled to receive a grant with respect to 2,000 Common Units upon election or appointment to the Board. Directors who are employees of U.S. Propane, TECO, Atmos Energy, Piedmont Natural Gas or AGL Resources or their affiliates are not entitled to receive a Director's grant of Common Units. Messrs. Bertelsmeyer and Krimbill are not entitled to receive a Director's Grant of Common Units but may receive Common Units as employees. Generally, the rights to acquire

the Common Units granted will vest upon the occurrence of specified performance objectives established by the Compensation Committee at the time designations of grants are made, or if later, the three-year anniversary of the grant date. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire Common Units pursuant to the Restricted Unit Plan will immediately vest. Pursuant to the transactions announced November 6, 2003, the vesting provisions of the Restricted Unit Plan will be triggered, except for waivers granted there under, upon consummation of La Grange Energy's acquisition of Heritage's general partner, resulting in the early vesting of any awards thereunder.

Common Units to be delivered upon the "vesting" of rights may be Common Units acquired by the Partnership in the open market, Common Units already owned by the General Partner, Common Units acquired by the General Partner directly from the Partnership or any other person, or any combination of the foregoing. Although the Restricted Unit Plan permits the grant of distribution equivalent rights to key employees, it is anticipated that until such Common Units have been delivered to a participant, such participant shall not be entitled to any distributions or allocations of income or loss and shall not have any voting or other rights in respect of such Common Units. The General Partner will be entitled to reimbursement by the Partnership for the cost incurred in acquiring such Common Units.

The Board of Directors, in its discretion may terminate the Restricted Unit Plan at any time with respect to any Common Units for which a grant has not heretofore been made. The Board will also have the right to alter or amend the Restricted Unit Plan or any part thereof from time to time; provided, however, that no change in any Restricted Unit may be made that would impair the rights of the participant without the consent of such participant.

The issuance of the Common Units pursuant to the Restricted Unit Plan is intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation in respect of the Common Units. Therefore, no consideration will be payable by the plan participants upon vesting and issuance of the Common Units. As of August 31, 2003, 39,400 restricted units granted to non-employee directors and key employees were outstanding. Compensation expense of $0.2 million, $0.4 million and $0.3 million was recognized for fiscal years 2003, 2002, and 2001, respectively. See Note 6 --"Partners' Capital" to the Consolidated Financial Statements, beginning on page F-1 of this report.

No grants of Common Units under the Restricted Unit Plan to persons serving as executive officers of the Partnership were made in the last fiscal year.

LONG-TERM INCENTIVE PLAN

Effective September 1, 2000, the Partnership adopted a long-term incentive plan whereby units will be awarded to the Executive Officers and other employees at its discretion based on achieving certain targeted levels of Distributed Cash (as defined in the Long Term Incentive Plan) per unit. Awards under the program will be made starting in 2003 based upon the average of the prior three years Distributed Cash per unit. A minimum of 250,000 units and if targeted levels are achieved, a maximum of 500,000 units will be awarded under the Long Term Incentive Plan. During the fiscal year ended August 31, 2003, 66,118 units vested pursuant to the vesting rights of the Long-Term Incentive Plan and Common Units were issued, and 8,889 units were not awarded and are not available for future award. Compensation expense of $0.9 million, $1.5 million, and $0.8 million was recognized for fiscal years 2003, 2002, and 2001, respectively.

COMPENSATION OF DIRECTORs

The Partnership currently pays no additional remuneration to its employees for serving as directors of the General Partner. Under the Restricted Unit Plan, directors other than directors who are employees of U.S. Propane, Atmos Energy, AGL Resources, TECO and Piedmont Natural Gas, or their affiliates, will be awarded 500 of these restricted units annually, and newly elected directors receive an initial award of 2,000 restricted units. The General Partner will pay each of its non-employee and nonaffiliated directors $10,000 annually, plus $1,000 per board meeting attended and $500 per committee meeting attended. Each of the members of the Independent Committee received a payment of $10,000 during fiscal year 2003, as payment for services and expenses rendered in conjunction with the Partnership's evaluation of potential acquisition candidates. All expenses associated with compensation of directors will be reimbursed to the General Partner by the Partnership.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Board of Directors determines compensation of the executive officers. Royston K. Eustace, Bill W. Byrne, and J. Patrick Reddy served as members of the Compensation Committee of the Board of Directors of Heritage Holdings and as members of the Compensation Committee of the Board of Directors of USP LLC beginning February 4, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of October 31, 2003, regarding the beneficial ownership of the Partnership's securities by certain beneficial owners and all directors and named executive officers, both individually and as a group. The General Partner knows of no other person not disclosed herein beneficially owning more than 5% of the Partnership's Common Units.

HERITAGE PROPANE PARTNERS, L.P. UNITS

Name and Address (1) Beneficially	Percent of Title of Class of Beneficial Owner Owned (2) Class
Common Units James E. Bertelsmeyer (3)	1,103,622 6.12%
H. Michael Krimbill (3)	335,892 1.86%
R.C. Mills (3)	341,342 1.89%
Michael L. Greenwood	14,444 *
Bradley K. Atkinson	26,933 *
Bill W. Byrne	78,157 *
J. Charles Sawyer	68,657 *
Stephen L. Cropper	7,500 *
J. Patrick Reddy	-- *
Royston K. Eustace	-- *
William N. Cantrell	-- *
Ware F. Schiefer	-- *
David J. Dzuricky	-- *
Clayton H. Preble	-- *
J.D. Woodward	-- *
Richard T. O'Brien	-- *
Kevin M. O'Hara	-- *
Andrew W. Evans	-- *
All Directors and	

Executive Officers as a group (19 persons)	2,071,337	11.49%	
Heritage Holdings, Inc. (4)	4,426,916	24.55%	
U.S. Propane L.P. (4)	(5)	4,606,944	25.55%
U.S. Propane, L.L.C. (4)	(5)	4,606,944	25.55%

* Less than one percent (1%)

(1) The address for Mr. Krimbill, Mr. Greenwood, and Mr. Atkinson is 8801 S. Yale, Suite 310, Tulsa, Oklahoma 74137. The address for U.S. Propane, L.P. is 702 N. Franklin Street, Tampa, Florida 33602. The address for each of Messrs. Bertelsmeyer, and Mills is 5000 Sawgrass Village Circle, Suite 4, Ponte Vedra Beach, Florida 32082. The address for Heritage Holdings is c/o Brett Stovern, AGL Resources, Inc., 817 W. Peachtree St., Atlanta, Georgia 30308.

(2) Beneficial ownership for the purposes of the foregoing table is defined by Rule 13d-3 under the Securities Exchange Act of 1934. Under that rule, a person is generally considered to be the beneficial owner of a security if he has or shares the power to vote or direct the voting thereof ("Voting Power") or to dispose or direct the disposition thereof ("Investment Power") or has the right to acquire either of those powers within sixty (60) days.

(3) Each of Messrs. Bertelsmeyer, Byrne, Mills, and Krimbill shares Voting and Investment Power on a portion of their respective units with his spouse.

(4) U.S. Propane, L.P. owns 180,028 Common Units and, by virtue of its ownership of 100% of Heritage Holdings, may be deemed to beneficially own the 4,426,916 Common Units owned by Heritage Holdings. U.S. Propane L.L.C., as the general partner of U.S. Propane, L.P., may be deemed to beneficially own the 180,028 Common Units owned by U.S. Propane, L.P and the 4,426,916 Common Units owned by Heritage Holdings. U.S. Propane, L.P. disclaims any beneficial ownership with respect to the Common Units owned by Heritage Holdings and U.S. Propane L.L.C. disclaims any beneficial ownership with respect to the Common Units owned by U.S. Propane, L.P and Heritage Holdings.

(5) U.S. Propane, L.P. owns 100% of the common stock of Heritage Holdings. AGL Propane Services, Inc., United Cities Propane Gas, Inc., TECO Propane Ventures, LLC and Piedmont Propane Company own a 22.358%, 18.968%, 37.976% and 20.688%, respectively, limited partner interest in U.S. Propane, L.P. U.S. Propane, L.L.C. is the General Partner of U.S. Propane, L.P. with a 0.01% general partner interest. The members of U.S. Propane L.L.C. and their respective membership interest is as follows:

AGL Energy Corporation	22.36%
United Cities Propane Gas, Inc.	18.97%
TECO Propane Ventures, LLC	37.98%
Piedmont Propane Company	20.69%

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Computer Energy, Inc., ("Computer Energy") is a provider of computer software to the propane industry. During fiscal year 2003, purchases of computer software and/or additional licenses from Computer Energy were made by and utilized in Heritage's propane operations. The total amount of purchases made by Heritage in fiscal year 2003 did not exceed $70,000, and were made under terms no less favorable than those available from other computer software providers. J. Charles Sawyer is the President and owner of 50% of the stock of Computer Energy. The Board of Directors has determined that Mr. Sawyer's stock ownership of Computer Energy and its relationship as a supplier of computer software to Heritage is not significant and does not affect his independence as a director of the General Partner of the Partnership.

Heritage has entered into an agreement with TECO Partners, Inc. ("TECO Partners") whereby TECO Partners will provide services relating to the securing of new propane customers in Heritage's Florida regional operations area. Under the agreement, TECO Partners receives commissions upon the procuring of new propane customers for Heritage. The terms of the agreement are no less favorable to Heritage than those available from other parties providing similar services. During fiscal year 2003, TECO Partners received commissions of less than $200,000.

PART IV

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Principal Accounting Fees and Services disclosure is effective for filings related to fiscal years ending after December 15, 2003, and therefore is not applicable to this filing.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. FINANCIAL STATEMENTS.

See "Index to Financial Statements" set forth on page F-1.

2. FINANCIAL STATEMENT SCHEDULES.

None.

3. EXHIBITS.

See "Index to Exhibits" set forth on page E-1.

(b) REPORTS ON FORM 8-K.

The Registrant filed one report on Form 8-K during the three months ended August 31, 2003.

Form 8-K dated July 25, 2003 was filed to provide the tables reconciling EBITDA to net income for Heritage's annual report on Form 10-K for the fiscal year ended August 31, 2002 and quarterly report on Form 10-Q for the quarter ended November 30, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HERITAGE PROPANE PARTNERS, L.P.

By U.S. Propane L.P., its General Partner.
By U.S. Propane, L.L.C., its General Partner

By: /s/ H. Michael Krimbill

H. Michael Krimbill
President and Chief Executive Officer and officer duly authorized to sign on behalf of the registrant

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

Signature	Title	Date
/s/ H. Michael Krimbill	President and Chief Executive Officer and Director (Principal Executive Officer)	November 26, 2003
/s/ James E. Bertelsmeyer	Chairman of the Board and Director	November 26, 2003
/s/ Michael L. Greenwood	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 26, 2003
/s/ Bill W. Byrne	Director	November 26, 2003
Bill W. Byrne /s/		

J. Charles Sawyer
Director
November 26, 2003
J. Charles Sawyer /s/
Stephen L. Cropper
Director
November 26, 2003
Stephen L. Cropper /s/
J. Patrick Reddy
Director
November 26, 2003
J. Patrick Reddy /s/
Royston K. Eustace
Director
November 26, 2003
Royston K. Eustace /s/
William N. Cantrell
Director
November 26, 2003
William N. Cantrell
/s/ Kevin M. O'Hara
Director
November 26, 2003
Kevin M. O'Hara

Signature	Title	Date
/s/ David J. Dzuricky	Director	November 26, 2003
David J. Dzuricky		
/s/ Andrew W. Evans	Director	November 26, 2003
Andrew W. Evans		
/s/ J.D. Woodward	Director	November 26, 2003
J.D. Woodward		
/s/ Richard T. O'Brien	Director	November 26, 2003
Richard T. O'Brien		

INDEX TO FINANCIAL STATEMENTS

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Partners
Heritage Propane Partners, L.P.

We have audited the accompanying consolidated balance sheets of Heritage Propane Partners, L.P. (a Delaware limited partnership) and subsidiaries, as of August 31, 2003 and 2002 and the related consolidated statements of operations, comprehensive income (loss), partners' capital, and cash flows for each of the three years in the period ended August 31, 2003. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heritage Propane Partners, L.P. and subsidiaries as of August 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 2 to the consolidated financial statements, effective September 1, 2002, the Partnership changed its method of accounting for stock-based compensation plans and adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation following the modified prospective method of adoption described in Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure.

/s/ Grant Thornton LLP

Tulsa, Oklahoma
October 24, 2003 (except for Note 12, as to which the date is November 6, 2003)

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	August 31, 2003	August 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,117	$ 4,596
Marketable securities	3,044	2,559
Accounts receivable, net of allowance for doubtful accounts	35,879	30,898
Inventories	45,274	48,187
Assets from liquids marketing	83	2,301
Prepaid expenses and other	2,741	6,846
Total current assets	94,138	95,387
PROPERTY, PLANT AND EQUIPMENT, net	426,588	400,044
INVESTMENT IN AFFILIATES	8,694	7,858
GOODWILL, net of amortization prior to adoption of SFAS No. 142	156,595	155,735
INTANGIBLES AND OTHER ASSETS, net	52,824	58,240
Total assets	$ 738,839	$ 717,264
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Working capital facility	$ 26,700	$ 30,200
Accounts		

payable
43,690
40,929
Accounts
payable to
related
companies
6,255 5,002
Accrued and
other
current
liabilities
35,993
23,962
Liabilities
from liquids
marketing 80
1,818
Current
maturities
of long-term
debt 38,309
20,158 -----
------- ----

Total
current
liabilities
151,027
122,069
LONG-TERM
DEBT, less
current
maturities
360,762
420,021
MINORITY
INTERESTS
4,002 3,564

515,791
545,654 ----
-------- ---

COMMITMENTS
AND
CONTINGENCIES
PARTNERS'
CAPITAL:
Common
Unitholders
(18,013,229
and
15,815,847
units issued
and
outstanding
at August
31, 2003 and
2002,
respectively)
221,207
173,677
Class C
Unitholders
(1,000,000
units issued
and
outstanding
at August
31, 2003 and
2002) -- --
General
Partner
2,190 1,585
Accumulated
other
comprehensive
loss (349)
(3,652) ----
-------- ---

Total
partners'
capital
223,048
171,610 ----
-------- ---

Total

liabilities and partners' capital	$ 738,839	$ 717,264

The accompanying notes are an integral part of these consolidated financial statements.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per unit and unit data)

For the Years Ended August 31,	2003	2002	2001
REVENUES:			
Retail fuel	$ 463,392	$ 365,334	$ 440,527
Wholesale fuel	47,366	41,204	59,879
Liquids marketing, net	1,333	542	841
Other	59,385	55,245	42,728
Total revenues	571,476	462,325	543,975
COSTS AND EXPENSES:			
Cost of products sold	297,156	238,185	306,556
Operating expenses	152,131	133,203	126,849
Depreciation and amortization	37,959	36,998	40,431
Selling, general and administrative	14,037	12,978	15,716
Total costs and expenses	501,283	421,364	489,552
OPERATING INCOME	70,193	40,961	54,423
OTHER INCOME (EXPENSE):			
Interest expense	(35,740)	(37,341)	(35,567)
Equity in earnings of affiliates	1,371	1,338	1,250
Gain on disposal of assets	430		

812 812 Other (3,213) (294) (394) ------- ------- ----- --------- --- ----------
INCOME BEFORE MINORITY INTERESTS AND INCOME TAXES 33,041 5,476 20,524
Minority interests (876) (574) (814) ------- ------- ----- --------- --- ----------
INCOME BEFORE INCOME TAXES 32,165 4,902 19,710 Income taxes 1,023 - - -- -------- ------ ------ -------- ---- ----------
NET INCOME 31,142 4,902 19,710
GENERAL PARTNER'S INTEREST IN NET INCOME 1,319 918 831 ------------ - ---------- --- --------- ----- LIMITED PARTNERS' INTEREST IN NET INCOME $ 29,823 $ 3,984 $ 18,879
==========
==========
==========
BASIC NET INCOME PER LIMITED PARTNER UNIT $ 1.79 $ 0.25 $ 1.43
==========
==========
==========
BASIC AVERAGE NUMBER OF UNITS OUTSTANDING 16,635,966 15,738,621 13,223,184
==========
==========
==========
DILUTED NET INCOME PER LIMITED PARTNER UNIT $ 1.79 $ 0.25 $ 1.42
==========
==========
==========
DILUTED AVERAGE NUMBER OF UNITS OUTSTANDING 16,694,343 15,777,307 13,254,908
==========
==========
==========

The accompanying notes are an integral part of these consolidated financial statements.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	For the Years Ended August 31, 2003	2002	2001
Net income	$ 31,142	$ 4,902	$ 19,710
Other comprehensive income:			
Transition adjustment for adoption of SFAS No.133	--	--	5,429
Reclassification adjustment for gains on derivative instruments included in net income	(553)	--	--
Reclassification adjustment for losses on available-for-sale securities included in net income	2,823	--	--
Change in value of derivative instruments	553	4,464	(9,893)
Change in value of available-for-sale securities	480	(1,575)	(2,077)
Comprehensive income	$ 34,445	$ 7,791	$ 13,169
RECONCILIATION OF ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance, beginning of period	$ (3,652)	$ (6,541)	$ --
Transition adjustment for adoption of SFAS No. 133	--	--	5,429
Current period reclassification to earnings	2,270	7,016	(3,844)
Current period change	1,033	(4,127)	(8,126)
Balance, end of period	$ (349)	$ (3,652)	$ (6,541)

==========
==========

The accompanying notes are an integral part of these consolidated financial statements.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
(in thousands, except unit data)

Number of Units -- Class B Common Subordinated Subordinated Class C Common Subordinated -- BALANCE, AUGUST 31, 2000 9,674,146 1,851,471 1,382,514 1,000,000 $ 106,221 $ 23,130 Unit distribution -- -- -- -- (23,183) (4,397) Issuance of Common Units 2,500,000 -- -- -- 66,046 -- Conversion of Phantom Units 72,050 -- -- -- 323 -- Issuance of Restricted Common Units 216,917 -- -- -- 6,050 -- General Partner capital contribution (54,268) -- -- -- (1,520) -- Conversion of Subordinated Units 1,851,471 (1,851,471) -- -- 24,214 (24,214) Cumulative effect of the adoption of SFAS 133 -- -- -- -- -- -- Net change in accumulated other comprehensive loss per accompanying statements -- -- -- -- -- -- Other -- -- -- -- 1,349 -- Net income -- -- -- -- 11,048 5,481 ------------ -----

------- ----
-------- ---
--------- --
---------- -

BALANCE, AUGUST 31, 2001 14,260,316 -- 1,382,514 1,000,000 190,548 --
Unit distribution -- -- -- -- (38,159) --
Conversion of Phantom Units 11,750 -- -- -- -- --
Conversion of Subordinated Units 1,382,514 -- (1,382,514) -- 15,137 --
Issuance of units upon conversion of minority interest 162,913 -- -- -- 1,729 --
General Partner capital contribution (1,646) -- -- -- (32) --
Net change in accumulated other comprehensive loss per accompanying statements -- -- -- -- --
Other -- -- -- -- 1,821 --
Net income -- -- -- -- 2,633 --

BALANCE, AUGUST 31, 2002 15,815,847 -- -- 1,000,000 173,677 --
Unit distribution -- -- -- -- (42,042) --
Issuance of Common Units 1,610,000 44,547
Conversion of Phantom Units 2,500 -- -- -- -- --
Issuance of Common Units in connection with the Long-term incentive plan 66,118 -- -- -- -- --
Issuance

of Common Units in connection with certain acquisitions 551,456 -- -- -- 15,000 -- General Partner capital contribution (32,692) -- -- -- (957) -- Net change in accumulated other comprehensive loss per accompanying statements -- -- -- -- -- -- Other -- -- -- -- 1,159 -- Net income -- -- -- -- 29,823 -- --- --- ---- ----- ------ ------- --- BALANCE, AUGUST 31, 2003 18,013,229 -- 1,000,000 $ 221,207 $ -- Accumulated Other Class B General Comprehensive Subordinated Class C Partner Income (Loss) Total -- BALANCE, AUGUST 31, 2000 $ 16,466 $ -- $ 939 $ -- $ 146,756 Unit distribution (3,284) -- (663) -- (31,527) Issuance of Common Units -- -- -- -- 66,046 Conversion of Phantom Units -- -- -- -- 323 Issuance of Restricted Common Units -- -- -- -- 6,050 General Partner capital contribution -- -- 768 -- (752) Conversion

of Subordinated Units -- -- -- -- -- Cumulative effect of the adoption of SFAS 133 -- -- -- 5,429 5,429 Net change in accumulated other comprehensive loss per accompanying statements - - -- -- (11,970) (11,970) Other -- -- -- -- 1,349 Net income 2,350 -- 831 -- 19,710 -- ---------- - ---------- ---------- ---------- ---------- BALANCE, AUGUST 31, 2001 15,532 -- 1,875 (6,541) 201,414 Unit distribution (1,746) -- (1,240) -- (41,145) Conversion of Phantom Units -- -- -- -- -- Conversion of Subordinated Units (15,137) -- -- -- -- Issuance of units upon conversion of minority interest -- -- -- -- 1,729 General Partner capital contribution -- -- 32 -- -- Net change in accumulated other comprehensive loss per accompanying statements - - -- -- 2,889 2,889 Other -- -- -- -- 1,821 Net income 1,351 -- 918 -- 4,902 --- --------- -- ---------- - ---------- ---------- ---------- BALANCE, AUGUST 31, 2002 -- -- 1,585 (3,652) 171,610 Unit distribution -- --

(1,342) -- (43,384) Issuance of Common Units 44,547 Conversion of Phantom Units -- -- -- -- -- Issuance of Common Units in connection with the Long-term incentive plan -- -- -- -- -- Issuance of Common Units in connection with certain acquisitions -- -- -- -- 15,000 General Partner capital contribution -- -- 628 -- (329) Net change in accumulated other comprehensive loss per accompanying statements -- -- -- 3,303 3,303 Other -- -- -- -- 1,159 Net income -- -- 1,319 -- 31,142 ---------- ---------- ---------- ---------- ---------- ---------- BALANCE, AUGUST 31, 2003 $ -- $ -- $ 2,190 $ (349) $ 223,048 ========== ========== ========== ========== ==========

The accompanying notes are an integral part of these consolidated financial statements.

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

For the Years Ended August 31,	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 31,142	$ 4,902	$ 19,710
Reconciliation of net income to net cash provided by operating activities-			
Depreciation and amortization	37,959	36,998	40,431
Provision for loss on accounts receivable	2,578	887	4,055
Loss on write down of marketable securities	2,823	--	--
Gain on disposal of assets	(430)	(812)	(812)
Deferred compensation on restricted units and long- term incentive plan	1,159	1,878	1,079
Undistributed (earnings) losses of affiliates	(836)	(938)	(1,125)
Minority interests	(48)	(111)	463
Changes in assets and liabilities, net of effect of acquisitionss:			
Accounts receivable	(4,066)	9,180	(4,533)
Inventories	4,855	17,827	(24,158)
Assets from liquids marketing	2,218	4,164	(2,332)
Prepaid and other expenses	4,177	8,086	(12,331)
Intangibles			

and other assets 238 1,197 1,730 Accounts payable 3,115 (4,094) (3,166) Accounts payable to related companies 1,253 (2,935) 4,123 Accrued and other current liabilites 10,800 (5,464) 1,476 Liabilities from liquids marketing (1,738) (5,312) 3,446 ---------- -- -------- ---- ------ Net cash provided by operating activities 95,199 65,453 28,056 ------ ---- -------- -- ---------- CASH FLOWS FROM INVESTING ACTIVITIES: Cash paid for acquisitions, net of cash acquired (24,956) (19,742) (94,860) Capital expenditures (27,294) (27,072) (23,854) Proceeds from the sale of assets 3,861 13,336 2,620 Investment in marketable securities -- (29) (6,219) Other -- 95 - - ---------- ---------- -- -------- Net cash used in investing activities (48,389) (33,412) (122,313) --- ------- ----- ----- ------- --- CASH FLOWS FROM FINANCING ACTIVITIES: Proceeds from borrowings 173,678 164,715 356,748 Principal payments on debt (219,282) (156,584) (295,788) Net proceeds from issuance of Common Units 44,547 -- 66,046 Debt issuance costs -- --

(441) Unit distributions (43,384) (41,145) (31,527) Other 152 (57) -- ----- ----- ------- --- --------- - Net cash provided by (used in) financing activities (44,289) (33,071) 95,038 ------ ---- -------- -- ---------- INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 2,521 (1,030) 781 CASH AND CASH EQUIVALENTS, beginning of period 4,596 5,626 4,845 - --------- --- ------- ----- ----- CASH AND CASH EQUIVALENTS, end of period $ 7,117 $ 4,596 $ 5,626 ========== ========== ==========

HERITAGE PROPANE PARTNERS, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

For the Years Ended August 31,	2003	2002	2001
NONCASH FINANCING ACTIVITIES:			
Notes payable incurred on noncompete agreements	$ 948	$ 2,737	$ 10,030
Issuance of Common Units in connection with certain acquisitions	$ 15,000	$ --	$ --
Issuance of Common Units upon conversion of minority interest	$ --	$ 1,729	$ --
General Partner capital contribution	$ 329	$ --	$ (752)
Issuance of Restricted Common Units	$ --	$ --	$ 6,050
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$ 35,315	$ 37,610	$ 35,541
Cash paid during the			

period for income taxes	$ 523
	$ --
	$ --

The accompanying notes are an integral part of these financial statements

1. OPERATIONS AND ORGANIZATION:

In order to simplify the Partnership's obligations under the laws of several jurisdictions in which it conducts business, the Partnership's activities are conducted through a subsidiary operating partnership, Heritage Operating, L.P. (the "Operating Partnership"). The Partnership and the Operating Partnership are collectively referred to in this report as "Heritage". Heritage sells propane and propane-related products to more than 650,000 active residential, commercial, industrial, and agricultural customers from nearly 300 customer service locations in 29 states. Heritage is also a wholesale propane supplier in the United States and in Canada, the latter through participation in MP Energy Partnership. MP Energy Partnership is a Canadian partnership, in which Heritage owns a 60% interest, engaged in lower-margin wholesale distribution and in supplying Heritage's northern U.S. locations. Heritage buys and sells financial instruments for its own account through its wholly owned subsidiary, Heritage Energy Resources, L.L.C. ("Resources").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Partnership include the accounts of its subsidiaries, including the Operating Partnership, MP Energy Partnership, Heritage Service Corp., Guilford Gas Service, Inc., and Resources. On May 31, 2003 Guilford Gas Service, Inc., was merged with the Operating Partnership. The surviving limited partnership of the merger was the Operating Partnership. A minority interest liability and minority interest expense is recorded for all partially owned subsidiaries. Heritage accounts for its 50% partnership interest in Bi-State Propane, a propane retailer in the states of Nevada and California, under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation. The accounts of the Operating Partnership are included based on the determination that Heritage possesses a controlling financial interest through a direct ownership of a 98.9899% voting interest and its ability to exert control over the Operating Partnership.

For purposes of maintaining partner capital accounts, the Partnership Agreement of Heritage Propane Partners, L.P. (the "Partnership Agreement") specifies that items of income and loss shall be allocated among the partners in accordance with their percentage interests. Normal allocations according to percentage interests are made, however, only after giving effect to any priority income allocations in an amount equal to the incentive distributions that are allocated 100% to the General Partner. For the years ended August 31, 2003 and 2002, the 1.0101% general partner interest in the Operating Partnership held by the General Partner, U.S. Propane, L.P. ("U.S. Propane"), was accounted for in the consolidated financial statements as a minority interest. On February 4, 2002, at a special meeting of the Partnership's Common Unitholders, the Common Unitholders approved the substitution of U.S. Propane as the successor General Partner of the Partnership and the Operating Partnership, replacing Heritage Holdings, Inc. ("Heritage Holdings"). For the year ended August 31, 2001, the 1.0101% general partner interest of the former General Partner, Heritage Holdings, and U.S. Propane's 1.0101% limited partner interest in the Operating Partnership were accounted for in the consolidated financial statements as minority interests.

REVENUE RECOGNITION

Sales of propane, propane appliances, parts, and fittings are recognized at the later of the time of delivery of the product to the customer or the time of sale or installation. Revenue from service labor is recognized upon completion of the service and tank rent is recognized ratably over the period it is earned. Shipping and handling revenues are included in the price of propane charged to customers, and thus are classified as revenues.

COSTS AND EXPENSES

Costs of products sold include actual cost of fuel sold adjusted for the effects of qualifying cash flow hedges, storage fees and inbound freight, and the cost of appliances, parts, and fittings. Operating expenses include all costs

incurred to provide products to customers, including compensation for operations personnel, insurance costs, vehicle maintenance, advertising costs, shipping and handling costs, purchasing costs, and plant operations. Selling, general and administrative expenses include all corporate expenses and compensation for corporate personnel.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash on hand, demand deposits, and investments with original maturities of three months or less. The Partnership considers cash equivalents to include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

ACCOUNTS RECEIVABLE

Heritage grants credit to its customers for the purchase of propane and propane-related products. Accounts receivable are recorded at amounts billed to customers less an allowance for doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the realizability of customer accounts. Management's assessment is based on the overall creditworthiness of the Partnership's customers and any specific disputes. The Partnership recorded bad debt expense net of recoveries of $2,578, $887, and $4,055 for the years ended August 31, 2003, 2002, and 2001, respectively. Accounts receivable consisted of the following:

August 31, 2003	August 31, 2002
Accounts receivable	$ 39,383	$ 33,402
Less - allowance for doubtful accounts	3,504	2,504
Total, net	$ 35,879	$ 30,898

The activity in the allowance for doubtful accounts consisted of the following during the years ending:

August 31, 2003	August 31, 2002
Balance, beginning of the year	$ 2,504	$ 3,576
Provision for loss on accounts receivable	2,578	887
Accounts receivable written off, net of recoveries	(1,578)	(1,959)
Balance, end of year	$ 3,504	$ 2,504

INVENTORIES

Inventories are valued at the lower of cost or market. The cost of fuel

inventories is determined using weighted-average cost of fuel delivered to the retail districts and includes storage fees and inbound freight costs, while the cost of appliances, parts, and fittings is determined by the first-in, first-out method. Inventories consisted of the following:

August 31, 2003	August 31, 2002
Fuel	$ 34,544	$ 38,523
Appliances, parts and fittings	10,730	9,664
Total inventories	$ 45,274	$ 48,187

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred. Expenditures to refurbish tanks that either extend the useful lives of the tanks or prevent environmental contamination are capitalized and depreciated over the remaining useful life of the tanks.

Additionally, Heritage capitalizes certain costs directly related to the installation of company-owned tanks, including internal labor costs. Components and useful lives of property, plant and equipment were as follows:

August 31, 2003	August 31, 2002
Land and improvements	$ 21,937	$ 20,981
Buildings and improvements (10 to 30 years)	30,843	29,145
Bulk storage, equipment and facilities (3 to 30 years)	43,340	39,908
Tanks and other equipment (5 to 30 years)	327,193	298,540
Vehicles (5 to 10 years)	76,239	63,755
Furniture and fixtures (3 to 10 years)	11,164	10,407
Other (5 to 10 years)	3,578	3,442
	514,294	466,178
Less - Accumulated depreciation	(99,563)	(72,822)
	414,731	393,356
Plus - Construction work-in-process	11,857	6,688
Property, plant and equipment, net	$ 426,588	$ 400,044

INTANGIBLES AND OTHER ASSETS

Intangibles and other assets are stated at cost net of amortization computed on the straight-line method. Heritage eliminates from its balance sheet any fully amortized intangibles and the related accumulated amortization. Components and useful lives of intangibles and other assets were as follows:

August 31,

2003 August 31, 2002 -- --- Gross Carrying Accumulated Gross Carrying Accumulated Amount Amortization Amount Amortization --- --- Amortized intangible assets Noncompete agreements (5 to 15 years) $ 42,742 $ (15,893) $ 41,994 $ (10,924) Customer lists (15 years) 28,378 (6,356) 27,245 (4,160) Financing costs (3 to 15 years) 4,225 (1,995) 4,225 (1,291) Consulting agreements (2 to 7 years) 517 (367) 618 (390) - Total 75,862 (24,611) 74,082 (16,765) Unamortized intangible assets Trademarks 1,309 -- 864 -- Other assets 264 -- 59 -- -- - Total intangibles and other assets $ 77,435 $ (24,611) $ 75,005 $ (16,765)

Aggregate amortization expense of intangible assets was $7,811, $8,152, and

$6,879 for the years ended August 31, 2003, 2002 and 2001 respectively. The estimated aggregate amortization expense for the next five fiscal years is $7,284 for 2004; $6,980 for 2005; $6,476 for 2006; $6,163 for 2007, and $5,348 for 2008.

GOODWILL

Goodwill is associated with acquisitions made for Heritage's domestic retail segment; therefore, all goodwill is recorded in this segment. Of the $156,595 balance in goodwill, $23,923 is expected to be tax deductible. Goodwill is tested for impairment at the end of each fiscal year end in accordance with SFAS 142. The changes in the carrying amount of goodwill for the years ended August 31, 2002 and 2003 were as follows:

Balance as of August 31, 2001	$ 153,404
Goodwill acquired during the year	6,464
Impairment losses	--
Goodwill written off to sale of business	(4,133)
Balance as of August 31, 2002	155,735
Goodwill acquired during the year	860
Impairment losses	--
Balance as of August 31, 2003	$ 156,595

LONG-LIVED ASSETS

Heritage reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, Heritage reduces the carrying amount of such assets to fair value. No impairment of long-lived assets was recorded during the years ended August 31, 2003, 2002, and 2001.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following:

August 31, 2003	August 31, 2002
Interest payable	$ 4,485	$ 4,100
Wages and payroll taxes	4,932	1,869
Deferred tank rent	4,080	3,585
Advanced budget payments and unearned revenue	15,417	8,116
Customer deposits	2,137	2,175
Taxes other than income	2,405	2,027
Income taxes	500	--
Other	2,037	2,090
Accrued and other current liabilities	$ 35,993	$ 23,962

INCOME TAXES

Heritage is a master limited partnership. As a result, Heritage's earnings or losses for federal and state income tax purposes are included in the tax returns of the individual partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements of Heritage except those incurred by corporate subsidiaries of Heritage that are subject to income taxes. On May

31, 2003 Guilford Gas Service, Inc., one of the Partnership's taxable subsidiaries was merged with the Operating Partnership. Taxes recorded in connection with this liquidation were approximately $250. Net earnings for financial statement purposes may differ significantly from taxable income reportable to unitholders as a result of differences between the tax basis and financial reporting basis of assets and liabilities and the taxable income allocation requirements under the Partnership Agreement. As of August 31, 2003 and 2002, there was a liability of $500 and $0 recorded for income taxes incurred by Heritage's corporate subsidiaries, respectively.

STOCK BASED COMPENSATION PLANS

During the fourth quarter of 2003, Heritage adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 Accounting for Stock-based Compensation (SFAS 123) effective as of September 1, 2002. Heritage adopted the fair value recognition provisions following the modified prospective method of adoption described in Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS 148). Following adoption, deferred compensation expense that is recognized in

the financial statements will be the same as that which would have been recognized had the fair value recognition provisions of SFAS 123 been applied to all awards under the Restricted Unit Plan and the Long Term Incentive Plan granted after October 1, 1995.

SFAS 123 requires that significant assumptions be used during the year to estimate the fair value, which includes the risk-free interest rate used, the expected life of the grants under each of the plans and the expected distributions on each of the grants. Heritage assumed a weighted average risk free interest rate of 5.72% for the year ended August 31, 2003, 6.18% for the year ended August 31, 2002 and 5.96% for the year ended August 31, 2001 in estimating the present value of the future cash flows of the distributions during the vesting period on the measurement date of each grant. Annual average cash distributions at the grant date were estimated to be $2.39 for the year ended August 31, 2003, $2.37 for the year ended August 31, 2002, and $2.35 for the year ended August 31, 2001. The expected life of each grant is assumed to be the minimum vesting period under certain performance criteria of each grant. The following table illustrates the effect on limited partners' interest in net income (loss) and the basic and diluted net income (loss) per limited partner unit if Heritage had applied the fair value recognition provisions of SFAS 123 to the Restricted Unit Plan and the Long-Term Incentive Plan for all periods presented.

Years ended August 31,	2003	2002	2001
- BASIC NET INCOME PER LIMITED PARTNER UNIT:			
Limited Partners' interest in net income	$ 29,823	$ 3,984	$ 18,879
Add: Deferred compensation expense, net of General Partner's and minority interest, included in limited partners' interest in net income	1,135	1,841	1,057
Deduct: Deferred compensation expense determined under the fair value based method, net of General Partner's and minority interest	(1,135)	(968)	(1,079)
Pro forma limited partners' interest in net income	$ 29,823	$ 4,857	$ 18,857
Weighted average limited			

partner units		
16,635,966		
15,738,621		
13,223,184		
Basic net income per limited partner unit as reported	$ 1.79	$ 0.25
		$ 1.43
Basic net income per limited partner unit pro forma	$ 1.79	$ 0.31
		$ 1.43
Weighted average limited partner units, assuming dilutive effect of phantom units		
16,694,343		
15,777,307		
13,254,908		
Diluted net income per limited partner unit as reported	$ 1.79	$ 0.25
		$ 1.42
Diluted net income per limited partner unit pro forma	$ 1.79	$ 0.31
		$ 1.42

INCOME PER LIMITED PARTNER UNIT

Basic net income per limited partner unit is computed by dividing net income, after considering the General Partner's interest, by the weighted average number of Common and Subordinated Units outstanding. Diluted net income per limited partner unit is computed by dividing net income, after considering the General Partner's interest, by the weighted average number of Common and Subordinated Units outstanding and the weighted average number of restricted units ("Phantom Units") granted under the Restricted Unit Plan. A reconciliation of net income and weighted average units used in computing basic and diluted earnings per unit is as follows:

Years Ended August 31,		
2003	2002	2001
BASIC NET INCOME PER LIMITED PARTNER		

UNIT:	Limited partners' interest in net income	Weighted average limited partner units	Basic net income per limited partner unit
	$ 29,823	16,635,966	$ 1.79
	$ 3,984	15,738,621	$ 0.25
	$ 18,879	13,223,184	$ 1.43

DILUTED NET INCOME PER LIMITED PARTNER UNIT:			
Limited partners' interest in net income	$ 29,823	$ 3,984	$ 18,879
Weighted average limited partner units	16,635,966	15,738,621	13,223,184
Dilutive effect of Phantom Units	58,377	38,686	31,724
Weighted average limited partner units, assuming dilutive effect of Phantom Units	16,694,343	15,777,307	13,254,908
Diluted net income per limited partner unit	$ 1.79	$ 0.25	$ 1.42

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates made by management include, but are not limited to, allowances for doubtful accounts, derivative hedging instruments, liquids marketing assets and liabilities, purchase accounting allocations and subsequent realizability of intangible assets, and general business and medical self-insurance reserves. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform with the 2003 presentation. These reclassifications have no impact on net income or partners' capital.

FAIR VALUE

The carrying amounts of accounts receivable and accounts payable approximate their fair value. Based on the estimated borrowing rates currently available to Heritage for long-term loans with similar terms and average maturities, the aggregate fair value and carrying amount of long-term debt at August 31, 2003 was $421,579 and $399,071, respectively. The fair value and carrying amount of long-term debt at August 31, 2002 was approximately $470,264 and $440,179, respectively.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). SFAS 133 requires that all derivatives be recognized in the balance sheet as either an asset or liability measured at fair value. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations. Heritage adopted the provisions of SFAS 133 on September 1, 2000. The cumulative effect of adopting SFAS 133 was an adjustment to accumulated other comprehensive income of $5,429.

Heritage had certain call options that settled during the year ended August 31, 2003 that were designated as cash flow hedging instruments in accordance with SFAS 133. The call options gave Heritage the right, but not the obligation, to buy a specified number of gallons of propane at a specified price at any time until a specified expiration date. Heritage entered into these options to hedge pricing on the forecasted propane volumes to be purchased during each of the one-month periods ending February 2003 and March 2003. Heritage utilized hedging transactions to provide price protection against significant fluctuations in propane prices. During the years ended August 31, 2003, 2002, and 2001, Heritage reclassified into earnings through cost of products sold, a gain of $553, a loss of $7,016, and a gain of $3,844 respectively, that were previously reported in accumulated other comprehensive income (loss). There were no such financial instruments outstanding as of August 31, 2003.

GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the FASB issued Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142). Under SFAS 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, any acquired intangible assets should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so. Those assets will be amortized over their useful lives, other than assets that have an indefinite life.

Heritage adopted SFAS 142 on September 1, 2001 and accordingly has discontinued the amortization of goodwill. Under the provisions of SFAS 142, Heritage was required to perform a transitional goodwill impairment appraisal within six months from the time of adoption. Management completed an assessment of the fair value of each of Heritage's operating segments, which were compared with the carrying value of each segment to determine whether any impairment existed on the date of adoption. Heritage completed the transitional goodwill impairment appraisal and has determined that based on the fair value of Heritage's operating segments, Heritage's goodwill was not impaired as of September 1, 2001. Management has determined that a detailed evaluation of the Partnership's operating segments as of August 31, 2003 is not necessary based on the fact that there has not been a significant change in the components of the Partnership's operating segments since the last evaluation, the previous fair value of the Partnership's operating segments substantially exceeded the carrying value, and the likelihood that the Partnership's operating segments current carrying value exceeds its current fair value is remote based on an analysis of events and circumstances since the Partnership's most recent evaluation. Accordingly, no impairment of the Partnership's goodwill was recorded for the year ended August 31, 2003. The Partnership will continue to test goodwill for impairment as of the end of each fiscal year. The adoption of SFAS 142 eliminated goodwill amortization that would have totaled approximately $5,704 for the each of the years ended August 31, 2003 and 2002, based on the balances as of August 31, 2001, and totaled approximately $4,910 for the year ended August 31, 2001.

The following table reflects the effect of the adoption of SFAS 142 on net income as if SFAS 142 had been in effect for all of the periods presented:

Years Ended August 31,		
	2003	2002
2001		
Net income as reported	$ 31,142	$ 4,902
$ 19,710		
Add back: goodwill amortization	--	--
4,910		
Adjusted net income	31,142	4,902
24,620		
Adjusted General Partner's interest in net income	1,319	918
880		
Adjusted Limited Partners' interest in net income	$ 29,823	$ 3,984
$ 23,740		

Basic net income per limited partner unit: As reported	$ 1.79	$ 0.25	$ 1.43
Goodwill amortization	--	--	0.37
As adjusted	$ 1.79	$ 0.25	$ 1.80
Diluted net income per limited partner unit: As reported	$ 1.79	$ 0.25	$ 1.42
Goodwill amortization	--	--	0.37
As adjusted	$ 1.79	$ 0.25	$ 1.79

MARKETABLE SECURITIES

Heritage's marketable securities are classified as available-for-sale securities and are reflected as a current asset on the consolidated balance sheet at their fair value. During the year ended August 31, 2003, Heritage determined there was a non-temporary decline in the market value of its available-for-sale securities, and reclassified into earnings a loss of $2,823, which is net of minority interest and is recorded in other expense. Unrealized holding gains (losses) of $480, $(1,575), and $(2,077) for the years ended August 31, 2003, 2002, and 2001, respectively, were recorded through accumulated other comprehensive income (loss) based on the market value of the securities.

LIQUIDS MARKETING ACTIVITIES

Heritage buys and sells derivative financial instruments, which are within the scope of SFAS 133 and that are not designated as accounting hedges. Heritage also enters into energy trading contracts, which are not derivatives, and therefore are not within the scope of SFAS 133. EITF Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 98-10), applied to energy trading contracts not within the scope of SFAS 133 that were entered into prior to October 25, 2002. The types of contracts Heritage utilizes in its liquids marketing segment include energy commodity forward contracts, options, and swaps traded on the over-the-counter financial markets. In accordance with the provisions of SFAS 133, derivative financial instruments utilized in connection with Heritages' liquids marketing activity are accounted for using the mark-to-market method. Additionally, all energy trading contracts entered into prior to October 25, 2002 were accounted for using the mark-to-market method in accordance with the provisions of EITF 98-10. Under the mark-to-market method of accounting, forwards, swaps, options, and storage contracts are reflected at fair value, and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. As of August 31, 2002, Heritage adopted the applicable provisions of EITF Issue No. 02-3, Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3), which requires that gains and losses on derivative instruments be shown net in the statement of operations if the derivative instruments are held for trading purposes. Net realized and unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the statement of operations as liquids marketing revenue. Changes in the assets and liabilities from the liquids marketing activities result primarily from changes in the market prices, newly originated transactions, and the timing and settlement of contracts. EITF 02-3 also rescinds EITF 98-10 for all energy trading contracts entered into after October 25, 2002 and specifies certain disclosure requirements. Consequently, Heritage does not apply mark-to-market accounting for any contracts entered into after October 25, 2002, that are not within the scope of SFAS 133. Heritage attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on management's assessment of anticipated market movements.

The notional amounts and terms of these financial instruments as of August 31, 2003 and 2002 include fixed price payor for 45 and 1,180 barrels of propane, respectively, and fixed price receiver of 195 and 1,076 barrels of propane, respectively. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Heritage's exposure to market or credit risks.

Estimates related to Resource's liquids marketing activities are sensitive to uncertainty and volatility inherent in the energy commodities markets and actual results could differ from these estimates. A theoretical change of 10% in the underlying commodity value of the liquids marketing contracts would result in an approximate $345 change in the market value of the contracts as there were approximately 6.3 million gallons of net unbalanced positions at August 31, 2003.

Inherent in the resulting contractual portfolio are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counterparties to a contract. Heritage and Resources take active roles in managing and controlling market and credit risk and have established control procedures, which are reviewed on an ongoing basis. Heritage monitors market risk through a variety of techniques, including routine reporting to senior management. Heritage attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures.

The following table summarizes the fair value of Resources' contracts, aggregated by method of estimating fair value of the contracts as of August 31, 2003 and 2002 where settlement had not yet occurred. Resources' contracts all have a maturity of less than 1 year. The market prices used to value these transactions reflect management's best estimate considering various factors including closing average spot prices for the current and outer months plus a differential to consider time value and storage costs.

Source of Fair Value	August 31, 2003	August 31, 2002
Prices actively quoted	$ 80	$ 1,276
Prices based on other valuation methods	3	1,025
Assets from liquids marketing	$ 83	$ 2,301
Prices actively quoted	$ 80	$ 669
Prices based on other valuation methods	--	1,149
Liabilities from liquids marketing	$ 80	$ 1,818
Unrealized gains (losses)	$ 3	$ 483

The following table summarizes the changes in the unrealized fair value of Resources' contracts where settlement had not yet occurred for the fiscal years ended August 31, 2003, 2002 and 2001.

	August 31, 2003	August 31, 2002	August 31, 2001
Unrealized gains (losses) in fair value of contracts outstanding at the beginning of the period	$ 483	$ (665)	$

591
Unrealized gains (losses) recognized at inception of contracts -- -- --
Unrealized gains (losses) recognized as a result of changes in valuation techniques and assumptions -- -- --
Other unrealized gains (losses) recognized during the period 850 1,207 250
Less: Realized gains (losses) recognized during the period 1,330 59 1,506 ---- ------ --- ------- -- --------
Unrealized gains (losses) in fair value of contracts outstanding at the end of the period $ 3 $ 483 $ (665)
========== ========== ==========

The following table summarizes the gross transaction volumes in barrels for liquids marketing contracts that were physically settled for the years ended August 31, 2003, 2002 and 2001:

(in thousands)
Fiscal year ended August 31, 2003 181
Fiscal year ended August 31, 2002 350
Fiscal year ended August 31, 2001 1,193

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. Heritage adopted the provisions of SFAS 146

effective for exit or disposal activities that are initiated after December 31, 2002. The adoption did not have a material impact on the Partnership's consolidated financial position or results of operations.

In November 2002, the FASB issued Financial Interpretation No. 45 Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 expands the existing disclosure requirements for guarantees and requires that companies recognize a liability for guarantees issued after December 31, 2002. The implementation of FIN 45 did not have a significant impact on Heritage's financial position or results of operations.

In January 2003, the FASB issued Financial Interpretation No. 46 Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51 (FIN 46). FIN 46 clarifies Accounting Research Bulletin No. 51, Consolidated Financial Statements. If certain conditions are met, this interpretation requires the primary beneficiary to consolidate certain variable interest entities in which equity investors lack the characteristics of a controlling interest or do not have sufficient equity investment at risk to permit the variable interest entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for variable interest entities created or obtained after January 31, 2003. For variable interest entities acquired before February 1, 2003, the interpretation is effective for the first fiscal year or interim period beginning after June 15, 2003. Management does not believe FIN 46 will have a significant impact on Heritage's financial position or results of operations.

In April 2003, the FASB issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Heritage adopted SFAS 149 as of July 1, 2003. The adoption of SFAS 149 did not have a material impact on the Partnership's consolidated financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Heritage adopted the provisions of SFAS 150 as of September 1, 2003. The adoption did not have a material impact on the Partnership's consolidated financial position or results of operations.

3. ACQUISITIONS

On January 2, 2003, Heritage purchased the propane assets of V-1 Oil Co. ("V-1") of Idaho Falls, Idaho for total consideration of $35.4 million after post-closing adjustments. The acquisition price was payable $20.0 million in cash, with $17.3 million of that amount financed by the Acquisition Facility, and by the issuance of 551,456 Common Units of Heritage valued at $15.0 million, and assumed $0.4 million in liabilities. V-1's propane distribution network included 35 customer service locations in Colorado, Idaho, Montana, Oregon, Utah, Washington, and Wyoming. Heritage was able to expand its market presence in the Northwest and achieve a greater geographical balance through the transaction with V-1. This acquisition enhanced Heritage's current operations and reduced costs through synergies with existing operations in locations in which Heritage was already conducting business. The results of operations of V-1 from January 2, 2003 to August 31, 2003 are included in the consolidated statement of operations of Heritage for the year ended August 31, 2003.

The following unaudited pro forma consolidated results of operations are presented as if the acquisition of V-1 had been made at the beginning of the periods presented:

Years ended August 31,	2003	2002
Total revenues	$ 582,690	$ 494,805
Limited partners' interest in net income	$ 31,430	$ 6,806
Basic net income per limited partner unit	$ 1.89	$ .42
Diluted net income per limited partner unit	$ 1.88	$ .42

The pro forma consolidated results of operations include adjustments to give effect to depreciation on the step-up of property, plant and equipment, amortization of customer lists, interest expense on acquisition debt, and certain other adjustments. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been made at the beginning of the periods presented or the future results of the combined operations. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed of V-1 as of the date of acquisition:

January 2, 2003	
Current assets	$ 4,952
Property, plant, & equipment	29,324
Goodwill	20
Customer lists (15 years)	740
Trademarks	370
Total assets acquired	$ 35,406
Total liabilities assumed	(423)
Net assets acquired	$ 34,983

Of the total amount assigned to goodwill, $20 is expected to be deductible for tax purposes.

During the year ended August 31, 2003, Heritage also acquired substantially all of the assets of four other companies, which included V-1 Oil Company of Spokane, Washington, Stegall Petroleum located in North Carolina, 1st Propane of Boise Idaho, and Love Propane Gas located in South Carolina. Heritage also purchased the stock of Tri-Cities Gas Company, Inc. located in Alabama. The aggregate purchase price for these acquisitions totaled $6.4 million, which included liabilities assumed and non-compete agreements of $1.4 million for periods ranging from five to ten years. In the aggregate, these acquisitions are not material for proforma disclosure purposes. These acquisitions were financed primarily with the acquisition facility and were accounted for by the purchase method under SFAS 141. Heritage has historically accounted for business combinations using the purchase method; therefore, the guidelines of SFAS 141 did not have a significant impact on how the Partnership accounted for these acquisitions.

During the year ended August 31, 2002, Heritage purchased the stock of Virginia Gas Propane Company, Inc., in Virginia, Mt. Pleasant Propane, Inc. in Tennessee and two other smaller companies. Heritage also acquired substantially all of the assets of six companies, which included Tri-County Propane, Inc., located in North Carolina, Franconia Gas Corporation located in New Hampshire and Quality Gas, Inc. also located in North Carolina. The aggregate purchase price for these acquisitions totaled $24,915, which included liabilities assumed and non-compete agreements of $5.2 million for periods ranging from five to ten years. In the aggregate, these acquisitions are not material for proforma disclosure purposes. These acquisitions were financed primarily with the acquisition facility and were accounted for by the purchase method under SFAS 141.

Heritage recorded the following intangible assets in conjunction with these acquisitions as of August 31, 2003 and 2002:

2003	2002
- Customer lists (15 years)	$ 1,166	$ 1,066
Non-compete agreements (5 to 10 years)	769	2,800
Total amortized intangible assets	1,935	3,866
Trademarks and tradenames	381	864
Goodwill	860	6,464
Other assets	--	96
Total intangible assets acquired	$ 3,176	$ 11,290

Goodwill was warranted because these acquisitions enhance Heritage's current operations and certain acquisitions are expected to reduce costs through synergies with existing operations. Heritage assigned all of the goodwill acquired to the retail operating segment of the Partnership. The results of operations from these acquisitions are included on the Partnership's statement of operations from the dates acquired.

On July 31, 2001, Heritage purchased the propane operations of ProFlame, Inc. and subsidiaries and affiliates (ProFlame) located in California and Nevada, in a series of mergers, stock purchases, and asset purchases. The aggregate purchase price was $56,201 net of cash acquired of $6,518. The purchase price included $42,695 paid in cash, of which $2,958 related to preliminary working capital, and liabilities assumed of $9,056. In addition, a total of 158,917 Common Units valued at $4,450 were payable in connection with the assumption of certain liabilities by Heritage Holdings. Although Heritage Holdings was entitled to 158,917 Common Units as a result of this transaction, it agreed to forego the issuance of 1,605 units and 1,638 units, which represented its capital contributions to maintain its 1% interest in the Partnership and its 1.0101% interest in the Operating Partnership, respectively, in relation to this transaction. Heritage Holdings also agreed to forego the issuance of an additional 25,773 Common Units to which it was entitled in the ProFlame acquisition to maintain its 1.0101% interest in the Operating Partnership as a result of the July 31, 2001 public offering. The Partnership issued 129,901 Common Units to Heritage Holdings with a fair value of $28.00 per unit.

The results of operations of ProFlame are included in the consolidated statement of operations of Heritage for the years ended August 31, 2003 and 2002.

The following unaudited pro forma consolidated results of operations are presented as if the series of transactions with ProFlame and Heritage had been made at the beginning of the period presented:

Year Ended August 31, 2001
Total revenues	$ 595,317
Limited partners' interest in net

income	$ 19,492
Basic and diluted net income per limited partner unit	$ 1.47

The pro forma consolidated results of operations include adjustments to give effect to amortization of non-competes and customer lists, interest expense on acquisition and assumed debt, and certain other adjustments, including the elimination of income taxes. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been made at the beginning of the period presented or the future results of the combined operations.

During 2001, Heritage purchased all of the common stock of EnergyNorth Propane, Inc. and its VGS Propane, LLC subsidiary in northern New England, and all of the stock of one other small company. Heritage acquired substantially all of the assets of seven other companies during the fiscal year ended August 31, 2001. These acquisitions totaled $60,473, which included liabilities assumed and non-compete agreements of $3,010 for periods ranging up to ten years. These acquisitions were financed primarily with the acquisition facility and the issuance of 1,610,000 Common Units.

4. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

During the year ended August 31, 2003, Heritage used approximately $35.9 million of the $44.5 million net proceeds from the sale of the Partnership's Common Units to repay a portion of the indebtedness outstanding under various tranches of its Senior Secured Notes. Long-term debt consists of the following:

August 31, 2003	August 31, 2002
1996 8.55% Senior Secured Notes	$ 96,000	$ 108,000
1997 Medium Term Note Program:		
7.17% Series A Senior Secured Notes	12,000	12,000
7.26% Series B Senior Secured Notes	20,000	20,000
6.50% Series C Senior Secured Notes	2,143	2,857
6.59% Series D Senior Secured Notes	--	4,444
6.67% Series E Senior Secured Notes	--	5,000
2000 and 2001 Senior Secured Promissory Notes:		
8.47% Series A Senior Secured Notes	16,000	16,000
8.55% Series B Senior Secured Notes	32,000	32,000
8.59% Series C Senior Secured Notes	27,000	27,000
8.67% Series D Senior Secured Notes	58,000	58,000
8.75% Series E Senior Secured Notes	7,000	7,000
8.87% Series F Senior Secured Notes	40,000	40,000
7.21% Series G Senior Secured Notes	19,000	26,500
7.89% Series H Senior Secured Notes	8,000	27,500
7.99% Series I Senior Secured Notes	16,000	16,000
Senior Revolving Acquisition Facility	24,700	14,000
Notes Payable on noncompete		

agreements with interest imputed at rates averaging 7.38%, due in installments through 2010, collateralized by a first security lien on certain assets of Heritage	20,110	22,314
Other	1,118	1,564
Current maturities of long-term debt	(38,309)	(20,158)
	$ 360,762	$ 420,021

Maturities of the Senior Secured Notes, the Medium Term Note Program and the Senior Secured Promissory Notes are as follows:

1996 8.55% Senior Secured Notes:

mature at the rate of $12,000 on June 30 in each of the years 2002 to and including 2011. Interest is paid semi-annually.

1997 Medium Term Note Program:

Series A Notes:	mature at the rate of $2,400 on November 19 in each of the years 2005 to and including 2009. Interest is paid semi-annually.
Series B Notes:	mature at the rate of $2,000 on November 19 in each of the years 2003 to and including 2012. Interest is paid semi-annually.
Series C Notes:	mature at the rate of $714 on March 13 in each of the years 2000 to and including 2003, $357 on March 13, 2004, $1,073 on March 13, 2005, and $357 in each of the years 2006 and 2007. Interest is paid semi-annually.

2000 and 2001 Senior Secured Promissory Notes:

Series A Notes:	mature at the rate of $3,200 on August 15 in each of the years 2003 to and including 2007. Interest is paid quarterly.
Series B Notes:	mature at the rate of $4,571 on August 15 in each of the years 2004 to and including 2010. Interest is paid quarterly.
Series C Notes:	mature at the rate of $5,750 on August 15 in each of the years 2006 to and including 2007, $4,000 on August 15, 2008 and $5,750 on August 15, 2009 to and including 2010. Interest is paid quarterly.
Series D Notes:	mature at the rate of $12,450 on August 15 in each of the years 2008 and 2009, $7,700 on August 15, 2010, $12,450 on August 15, 2011 and $12,950 on August 15, 2012. Interest is paid quarterly.
Series E Notes:	mature at the rate of $1,000 on August 15 in each of the years 2009 to and including 2015. Interest is paid quarterly.
Series F Notes:	mature at the rate of $3,636 on August 15 in each of the years 2010 to and including 2020. Interest is paid quarterly.
Series G Notes:	mature at the rate of $3,800 on May 15 in each of the years 2004 to and including 2008. Interest is paid quarterly. $7.5 million of these notes were retired during the fiscal year ended August 31, 2003.
Series H Notes:	mature at the rate of $727 on May 15 in each of the years 2006 to and including 2016. Interest is paid quarterly. $19.5 million of these notes were retired during the fiscal year ended August 31, 2003.
Series I Notes:	mature in one payment of $16,000 on May 15, 2013. Interest is paid quarterly.

The Senior Secured Notes, the Medium Term Note Program, and the Senior Secured Promissory Notes contain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of Heritage, additional indebtedness, and require the maintenance of certain financial ratios. At August 31, 2003, Heritage was in compliance with these covenants or had no continuing defaults. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of Heritage's subsidiaries secure the notes.

The Note Agreements for each of the Senior Secured Notes, Medium Term Note Program and Senior Secured Promissory Notes, and the Bank Credit Facility contain customary restrictive covenants applicable to the Operating Partnership, including limitations on the level of additional indebtedness, creation of liens, and sale of assets. These covenants require the Operating Partnership to maintain ratios of Consolidated Funded Indebtedness to Consolidated EBITDA (as these terms are similarly defined in the Bank Credit Facility and the Note Agreements) of not more than 5.00 to 1 for the Bank Credit Facility and not more than 5.25 to 1 for the Note Agreements and Consolidated EBITDA to Consolidated

Interest Expense (as these terms are similarly defined in the Bank Credit Facility and the Note Agreements) of not less than 2.25 to 1. The Consolidated EBITDA used to determine these ratios is calculated in accordance with these debt agreements. For purposes of calculating the ratios under the Bank Credit Facility and the Note Agreements, Consolidated EBITDA is based upon Heritage's EBITDA, as adjusted for the most recent four quarterly periods, and modified to give pro forma effect for acquisitions and divestures made during the test period and is compared to Consolidated Funded Indebtedness as of the test date and the Consolidated Interest Expense for the most recent twelve months. These debt agreements also provide that the Operating Partnership may declare, make, or incur a liability to make, a restricted payment during each fiscal quarter, if: (a) the amount of such restricted payment, together with all other restricted payments during such quarter, do not exceed Available Cash with respect to the immediately preceding quarter; and (b) no default or event of default exists before such restricted payment and after giving effect thereto. The debt agreements further provide that Available Cash is required to reflect a reserve equal to 50% of the interest to be paid on the notes. In addition, in the third, second and first quarters preceding a quarter in which a scheduled principal payment is to be made on the notes, Available Cash is

required to reflect a reserve equal to 25%, 50%, and 75%, respectively, of the principal amount to be repaid on such payment dates.

Failure to comply with the various restrictive and affirmative covenants of the Operating Partnership's Bank Credit Facility and the Note Agreements could negatively impact the Operating Partnership's ability to incur additional debt and/or Heritage's ability to pay distributions. The Operating Partnership is required to measure these financial tests and covenants quarterly and was in compliance or had no continuing defaults with all requirements, tests, limitations, and covenants related to the Senior Secured Notes, Medium Term Note Program and Senior Secured Promissory Notes, and the Bank Credit Facility at August 31, 2003.

Effective July 16, 2001, the Operating Partnership entered into the Fifth Amendment to the First Amended and Restated Credit Agreement (Bank Credit Facility). The terms of the Bank Credit Facility as amended are as follows:

A $65,000 Senior Revolving Working Capital Facility, expiring June 30, 2004 with $26,700 outstanding at August 31, 2003. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. Heritage must be free of all working capital borrowings for 30 consecutive days each fiscal year. The weighted average interest rate was 2.49125% for the amount outstanding at August 31, 2003. The maximum commitment fee payable on the unused portion of the facility is 0.50%. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of Heritage's subsidiaries secure the Senior Revolving Working Capital Facility.

A $50,000 Senior Revolving Acquisition Facility is available through December 31, 2003, at which time the outstanding amount must be paid in ten equal quarterly installments beginning March 31, 2004, with $24,700 outstanding as of August 31, 2003. The interest rate and interest payment dates vary depending on the terms Heritage agrees to when the money is borrowed. The weighted average interest rate was 2.49125% for the amount outstanding at August 31, 2003. The maximum commitment fee payable on the unused portion of the facility is 0.50%. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of Heritage's subsidiaries secure the Senior Revolving Acquisition Facility.

Future maturities of long-term debt for each of the next five fiscal years and thereafter are $38,309 in 2004; $40,288 in 2005; $48,474 in 2006; $38,514 in 2007; $45,223 in 2008, and $188,263 thereafter.

5. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases, which require fixed monthly rental payments and expire at various dates through 2020. Rental expense under these leases totaled approximately $2,997, $2,977 and $2,708 for the years ended August 31, 2003, 2002 and August 31, 2001, respectively, and has been included in operating expenses in the accompanying statements of operations. Certain of these leases contain renewal options and also contain escalation clauses, which are accounted for on a straight-line basis over the minimum lease term. Fiscal year future minimum lease commitments for such leases are $2,916 in 2004; $1,906 in 2005; $1,325 in 2006; $929 in 2007; $934 in 2008 and $846 thereafter.

The General Partner has employment agreements with seven employees. The employment agreements provide for total annual base salary of $1,545. The employment agreements provide for the Executives to participate in bonus and incentive plans.

The Employment Agreements provide that in the event of a change of control of the ownership of the General Partner or in the event an Executive (i) is involuntarily terminated (other than for "misconduct" or "disability") or (ii) voluntarily terminates employment for "good reason" (as defined in the agreements), such Executive will be entitled to continue receiving his base salary and to participate in all group health insurance plans and programs that may be offered to executives of the General Partner for the remainder of the term of the Employment Agreement or, if earlier, the Executive's death, and the Executive will vest immediately in the Minimum Award of the number of Common Units to which the Executive is entitled under the Long Term Incentive Plan to the extent not previously awarded, and if the Executive is terminated as a result of the foregoing, all restrictions on the transferability of the units purchased by such executive under the Subscription Agreement dated as of June 15, 2000, shall automatically lapse in full on such date. If such change were to have occurred on August 31, 2003, the General Partner would be

required to pay the remaining portion of $1,545 in base salary for the Executives and a maximum of 174,993 Common Units or approximately $5,477 based on a per unit price of $31.30 would be awarded under the Long Term Incentive Plan, of which $915, $1,500 and $750 has been included in operating expenses in the accompanying statements of operations for the years ending August 31, 2003, 2002 and 2001, respectively. Pursuant to the transactions announced November 6, 2003, the "change of control" provisions of the Employment Agreements will be triggered upon consummation of the acquisition by La Grange Energy of Heritage's General Partner, and will result in the payment of approximately $1.5 million and the issuance of up to 174,993 Common Units pursuant to their terms. In addition, pursuant to the terms of one of the Employment Agreements, an additional 20,000 Common Units will be issued. Each Employment Agreement also provides that if any payment received by an Executive is subject to the 20% federal excise tax under Section 4999(a) of the Code of the Internal Revenue Service, the payment will be grossed up to permit the Executive to retain a net amount on an after-tax basis equal to what he would have received had the excise tax and all other federal and state taxes on such additional amount not been payable. In addition, each Employment Agreement contains non-competition and confidentiality provisions.

Heritage is a party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against Heritage. In the opinion of management, all such matters are either covered by insurance, are without merit or involve amounts, which, if resolved unfavorably, would not have a significant effect on the financial position or results of operations of Heritage. Once management determines that information pertaining to a legal proceeding indicates that it is probable that a liability has been incurred, an accrual is established equal to management's estimate of the likely exposure. For matters that are covered by insurance, the Partnership accrues the related deductible. As of August 31, 2003 and 2002, an accrual of $941 and $671, respectively, was recorded as accrued and other current liabilities on the Partnership's consolidated balance sheets.

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to six sites, on which Heritage presently has, or formerly had, operations. These sites were evaluated at the time of their acquisition. In all cases, remediation operations have been or will be undertaken by others, and in all six cases, Heritage obtained indemnification for expenses associated with any remediation from the former owners or related entities. Heritage has not been named as a potentially responsible party at any of these sites, nor has the Partnership's operations contributed to the environmental issues at these sites. Accordingly, no amounts have been recorded in the Partnership's August 31, 2003 or 2002 consolidated balance sheets. Based on information currently available to Heritage, such projects are not expected to have a material adverse effect on Heritage's financial condition or results of operations.

In July 2001, Heritage acquired a company that had previously received a request for information from the U.S. Environmental Protection Agency (the "EPA") regarding potential contribution to a widespread groundwater contamination problem in San Bernardino, California, known as the Newmark Groundwater Contamination. Although the EPA has indicated that the groundwater contamination may be attributable to releases of solvents from a former military base located within the subject area that occurred long before the facility acquired by Heritage was constructed, it is possible that the EPA may seek to recover all or a portion of groundwater remediation costs from private parties under the Comprehensive Environmental Response, Compensation, and Liability Act (commonly called "Superfund"). Based upon information currently available to Heritage, it is not believed that Heritage's liability if such action were to be taken by the EPA would have a material adverse effect on Heritage's financial condition or results of operations.

Heritage has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2004.

6. PARTNERS' CAPITAL:

The Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. ("Partnership Agreement") contains specific provisions for the allocation of net earnings and losses to each of the partners for purposes of maintaining the partner capital accounts.

At the time of the Partnership's Initial Public Offering, Heritage Holdings held all of the Partnership's Subordinated Units. The Subordinated Units were a separate class of limited partner interests and the rights of holders of Subordinated Units to participate in distributions to partners differed from, and were subordinated to, the rights of the holders of Common Units.

Pursuant to the provisions of the Partnership Agreement relating to requirements that the Partnership meet specified cash performance and distribution requirements during successive four-quarter periods commencing with the Initial Public Offering in June of 1996, all of the Subordinated Units converted into Common Units and the Subordination Period ended. Under the Partnership Agreement, 925,736 Subordinated Units converted into Common Units as of July 7, 1999, 925,736 Subordinated Units converted into Common Units as of July 5, 2000 and the remaining 1,851,471 Subordinated Units converted into Common Units as of July 6, 2001. Common Units issued upon conversion of the Subordinated Units share equally with other Common Units in distributions of Available Cash.

On September 1, 2002 and April 14, 2003, an additional 500 and 2,000 Common Units, respectively, were issued by the Partnership to holders of grants that had previously been awarded under the terms of the Partnership's Restricted Unit Plan. On August 10, 2003, the Partnership issued 66,118 Common Units under the terms of the Partnership's Long-Term Incentive Plan upon the attainment of the performance targets required for such awards.

On January 2, 2003, the Partnership issued 551,456 Common Units, with a total value of $15 million, in exchange for certain assets acquired in connection with the acquisition of the propane distribution assets of V-1 Oil Co.

On May 20, 2003, the Partnership sold 1,610,000 Common Units in an underwritten public offering at a public offering price of $29.26 per unit. This sale included the exercise of the underwriters' over-allotment option to purchase an additional 210,000 Common Units. Heritage used approximately $35.9 million of the $44.5 million net proceeds from the sale of the Common Units to repay a portion of the indebtedness outstanding under various tranches of its Senior Secured Notes. The remainder of the proceeds was used for general partnership purposes, including repayment of additional debt. To effect the transfer of the contribution required by the General Partner to maintain its 1% general partner interest in the Partnership and its 1.0101% general partner interest in the Operating Partnership as a result of the offering, the General Partner contributed 32,692 previously issued Common Units back to the Partnership and those units were cancelled.

Prior to February 4, 2002, the Partnership had Class B Subordinated Units representing limited partner interests that were issued to certain former stockholders of Heritage Holdings, who are or were also members of management, in connection with the transaction with U.S. Propane. The Class B Subordinated Units had the same voting rights as the Subordinated Units outstanding before the end of the Subordination Period, and generally participated pro rata with the Common Units in Heritage's income, gains, losses, deductions, credits, and distributions. Each Class B Subordinated Unit was entitled to one vote on each matter with respect to which the Class B Subordinated Units were entitled to vote.

On February 4, 2002, at the Special Meeting of the Common Unitholders of the Registrant, the Common Unitholders approved the amendment of the Partnership Agreement that converted all of the 1,382,514 outstanding Class B Subordinated Units into 1,382,514 Common Units. The Common Units issued upon conversion of the Class B Subordinated Units share equally with other Common Units in distributions of Available Cash.

In conjunction with the transaction with U.S. Propane and the change of control of the former General Partner, Heritage Holdings, the Partnership issued 1,000,000 newly created Class C Units to Heritage Holdings in conversion of that portion of its Incentive Distribution Rights that entitled it to receive any distribution made by Heritage attributable to the net amount received in connection with the settlement, judgment, award or other final nonappealable resolution of the SCANA litigation filed by Heritage prior to the transaction with U.S. Propane. The Class C Units have zero initial capital account balance and were distributed by Heritage Holdings to its former stockholders in connection with the transaction with U.S. Propane. Thus, U.S. Propane will not receive any distributions made with respect to the SCANA litigation that would have gone to Heritage Holdings with respect to its General Partner interest and Incentive Distribution Rights had it remained the General Partner of the Partnership. Upon receiving final cash payment as a result of the resolution of the SCANA litigation, the special litigation committee will determine the amount of litigation proceeds to be distributed, after deducting all costs and expenses of the litigation incurred by the Partnership and its affiliates and such reserves as the special committee deems necessary or advisable. The resulting amount of distributable proceeds will be distributed in the same manner as the Partnership's distribution of "Available Cash" pursuant to the Partnership Agreement, except that the amount that would normally be distributed to the holders of Incentive Distribution Rights will be distributed to the holders of Class C Units, pro rata. Each holder of Class C Units receiving a distribution of cash in any taxable year will be allocated items of gross income with respect to such taxable year in an amount equal to the cash distributed to the holder. Holders of Class C Units will not be allocated any other items of income, gain, loss deduction or credit and have no other rights except the right to share in any distributions upon dissolution and liquidation of the Partnership

if such distributions consist of proceeds from the SCANA litigation and to which the Class C Units would have otherwise been entitled. The Class C Units may not be converted into any other unit. The Class C Units have no voting rights, except to the extent provided by Delaware law with respect to a vote as a class, in which case each Class C Unit will be entitled to one vote.

In conjunction with the Common Unitholder approval of the substitution of U.S. Propane as the General Partner of the Partnership, the Partnership issued 162,913 Common Units to the former General Partner Heritage Holdings in exchange for its 1.0101% general partner interest in the Operating Partnership. The Partnership also issued 158,026 Common Units to Heritage Holdings in conversion of its 1% general partner interest in the Partnership and cancelled 158,026 Common Units held by U.S. Propane upon their conversion into Incentive Distribution Rights and a 1% general partner interest in the Partnership and 1,646 Common Units held by U.S. Propane to maintain its general partner interest in the Partnership.

On September 1, 2001 and June 30, 2002, an additional 1,750 and 10,000 Common Units, respectively, were issued by the Partnership to holders of grants that had previously been awarded under the terms of the Partnership's Restricted Unit Plan.

On July 31, 2001, the Partnership sold 2,500,000 Common Units in an underwritten public offering at a price of $28.00 per unit. Heritage used $41 million of the approximate net proceeds of $66 million to reduce indebtedness under the Senior Revolving Acquisition Facility, which was incurred in the acquisition of ProFlame. The remainder of the proceeds was used for general partnership purposes, including additional acquisitions and repayment of debt. To effect the transfer of the contribution required by the General Partner to maintain its 1% general partner interest in the Partnership, the General Partner contributed 25,252 Common Units to the Partnership and those units were cancelled.

On August 1, 2001, the Partnership issued 129,901 Common Units with a fair value of $28.00 per unit to Heritage Holdings in connection with the assumption of certain liabilities by Heritage Holdings from Heritage's acquisition of certain assets of ProFlame. Heritage Holdings was entitled to 158,917 Common Units as a result of this transaction but agreed to forego the issuance of 1,605 units and 1,638 units, which represented its capital contributions to maintain its 1% interest in the Partnership and its 1.0101% interest in the Operating Partnership, respectively, in relation to this transaction. Heritage Holdings also agreed to forego the issuance of an additional 25,773 Common Units to which it was entitled in the ProFlame acquisition to maintain its 1.0101% interest in the Operating Partnership as a result of the July 31, 2001 public offering.

During fiscal 2001, the Partnership issued 58,000 Common Units in exchange for certain assets in connection with the acquisitions of certain propane businesses, for a total value of $1.6 million.

QUARTERLY DISTRIBUTIONS OF AVAILABLE CASH

The Partnership Agreement requires that Heritage will distribute all of its Available Cash to its Unitholders and its General Partner within 45 days following the end of each fiscal quarter, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. The term Available Cash generally means, with respect to any fiscal quarter of the Partnership, all cash on hand at the end of such quarter, plus working capital borrowings after the end of the quarter, less reserves established by the General Partner in its sole discretion to provide for the proper conduct of Heritage's business, to comply with applicable laws or any Heritage debt instrument or other agreement, or to provide funds for future distributions to partners with respect to any one or more of the next four quarters. Available Cash is more fully defined in the Partnership Agreement.

Prior to the Unitholder vote on February 4, 2002, distributions by Heritage in an amount equal to 100% of Available Cash were made 97% to the common and Class B Subordinated Unitholders, 1.0101% to U.S. Propane for its limited partner interest in the Operating Partnership and 1.9899% to the former General Partner, Heritage Holdings. After the Unitholder vote, distributions by Heritage in an amount equal to 100% of Available Cash will generally be made 98% to the Common Unitholders and 2% to U.S. Propane, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved.

The Minimum Quarterly Distribution was made to the Common and Subordinated Unitholders for the quarters ended November 30, 1996 through August 31, 1998. For the quarter ended November 30, 1998, a quarterly distribution of $0.5125 was paid to the Common and Subordinated Unitholders. For each of the quarters ended February 28, 1999 through and including May 31, 2000, quarterly distributions of $0.5625, respectively, were paid to the Common and Subordinated Unitholders. Heritage raised the quarterly distribution $0.0125 per unit each quarter beginning with the quarter ended August 31, 2000, to $0.6375 per unit (or $2.55 annually) for the quarter ended November 30, 2001. The distribution remained at $0.6375 per unit for each of the quarters ended February 28, 2002 through and including May 31, 2003. Heritage raised the quarterly distribution $0.0125 per unit for the quarter ended August 31, 2003, to $0.65 per unit (or $2.60 annually). The quarterly distributions for the quarters ended February 28, 1999 through August 31, 2003 included incentive distributions payable to the General Partner to the extent the quarterly distribution exceeded $0.55 per unit.

After the conversion of the Class B Subordinated Units was approved on February 4, 2002, each Class B Subordinated unit converted into one Common Unit and then participates pro rata with the other Common Units in distributions of Available Cash. Heritage currently distributes Available Cash, excluding any Available Cash to be distributed to the Class C Unitholders as follows:

- First, 98% to all Unitholders, pro rata, and 2% to the General Partner, until all Unitholders have received $0.50 per unit for such quarter and any prior quarter;

- Second, 98% to all Unitholders, pro rata, and 2% to the General Partner, until all Unitholders have received $0.55 per unit for such quarter;

- Third, 85% to all Unitholders, pro rata, 13% to the holders of Incentive Distribution Right, pro rata, and 2% to the General Partner, until all Common Unitholders have received at least $0.635 per unit for such quarter;

- Fourth, 75% to all Unitholders, pro rata, 23% to the holders of Incentive Distribution Right, pro rata and 2% to the General Partner, until all Common Unitholders have received at least $0.825 per unit for such quarter;

- Fifth, thereafter 50% to all Unitholders, pro rata, 48% to the holders of Incentive Distribution Right, pro rata, and 2% to the General Partner.

The total amount of distributions for the 2003 fiscal year on Common Units, the general partner interests and the Incentive Distribution Rights totaled $43.7 million, $0.9 million and $1.0 million, respectively. All such distributions were made from Available Cash from Operating Surplus.

RESTRICTED UNIT PLAN

The General Partner has adopted the Amended and Restated Restricted Unit Plan dated August 10, 2000, amended February 4, 2002 as the Second Amended and Restated Restricted Unit Plan (the "Restricted Unit Plan"), for certain directors and key employees of the General Partner and its affiliates. The Restricted Unit Plan covers rights to acquire 146,000 Common Units. The right to acquire the Common Units under the Restricted Unit Plan, including any forfeiture or lapse of rights is available for grant to key employees on such terms and conditions (including vesting conditions) as the Compensation Committee of the General Partner shall determine. Each director shall automatically receive a Director's grant with respect to 500 Common Units on each September 1 that such person continues as a director. Newly elected directors are also entitled to receive a grant with respect to 2,000 Common Units upon election or appointment to the Board. Directors who are employees of U.S. Propane, TECO, Atmos Energy, Piedmont Natural Gas or AGL Resources or their affiliates are not entitled to receive a Director's grant of Common Units. Generally, the rights to acquire the Common Units will vest upon the later to occur of (i) the three-year anniversary of the grant date, or on such terms as the Compensation Committee may establish, which may include the achievement of performance objectives. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire Common Units pursuant to the Restricted Unit Plan will immediately vest. Pursuant to the transactions announced November 6, 2003, the vesting provisions of the Restricted Unit Plan will be triggered, except for waivers granted thereunder, upon consummation of La Grange Energy's acquisition of Heritage's General Partner, resulting in the early vesting of any awards thereunder.

The issuance of the Common Units pursuant to the Restricted Unit Plan is intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation in respect of the Common Units. Therefore, no consideration will be payable by the plan participants upon vesting and issuance of the Common Units. As of August 31, 2003, 39,400 restricted units are outstanding and 15,800 are available for grants to non-employee directors and key employees. Subsequent to August 31, 2003, 14,800 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued.

During the fiscal years ended August 31, 2003, 2002, and 2001, 15,000, 9,600, and 29,800 units were granted under the Restricted Unit Plan, respectively. The units had a weighted-average fair value of $20.24, $20.48, and $15.06 per unit at the grant date, respectively. During fiscal year 2003, 2,500 Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued. During fiscal year 2002, 11,750 Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued, and 5,000 Phantom Units previously granted were forfeited. During fiscal year 2001, 72,050 Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common units were issued.

Deferred compensation expense of $244 was recognized for the year ended August 31, 2003. For the years ended August 31, 2002 and 2001, Heritage followed the disclosure only provisions of SFAS 123, as amended by SFAS 148 and APB Opinion No. 25 Accounting for Stock Issued to Employees (APB 25). Under APB 25 the Restricted Unit Plan was classified as a variable plan so that an estimate of compensation was required based on a combination of the fair market value of the Common Units as of the end of the reporting period and an assessment of meeting certain performance criteria. Deferred compensation expense on this plan of $378 and $323 was recognized for the years ended August 31, 2002 and 2001, respectively based on the fair value of such units at the end of each period.

LONG-TERM INCENTIVE PLAN

Effective September 1, 2000, Heritage adopted a long-term incentive plan whereby Common Units will be awarded based on achieving certain targeted levels of Distributed Cash (as defined in the Long Term Incentive Plan) per unit. Awards under the program will be made starting in 2003 based upon the average of the prior three years' Distributed Cash per unit. A minimum of 250,000 Common Units and if certain targeted levels are achieved, a maximum of 500,000 Common Units will be awarded. During the fiscal year ended August 31, 2003, 66,118 units vested pursuant to the vesting rights of the Long-Term Incentive Plan and Common Units were issued, and 8,889 units were forfeited.

Deferred compensation expense on this plan of $915 was recognized for the year ended August 31, 2003. For the years ended August 31, 2002 and 2001, Heritage followed the disclosure only provisions of SFAS 123, and APB 25. Under APB 25, the Long Term Incentive Plan was classified as a variable plan so that an estimate of compensation was required based on a combination of the fair market value of the Common Units as of the end of the reporting period and an assessment of meeting certain performance criteria. Deferred compensation expense on this plan of $1,500 and $756 was recognized for the years ended August 31, 2002 and 2001, respectively based on the fair value of such units at the end of each period. The expense was determined based on the Partnership achieving the minimum award available under the plan.

7. PROFIT SHARING AND 401(K) SAVINGS PLAN:

Heritage sponsors a defined contribution profit sharing and 401(k) savings plan (the "Plan"), which covers all employees subject to service period requirements. Contributions are made to the Plan at the discretion of the Board of Directors and are allocated to eligible employees as of the last day of the plan year based on their pro rata share of total contributions. Employer matching contributions are calculated using a discretionary formula based on employee contributions. Heritage did not recognize any expense under the profit sharing provision of the Plan during the years ended August 31, 2003, 2002 or 2001. Heritage made matching contributions of $2,144, $2,339, and $2,260 to the 401(k) savings plan for the years ended August 31, 2003, 2002 and 2001, respectively.

8. RELATED PARTY TRANSACTIONS:

Heritage has no employees and is managed by the General Partner. Pursuant to the Partnership Agreement, the General Partner is entitled to reimbursement for all direct and indirect expenses incurred or payments it makes on behalf of Heritage, and all other necessary or appropriate expenses allocable to Heritage or otherwise reasonably

incurred by the General Partner in connection with operating Heritage's business. These costs, which totaled approximately $108,861 for the year ended August 31, 2003, $95,749 for the year ended August 31, 2002 and $93,442 for the year ended August 31, 2001, include compensation and benefits paid to officers and employees of the General Partner.

Accounts payable to related companies include non-interest bearing amounts payable from Heritage to the General Partner of $4,784 and $3,356 as of August 31, 2003 and 2002 respectively and interest bearing amounts payable of $1,471 and $1,646 to Bi-State Propane as of August 31, 2003 and 2002, respectively. Bi-State Propane purchases all of Bi-State's propane that is delivered to and sold out of its plants from an affiliate of Bi-State under a supply agreement. The supply agreement requires the affiliate to sell propane to Bi-State at the affiliates established cost plus freight charges to the destination. Total purchases under the agreement by Bi-State were 17.0 million gallons, 12.8 million gallons, and 12.4 million gallons for a total cost of $11,975, $7,480, and $11,249 for the years ended August 31, 2003, 2002, and 2001, respectively.

9. REPORTABLE SEGMENTS:

Heritage's financial statements reflect four reportable segments: the domestic retail operations of Heritage, the domestic wholesale operations of Heritage, the foreign wholesale operations of MP Energy Partnership, and the liquids marketing activities of Resources. Heritage's reportable domestic and wholesale fuel segments are strategic business units that sell products and services to different types of users: retail and wholesale customers. Intersegment sales by the foreign wholesale segment to the domestic segment are priced in accordance with the partnership agreement. Resources is a liquids marketing company that buys and sells financial instruments for its own account. Heritage manages these segments separately as each segment involves different distribution, sale and marketing strategies. Heritage evaluates the performance of its operating segments based on operating income, exclusive of domestic and foreign selling, general, and administrative expenses of $14,037, $12,978 and $15,716 for the years ended August 31, 2003, 2002 and 2001, respectively. Selling, general and administrative expenses, interest expense and other expenses are not allocated by segment. Investment in affiliates and equity in earnings of affiliates relates primarily to Heritage's investment in Bi-State Propane (see Note 10), and is part of the domestic retail fuel segment. The following table presents the unaudited financial information by segment for the following periods:

For the Years Ended August 31,			
	2003	2002	2001
Gallons:			
Domestic retail fuel	375,939	329,574	330,242
Domestic wholesale fuel	15,343	16,798	12,741
Foreign wholesale fuel			
Affiliated	94,881	67,265	86,166
Unaffiliated	58,958	65,309	88,882
Elimination	(94,881)	(67,265)	(86,166)
Total	450,240	411,681	431,865

Revenues:			
Domestic retail fuel	$ 463,392	$ 365,334	$ 440,527
Domestic wholesale fuel	10,719	9,956	9,902
Foreign wholesale fuel			
Affiliated	59,126	33,561	55,798
Unaffiliated	36,647	31,248	49,977
Elimination	(59,126)	(33,561)	(55,798)
Liquids marketing	1,333	542	841
Other domestic revenues	59,385	55,245	42,728
Total	$ 571,476	$ 462,325	$ 543,975
Operating Income:			
Domestic retail fuel	$ 83,945	$ 55,901	$ 69,416
Domestic wholesale fuel	(2,903)	(3,940)	(1,163)
Foreign wholesale fuel			
Affiliated	784	500	578
Unaffiliated	2,608	1,914	1,996
Elimination	(784)	(500)	(578)
Liquids marketing	580	64	(110)
Total	$ 84,230	$ 53,939	$ 70,139

Gain on Disposal of Assets:			
Domestic retail fuel	$ 386	$ 544	$ 791
Domestic wholesale fuel	44	268	21
Total	$ 430	$ 812	$ 812
Minority Interest Expense:			
Corporate	$ 318	$ 213	$ 408
Foreign wholesale	558	361	406
Total	$ 876	$ 574	$ 814
Depreciation and amortization:			
Domestic retail fuel	$ 37,442	$ 36,550	$ 40,135
Domestic wholesale	494	426	277
Foreign wholesale	23	22	19
Total	$ 37,959	$ 36,998	$ 40,431

As of August 31,		
	2003	2002
Total Assets:		
Domestic retail	$ 691,900	$ 667,978
Domestic wholesale	12,197	14,372
Foreign wholesale	13,912	10,564
Liquids marketing	4,474	6,919
Corporate	16,356	17,431
Total	$ 738,839	$ 717,264
Additions to property, plant and equipment including acquisitions:		
Domestic retail fuel	$ 57,499	$ 39,904
Domestic wholesale	280	--
Foreign wholesale	--	46
Corporate	2,344	1,441
Total	$ 60,123	$ 41,391

Corporate assets include vehicles, office equipment and computer software for the use of administrative personnel. These assets are not allocated to segments.

Corporate minority interest expense relates to U.S. Propane's general partner interest in the Operating Partnership.

10. SIGNIFICANT INVESTEE:

Heritage holds a 50% interest in Bi-State Propane. Heritage accounts for its 50% interest in Bi-State Propane under the equity method. Heritage's investment in Bi-State Propane totaled $8,242 and $7,485 at August 31, 2003 and 2002, respectively. Heritage received distributions from Bi-State Propane of $535 and $400 for the years ended August 31, 2003 and 2002, respectively. On March 1, 2002, the Operating Partnership sold certain assets acquired in the ProFlame acquisition to Bi-State Propane for approximately $9,730 plus working capital. There was no gain or loss recorded on the transaction. This sale was made pursuant to the provision in the Bi-State Propane partnership agreement that requires each partner to offer to sell any newly acquired businesses within Bi-State Propane's area of operations to Bi-State Propane. In conjunction with this sale, the Operating Partnership guaranteed $5 million of debt incurred by Bi-State Propane to a financial institution. Based on the current financial condition of Bi-State Propane, Heritage considers the likelihood of the Partnership incurring a liability resulting from the guarantee to be remote. Heritage has not recorded a liability on the balance sheets as of August 31, 2003 or 2002 for this guarantee because the guarantee was in effect prior to the issuance of FIN 45, and there have been no amendments to the original guarantee.

Bi-State Propane's financial position is summarized below:

August 31, 2003	August 31, 2002
Current assets	$ 3,393	$ 3,321
Noncurrent assets	23,187	23,105
	$ 26,580	$ 26,426
Current liabilities	$ 3,701	$ 3,344
Long-term debt	7,750	9,450
Partners' capital:		
Heritage	8,242	7,485
Other partner	6,887	6,147
	$ 26,580	$ 26,426

Bi-State Propane's results of operations for the years ended August 31, 2003, 2002 and 2001, respectively are summarized below:

For the Years Ended August 31,	2003	2002	2001
Revenues	$ 22,536	$ 16,815	$ 19,184
Gross profit	10,507	8,934	8,055
Net income:			
Heritage	1,292	1,274	1,186
Other Partner	1,275		

1,329
1,353

11. QUARTERLY FINANCIAL DATA (UNAUDITED):

Summarized unaudited quarterly financial data is presented below. The sum of net income (loss) per limited partner unit by quarter may not equal the net income (loss) per limited partner unit for the year due to variations in the weighted average units outstanding used in computing such amounts. Heritage's business is seasonal due to weather conditions in its service areas. Propane sales to residential and commercial customers are affected by winter heating season requirements, which generally results in higher operating revenues and net income during the period from October through March of each year and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Sales to industrial and agricultural customers are much less weather sensitive.

Quarter Ended --				
Fiscal 2003:	November 30	February 28	May 31	August 31
Revenues	$ 113,460	$ 249,809	$ 125,739	$ 82,468
Gross Profit	56,440	121,389	58,958	37,533
Operating income (loss)	10,925	62,385	6,154	(9,271)
Net income (loss)	1,504	49,752	(2,166)	(17,948)
Basic and diluted net income (loss) per limited partner unit	$ 0.08	$ 3.03	$ (0.14)	$ (1.01)

Quarter Ended	Fiscal 2002 November 30	February 28	May 31	August 31
Revenues	$ 107,958	$ 184,002	$ 104,009	$ 66,356
Gross Profit	47,723	86,859	51,706	37,852
Operating income (loss)	3,870	39,138	4,434	(6,481)
Net income (loss)	(4,779)	30,130	(4,319)	(16,130)
Basic and diluted net income (loss) per limited partner unit	$ (0.32)	$ 1.89	$ (0.28)	$ (1.02)

12. SUBSEQUENT EVENT:

On November 6, 2003, Heritage signed a definitive agreement with La Grange Energy, L.P. to purchase substantially all of its midstream natural gas assets by acquiring La Grange Energy, L.P.'s interests in its subsidiary, La Grange Acquisition, L.P. whose midstream operations are conducted under the name Energy Transfer Company, in exchange for approximately $300 million in cash, repayment of outstanding indebtedness, and a combination of Partnership Common Units, Class D Units and Special Units. The transaction is valued at approximately $980 million. The Partnership will also acquire the stock of Heritage Holdings, Inc., which owns approximately 4.4 million common units of the Partnership for $100 million. La Grange Energy, L.P. will also purchase U.S. Propane, L.P., the General Partner of the Partnership, and U.S. Propane, L.L.C. from subsidiaries of AGL Resources, Atmos Energy Corporation, TECO Energy, Inc. and Piedmont Natural Gas Company, Inc.

INDEX TO EXHIBITS

The exhibits listed on the following Exhibit Index are filed as part of this report. Exhibits required by Item 601 of Regulation S-K, but which are not listed below, are not applicable.

Exhibit Number	Description
(1) 3.1	Agreement of Limited Partnership of Heritage Propane Partners, L.P. (10)
3.1.1	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (16)
3.1.2	Amendment No. 2 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (19)
3.1.3	Amendment No. 3 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (19)
3.1.4	Amendment No. 4 to Amended and Restated Agreement of Limited Partnership of Heritage Propane Partners, L.P. (1)
3.2	Agreement of Limited Partnership of Heritage Operating, L.P. (12)
3.2.1	Amendment No. 1 to Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (19)
3.2.2	Amendment No. 2 to

Amended and Restated Agreement of Limited Partnership of Heritage Operating, L.P. (18)

3.3 Amended Certificate of Limited Partnership of Heritage Propane Partners, L.P. (18)

3.4 Amended Certificate of Limited Partnership of Heritage Operating, L.P. (20)

4.1 Registration Rights Agreement for Limited Partner Interests of Heritage Propane Partners, L.P. (7)

10.1 First Amended and Restated Credit Agreement with Banks Dated May 31, 1999 (8)

10.1.1 First Amendment to the First Amended and Restated Credit Agreement dated as of October 15, 1999 (9)

10.1.2 Second Amendment to First Amended and Restated Credit Agreement dated as of May 31, 2000 (10)

10.1.3 Third Amendment dated as of August 10, 2000 to First Amended and Restated Credit Agreement (13)

10.1.4 Fourth Amendment to First Amended and Restated Credit Agreement dated as of December 28, 2000 (16)

10.1.5 Fifth Amendment to First

Amended and Restated Credit Agreement dated as of July 16, 2001 (1)

10.2 Form of Note Purchase Agreement (June 25, 1996)

Exhibit Number	Description
(3)	
10.2.1	Amendment of Note Purchase Agreement (June 25, 1996) dated as of July 25, 1996 (4)
10.2.2	Amendment of Note Purchase Agreement (June 25, 1996) dated as of March 11, 1997 (6)
10.2.3	Amendment of Note Purchase Agreement (June 25, 1996) dated as of October 15, 1998 (8)
10.2.4	Second Amendment Agreement dated September 1, 1999 to June 25, 1996 Note Purchase Agreement (11)
10.2.5	Third Amendment Agreement dated May 31, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement (10)
10.2.6	Fourth Amendment Agreement dated August 10, 2000 to June 25, 1996 Note Purchase Agreement and November 19, 1997 Note Purchase Agreement (13)
10.2.7	Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase

Agreement and August 10, 2000 Note Purchase Agreement (1) 10.3 Form of Contribution, Conveyance and Assumption Agreement among Heritage Holdings, Inc., Heritage Propane Partners, L.P. and Heritage Operating, L.P. (1) 10.6 Restricted Unit Plan (4) 10.6.1 Amendment of Restricted Unit Plan dated as of October 17, 1996 (12) 10.6.2 Amended and Restated Restricted Unit Plan dated as of August 10, 2000 (18) 10.6.3 Second Amended and Restated Restricted Unit Plan dated as of February 4, 2002 (12) 10.7 Employment Agreement for James E. Bertelsmeyer dated as of August 10, 2000 (18) 10.7.1 Consent to Assignment of Employment Agreement for James E. Bertelsmeyer dated February 3, 2002 (21) 10.7.2 Amendment 1 of Employment Agreement for James E. Bertelsmeyer dated August 10, 2002 (24) 10.7.3 Amendment 2 of Employment Agreement for James E. Bertelsmeyer dated April 1, 2003 (12) 10.8 Employment Agreement

	for R. C. Mills dated as of August 10, 2000	
(18)	10.8.1	Consent to Assignment of Employment Agreement for R.C. Mills dated February 3, 2002
(12)	10.10	Employment Agreement for H. Michael Krimbill dated as of August 10, 2000
(18)	10.10.1	Consent to Assignment of Employment Agreement for H. Michael Krimbill dated February 3, 2002
(12)	10.11	Employment Agreement for Bradley K. Atkinson dated as of August 10, 2000
(18)	10.11.1	Consent to Assignment of Employment Agreement for Bradley K. Atkinson dated February 3, 2002

Exhibit Number	Description
(12) 10.13	Employment Agreement for Mark A. Darr dated as of August 10, 2000 (18)
10.13.1	Consent to Assignment of Employment Agreement for Mark A. Darr dated February 3, 2002 (12)
10.14	Employment Agreement for Thomas H. Rose dated as of August 10, 2000 (18)
10.14.1	Consent to Assignment of Employment Agreement for Thomas H. Rose dated February 3, 2002 (12)
10.15	Employment Agreement for Curtis L. Weishahn dated as of August 10, 2000 (18)
10.15.1	Consent to Assignment of Employment Agreement for Curtis L. Weishahn dated February 3, 2002 (5)
10.16	Note Purchase Agreement dated as of November 19, 1997
(6) 10.16.1	Amendment dated October 15, 1998 to November 19, 1997 Note Purchase Agreement
(8) 10.16.2	Second Amendment Agreement dated September 1, 1999 to November 19, 1997 Note Purchase Agreement

and June 25, 1996 Note Purchase Agreement (9) 10.16.3 Third Amendment Agreement dated May 31, 2000 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement (10) 10.16.4 Fourth Amendment Agreement dated August 10, 2000 to November 19, 1997 Note Purchase Agreement and June 25, 1996 Note Purchase Agreement (13) 10.16.5 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement (10) 10.17 Contribution Agreement dated June 15, 2000 among U.S. Propane, L.P., Heritage Operating, L.P. and Heritage Propane Partners, L.P. (10) 10.17.1 Amendment dated August 10, 2000 to June 15, 2000 Contribution Agreement (10) 10.18 Subscription Agreement dated June 15, 2000 between

Heritage Propane Partners, L.P. and individual investors (10)

10.18.1 Amendment dated August 10, 2000 to June 15, 2000 Subscription Agreement (16)

10.18.2 Amendment Agreement dated January 3, 2001 to the June 15, 2000 Subscription Agreement. (17)

10.18.3 Amendment Agreement dated October 5, 2001 to the June 15, 2000 Subscription Agreement. (10)

10.19 Note Purchase Agreement dated as of August 10, 2000 (13)

10.19.1 Fifth Amendment Agreement dated as of December 28, 2000 to June 25, 1996 Note Purchase Agreement, November 19, 1997 Note Purchase Agreement and August 10, 2000 Note Purchase Agreement

Exhibit Number	Description
(14) 10.19.2	First Supplemental Note Purchase Agreement dated as of May 24, 2001 to the August 10, 2000 Note Purchase Agreement (15) 10.20 Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of ProFlame, Inc. and Heritage Holdings, Inc. (15) 10.21 Stock Purchase Agreement dated as of July 5, 2001 among the shareholders of Coast Liquid Gas, Inc. and Heritage Holdings, Inc. (15) 10.22 Agreement and Plan of Merger dated as of July 5, 2001 among California Western Gas Company, the Majority Stockholders of California Western Gas Company signatories thereto, Heritage Holdings, Inc. and California Western Merger Corp. (15) 10.23 Agreement and Plan of Merger dated as of July 5, 2001 among Growth Properties, the Majority Shareholders signatories thereto, Heritage Holdings, Inc. and Growth Properties Merger Corp. (15) 10.24 Asset

Purchase Agreement dated as of July 5, 2001 among L.P.G. Associates, the Shareholders of L.P.G. Associates and Heritage Operating, L.P. (15)

10.25 Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P. (15)

10.25.1 Amendment to Asset Purchase Agreement dated as of July 5, 2001 among WMJB, Inc., the Shareholders of WMJB, Inc. and Heritage Operating, L.P. (18)

10.26 Assignment, Conveyance and Assumption Agreement between U.S. Propane, L.P. and Heritage Holdings, Inc., as the former General Partner of Heritage Propane Partners, L.P. dated as of February 4, 2002 (18)

10.27 Assignment, Conveyance and Assumption Agreement between U.S. Propane, L.P. and Heritage Holdings, Inc., as the former General Partner of Heritage Operating, L.P., dated as of February 4, 2002 (22)

10.28 Assignment for Contribution of Assets in Exchange for Partnership

Interest dated December 9, 2002 among V-1 Oil Co., the shareholders of V-1 Oil Co., Heritage Propane Partners, L.P. and Heritage Operating, L.P. (23)

10.29 Employment Agreement for Michael L. Greenwood dated as of July 1, 2002 (*)

10.30 Acquisition Agreement dated November 6, 2003 among the owners of U.S. Propane, L.P. and U.S. Propane, L.L.C. and La Grange Energy, L.P. (*)

10.31 Contribution Agreement dated November 6, 2003 among La Grange Energy L.P. and Heritage Propane Partners, L.P. and U.S. Propane, L.P. (*)

10.32 Stock Purchase Agreement dated November 6, 2003 among the owners of Heritage Holdings, Inc. and Heritage Propane Partners, L.P. (*)

21.1 List of Subsidiaries (*)

23.3 Consent of Grant Thornton LLP (*)

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)

31.2 Certification of Chief Financial Officer pursuant to Section 302

	of the Sarbanes-Oxley Act of 2002 (*)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit Number	Description
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)
99.1	Financial Statements of U.S. Propane, L.P. as of August 31, 2003 (*)
99.2	Financial Statements of Bi-State Propane Partnership (*)
99.3	Financial Statements of U.S. Propane, L.L.C. as of August 31, 2003

- ----------

(1) Incorporated by reference to the same numbered Exhibit to Registrant's Registration Statement of Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.

(2) Incorporated by reference to Exhibit 10.11 to Registrant's Registration Statement on Form S-1, File No. 333-04018, filed with the Commission on June 21, 1996.

(3) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended November 30, 1996.

(4) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended February 28, 1997.

(5) Incorporated by reference to the same numbered Exhibit to Registrant's Form 10-Q for the quarter ended May 31, 1998.

(6) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1998.

(7) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 1999.

(8) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 1999.

(9) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2000.

(10) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 23, 2000.

(11) File as Exhibit 10.16.3.

(12) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2000.

(13) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2001.

(14) Incorporated by reference to the same numbered Exhibit to the

Registrant's Form 10-Q for the quarter ended May 31, 2001.

(15) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated August 15, 2001.

(16) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2001.

(17) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended November 30, 2001.

(18) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended February 28, 2002.

(19) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2002.

(20) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated February 4, 2002.

(21) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-K for the year ended August 31, 2002.

(22) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 8-K dated January 6, 2003.

(23) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended November 30, 2002.

(24) Incorporated by reference to the same numbered Exhibit to the Registrant's Form 10-Q for the quarter ended May 31, 2003.

(*) Filed herewith.

EXHIBIT 10.30

==========

ACQUISITION AGREEMENT

BY AND AMONG

U.S. PROPANE, L.P.,
U.S. PROPANE, L.L.C.,
AGL PROPANE SERVICES, INC., AGL ENERGY CORPORATION,
UNITED CITIES PROPANE GAS, INC.,
TECO PROPANE VENTURES, LLC,
PIEDMONT PROPANE COMPANY,

AND

LA GRANGE ENERGY, L.P.

NOVEMBER 6, 2003

==========

Execution Copy
Dates as of November 6, 2003

TABLE OF CONTENTS

ACQUISITION AGREEMENT

This ACQUISITION AGREEMENT (as amended, supplemented or otherwise modified from time to time in accordance with the terms hereof, this "Agreement"), dated as of November 6, 2003, is made and entered into, by and among U.S. Propane, L.P., a Delaware limited partnership ("U.S. Propane"), U.S. Propane, L.L.C., a Delaware limited liability company (the "GP"), AGL Propane Services, Inc. and AGL Energy Corporation, each a Delaware corporation (collectively, "AGL"), United Cities Propane Gas, Inc., a Tennessee corporation ("Atmos"), TECO Propane Ventures, LLC, a Delaware limited liability company ("TECO"), and Piedmont Propane Company, a North Carolina corporation ("Piedmont") (each of AGL, Atmos, TECO and Piedmont, a "Venturer" and collectively, the "Venturers"), and La Grange Energy, L.P., a Texas limited partnership (the "Acquirer").

RECITALS:

A. The Venturers own all of the outstanding member interests in the GP and all of the outstanding limited partner interests in U.S. Propane.

B. The parties desire to enter into a series of transactions whereby Acquirer will become the sole member of the GP and the sole limited partner of U.S. Propane, as more fully described in this Agreement.

C. In consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 DEFINITIONS. As used in this Agreement, the following defined terms shall have the meanings indicated below:

"Acquirer Indemnified Parties" means the Acquirer and its Affiliates, and their respective managers, directors, officers, members, employees and representatives (in each case in their respective capacity as such).

"Affiliate" means, with respect to a Person, (a) any other Person more than 50 percent of whose outstanding voting securities are directly or indirectly owned, controlled or held with the power to vote by such Person and (b) any other Person directly or indirectly controlling, controlled by or under common control with such Person. The term "controls" (and the variants thereof) as used in this definition means the possession of the power, acting alone, to direct or cause the direction of the management and policies of a Person by virtue of ownership of voting securities or otherwise.

"Applicable Law" means any Law to which a specified Person or property is subject.

"Assets and Properties" means, with respect to any Person, all assets and properties of every kind, nature, character and description (whether real, personal or mixed, whether tangible

or intangible, whether absolute, accrued, contingent, fixed or otherwise and wherever situated), including the goodwill related thereto, operated, owned or leased by such Person, including cash, cash equivalents, securities and investments, accounts and notes receivable, chattel paper, documents, instruments, contracts, general intangibles, real estate, equipment, inventory and goods.

"Benefit Plan(s)" means any Pension Plan, Welfare Plan, bonus, deferred compensation, incentive compensation, stock ownership, stock purchase, stock option, phantom stock, retirement, vacation, severance, disability, death benefit, hospitalization, medical, dependent care, cafeteria, employee assistance, scholarship or other plan, program, arrangement or understanding (whether or not covered under 3(3) of ERISA and whether or not legally binding) maintained in whole or in part, contributed to, or required to be contributed to by U.S. Propane or GP for the benefit of any present or former officer, employee or director of U.S. Propane or GP.

"Business Day" means a day other than Saturday, Sunday or any day on which banks located in the State of Texas or Oklahoma are authorized or obligated to close.

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to a corresponding provision of any successor law.

"Common Unit" means a Common Unit as defined in the Heritage MLP Partnership Agreement.

"Contract" means any agreement, contract, obligation, promise, or undertaking (whether written or oral and whether express or implied) that is legally binding.

"Contribution Agreement" means that certain Contribution Agreement, dated as of November 6, 2003, by and among Heritage MLP, U.S. Propane and the Acquirer.

"Current Assets" shall have the meaning assigned to such term and shall be calculated in accordance with Exhibit 1.1(e).

"Current Liabilities" shall have the meaning assigned to such term and shall be calculated in accordance with Exhibit 1.1(f).

"DRULPA" means the Delaware Revised Uniform Limited Partnership Act, as amended and in effect from time to time. Any reference to a specific section or sections of DRULPA shall be deemed to include a reference to a corresponding provision of any successor law.

"Encumbrance" means any security interest, lien, pledge, claim, charge, escrow, encumbrance, option, right of first offer, right of first refusal, preemptive right, mortgage, indenture, security agreement or other similar agreement, arrangement, contract, commitment, understanding or obligation, whether written or oral and whether or not relating in any way to credit or the borrowing of money.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974 (or any successor legislation thereto), as amended from time to time and any regulations promulgated thereunder.

"ERISA Affiliate" shall mean, with respect to the GP and U.S. Propane, any trade or business (whether or not incorporated) under common control with the GP or U.S. Propane and which, together with the GP or U.S. Propane, are treated as a single employer within the meaning of Sections 414(b) or (c) of the Code, excluding the Venturers and the Acquirer and each other Person that would not be an ERISA Affiliate if the Acquirer did not own any issued and outstanding Securities of the GP or U.S. Propane.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"GAAP" means generally accepted accounting principles as in effect in the United States of America on the applicable date.

"General Partner Status Liability" means a Liability arising pursuant to Section 17-403(b) of DRULPA on account of a person's status as the general partner of a limited partnership, but excluding any Liability existing as of the Closing Date and arising on account of such status on or prior to the Closing Date by virtue of Section 17-403(d)(3) and (5) of the DRULPA; provided, however, that exclusion of any Liability that may arise on account of such status by virtue of Section 17-403(d)(3) and (5) of DRULPA shall not exclude from the General Partner Status Liability any Retained Liabilities described in Sections 3.3(c)(iv) through (ix).

"Governmental Authority" means a federal, state, local or foreign governmental authority; a state, province, commonwealth, territory or district thereof; a county or parish; a city, town, township, village or other municipality; a district, ward or other subdivision of any of the foregoing; any executive, legislative or other governing body of any of the foregoing; any agency, authority, board, department, system, service, office, commission, committee, council or other administrative body of any of the foregoing; any court or other judicial body; and any officer, official or other representative of any of the foregoing.

"Heritage Entities" means Heritage MLP, Heritage OLP and the following entities: M-P Oils, Ltd., an Alberta, Canada, corporation, Heritage-Bi State, L.L.C., a Delaware limited liability company, Heritage Energy Resources, L.L.C., an Oklahoma limited liability company, Heritage Service Corp., a Delaware corporation, 902 Gilbert Street, LLC, a North Carolina limited liability company, EarthAmerica, L.L.C., a Delaware limited liability company, EarthAmerica GP, L.L.C., a Delaware limited liability company, and EarthAmerica of Texas, L.P., a Texas limited partnership.

"Heritage MLP" means Heritage Propane Partners, L.P., a Delaware limited partnership.

"Heritage MLP Partnership Agreement" means the Amended and Restated Agreement of Limited Partnership of Heritage MLP dated as of June 27, 1996, as amended or supplemented and in effect as of the date hereof.

"Heritage OLP" means Heritage Operating, L.P., a Delaware limited partnership.

"Heritage OLP Partnership Agreement" means the Amended and Restated Agreement of Limited Partnership of Heritage OLP dated as of June 27, 1996, as amended or supplemented and in effect as of the date hereof.

"HHI" means Heritage Holdings, Inc., a Delaware corporation.

"HHI Purchase Agreement" means that certain Stock Purchase Agreement, dated as of November 6, 2003, among Heritage MLP and the Venturers relating to the purchase by Heritage MLP of all of the capital stock of HHI.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Incentive Distribution Right" means an Incentive Distribution Right as defined in the Heritage MLP Partnership Agreement.

"Indebtedness" means (a) all indebtedness of the GP and U.S. Propane, including the principal of, and premium, if any, and interest (including interest accruing after the filing of a petition initiating any proceeding under any federal or state bankruptcy laws, whether or not allowable as a claim in such proceeding) on, all indebtedness, whether outstanding as of the date of this Agreement or hereafter created (i) for borrowed money, (ii) for money borrowed by others and guaranteed, directly or indirectly, by the GP or U.S. Propane (excluding indebtedness of Heritage MLP, Heritage OLP or any of their subsidiaries that has not been guaranteed directly by the GP or U.S. Propane but for which the GP or U.S. Propane may have liability under applicable state law in respect of such entity's capacity as, in the case of U.S. Propane, the general partner of Heritage MLP or Heritage OLP and, in the case of the GP, the general partner of U.S. Propane), (iii) for money borrowed by others for which the GP or U.S. Propane provides security, (iv) constituting purchase money indebtedness the payment of which the GP or U.S. Propane is directly or contingently liable (excluding indebtedness of Heritage MLP, Heritage OLP or any of their subsidiaries that has not been guaranteed directly by the GP or U.S. Propane but for which the GP or U.S. Propane may have liability under applicable state law in respect of such entity's capacity as, in the case of U.S. Propane, the general partner of Heritage MLP or Heritage OLP and, in the case of the GP, the general partner of U.S. Propane), (v) under any lease of any real or personal property, which obligations are capitalized on the books of the GP or U.S. Propane in accordance with GAAP or (vi) under any other arrangement under which obligations are recorded as indebtedness on the books of the GP or U.S. Propane in accordance with GAAP and (b) any modifications, refundings, deferrals, renewals or extensions of any such Indebtedness, or securities, notes or other evidences of indebtedness issued in exchange for such Indebtedness.

"IRS" means the Internal Revenue Service.

"Knowledge" means, with respect to each of the Venturers, the actual knowledge of the Persons specified in Exhibit 1.1(a) hereto, after making appropriate inquiry. As used herein, the Parties agree that appropriate inquiry by the Venturers shall mean inquiring of the following executive officers of U.S. Propane: president, chief executive officer, chief operating officer,

chief financial officer, treasurer, vice president - corporate development, and vice president(s) for the southern, northern and western operations.

"Law" means any applicable constitutional provision, statute, act, code (including the Code), law, regulation, rule, ordinance, order, decree, ruling, proclamation, resolution, judgment, decision, declaration, or interpretative or advisory opinion or letter of a Governmental Authority having valid jurisdiction.

"Legal Expenses" means the reasonable out-of-pocket fees, costs and expenses of any kind incurred by any Person entitled to indemnification pursuant to Article 10 in investigating, preparing for, defending against, providing evidence, producing documents or taking other action with respect to any claim as to which such person is entitled to indemnification pursuant to Article 10.

"Liabilities" means all Indebtedness, obligations and other liabilities (or contingencies that have not yet become liabilities but which, after the passage of time, the occurrence of some event or a combination of same, will become a liability) of a Person, whether absolute, accrued, contingent (or based upon any contingency), known or unknown, unliquidated, fixed or otherwise, or whether due or to become due.

"Losses" means losses, damages, liabilities, claims, costs and expenses (including, without limitation, related Legal Expenses), but excluding lost profits or special, consequential, exemplary or punitive damages.

"Material Adverse Effect" means material adverse effect on (i) the financial condition, business, properties, net worth, prospects or results of operations of the GP and U.S. Propane, taken as a whole, including any condition (other than any condition resulting from general economic conditions or weather, seasonality or other conditions that may affect the industry of the Heritage Entities and their Subsidiaries generally) affecting Heritage MLP that would be reasonably likely to reduce amounts to be distributed under the Incentive Distribution Rights, (ii) the ability of any Person to consummate the transactions contemplated by this Agreement and the Operative Documents or (iii) the legality, validity or enforceability of this Agreement and the other Operative Documents.

"Material Contracts" means (i) the Heritage MLP Partnership Agreement, (ii) the Heritage OLP Partnership Agreement, (iii) all Contracts of the GP and U.S. Propane which involve aggregate payments over the term of each such Contract by or to the GP or U.S. Propane of more than $20,000 or which extend for a term of more than one year from the date hereof and are not cancelable upon 60 days' or less advance notice without penalty, (iv) all loan agreements, bank lines or credit agreements, indentures, mortgages, deeds of trust, pledge and security agreements, letters of credit or other debt instruments to which the GP or U.S. Propane is a party, (v) all employment contracts to which the GP or U.S. Propane is a party, (vi) any guarantees by the GP or U.S. Propane, (vii) all non competition and other similar agreements to which the GP or U.S. Propane is a party and (viii) all other material contracts of the GP and U.S. Propane.

"Member Interests" means the member interests in the GP, which member interests constitute all of the issued and outstanding member interests of the GP.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA, and to which the GP or U.S. Propane is making, is obligated to make, has made or been obligated to make, contributions on behalf of participants who are or were employed by any of them.

"Noncompetition Agreement" means the Noncompetition Agreement to be entered into at the Closing among AGL Resources Inc., AGL, Atmos Energy Corporation, Atmos, TECO Energy, Inc., TECO, Piedmont Natural Gas Company, Inc., Piedmont and U.S. Propane, in substantially the form attached as Exhibit 1.1(c).

"Operative Documents" means this Agreement, the Contribution Agreement, the Noncompetition Agreement, the Unitholder Rights Agreement, a release of U.S. Propane and the GP from all obligations under the HHI Note, and all other agreements to be executed and delivered pursuant to this Agreement between the GP, U.S. Propane, NewLP or one or more Venturers or their Affiliates, on the one hand, and the Acquirer or one or more of its Affiliates, on the other hand, as modified or amended from time to time.

"Original Formation Agreements" means (i) the Amended and Restated Formation Agreement, dated effective as of June 15, 2000 (the "Formation Agreement"), by and among AGL Resources Inc., AGL Investments, Inc., AGL, Atmos Energy Corporation, Atmos Propane, Inc., Atmos, Teco Energy, Inc., TECO, Piedmont Natural Gas Company, Inc., PNG Energy Company, Piedmont, U.S. Propane and the GP, (ii) the GP LLC Agreement, (iii) the U.S. Propane Agreement, (iv) the Transfer Restriction Agreement, dated as of August 10, 2000 (the "Transfer Restriction Agreement"), among the parties to the Formation Agreement (other than Atmos Propane, Inc.), (v) the Collateral Agent Agreement, dated as of August 10, 2000, between U.S. Propane and the Secured Parties named therein, (vi) the NonCompetition Agreement, among the parties to the Formation Agreement (other than Atmos Propane, Inc.), (vii) the Contribution Agreement, dated as of June 15, 2000, as amended, by and among U.S. Propane, Heritage OLP and Heritage MLP (the "Original Contribution Agreement"), (viii) the Indemnification Agreement, dated as of August 10, 2000, between U.S. Propane and HHI (the "Original Indemnification Agreement"), (ix) the Indemnification Agreement, dated as of February 4, 2002, between HHI and U.S. Propane (the "Replacement Indemnification Agreement", (x) the Conveyance and Assignment Agreement, dated as of August 10, 2000, between U.S. Propane and Heritage OLP, (xi) the Stock Purchase Agreement, dated as of June 15, 2000 among U.S. Propane, the Heritage GP Stockholders (as defined therein) and FHS Investments, L.L.C. (the "Stock Purchase Agreement"), and (xii) the Subscription Agreement, dated as of June 15, 2000, as amended, among Heritage MLP and the parties to the Stock Purchase Agreement (other than U.S. Propane and FHS Investments, L.L.C.).

"Organization State" means, as applied to (i) any corporation, its state or other jurisdiction of incorporation, (ii) any limited liability company or limited partnership, the state or other jurisdiction under whose laws it is formed, organized and existing in that legal form, and (iii) any other entity, the state or other jurisdiction whose laws govern that entity's internal affairs.

"Partner Interests" means the limited partner interests in U.S. Propane, which limited partner interests constitute 99.99% of the outstanding partner interests of U.S. Propane.

"Pension Plan(s)" means any "employee pension benefit plan" as such term is defined in Section 3(1) of ERISA that is or was sponsored by U.S. Propane, or GP, or to which U.S. Propane or GP is or was obligated to contribute.

"Permits" means licenses, permits, franchises, consents, approvals, variances, exemptions and other authorizations of or from Governmental Authorities.

"Permitted Encumbrances" with respect to the GP, U.S. Propane, NewLP or any of their respective Subsidiaries, means (a) the Encumbrances set forth in the Schedules to this Agreement, and specifically identified as such, (b) liens for Taxes not yet due and payable or the validity of which is being contested in good faith by appropriate legal proceedings and for which adequate reserves have been set aside, (c) statutory liens (including materialmen's, mechanic's, repairmen's, landlord's and other similar liens) arising in connection with the ordinary course of business securing payments not yet due and payable or, if due and payable, the validity of which is being contested in good faith by appropriate legal proceedings and for which adequate reserves have been set aside, and (d) such imperfections or irregularities of title, if any, as (i) are not substantial in character, amount or extent and do not materially detract from the value of the property subject thereto, (ii) do not materially interfere with either the present or intended use of such property and (iii) do not, individually or in the aggregate, materially interfere with the conduct of the business of the GP, U.S. Propane, NewLP or any of their respective Subsidiaries.

"Person" means any individual, corporation, firm, partnership, limited partnership, limited liability company, joint venture, association, joint-stock company, trust, enterprise, other entity, unincorporated association or Governmental Authority.

"Proceedings" means all proceedings, actions, claims, suits, investigations and inquiries by or before any arbitrator or Governmental Authority.

"SEC" means the United States Securities and Exchange Commission.

"SEC Filings" means all forms, reports, schedules, statements and other documents (including all amendments thereto) filed with the SEC by Heritage MLP since January 1, 2000 under the Securities Act and the rules and regulations promulgated thereunder or the Exchange Act and the rules and regulations promulgated thereunder.

"Securities" means, collectively, the Member Interests and the Partner Interests.

"Securities Act" means the Securities Act of 1933, as amended, of the United States of America and the rules and regulations of the SEC promulgated thereunder.

"Subsidiary" means as to any Person, (a) any corporation more than 50 percent of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (excluding stock of any class or classes of such corporation that might have voting power by reason of the happening of any contingency) is at the time owned by such Person and/or one or more Subsidiaries of such Person and (b) any partnership, limited partnership, limited liability company, joint venture, association, joint-stock company, trust, enterprise, other entity or unincorporated association in which such Person

and/or one or more Subsidiaries of such Person has more than a 50 percent equity interest at the time.

"Tax Return" means any return or report, including any related or supporting information, with respect to Taxes.

"Taxes" means any income taxes or similar assessments or any sales, gross receipts, excise, occupation, use, ad valorem, property, production, severance, transportation, employment, payroll, franchise or other tax imposed by any United States federal, state or local (or any foreign or provincial) taxing authority, including any interest, penalties or additions attributable thereto.

"Transfer" means, directly or indirectly, any sale, transfer, assignment, hypothecation, pledge or other disposition of any of the Securities or any interests therein.

"Unitholder Rights Agreement" means that certain Unitholder Rights Agreement to be entered into at the Closing among HHI, NewLP, Acquirer and Heritage MLP, substantially in the form of Exhibit 1.1(d) hereto.

"U.S. Propane Business" means all of the business activities of the GP and U.S. Propane as currently conducted.

"Venturer Indemnified Parties" means NewLP and the Venturers, and their respective Affiliates, managers, directors, officers, members, employees and representatives, in each case in their respective capacity as such.

"Welfare Plan(s)" means any "employee welfare benefit plan" as such term is defined in Section 3(1) of ERISA that is or was sponsored by U.S. Propane or the GP, or to which U.S. Propane or the GP was obligated to contribute.

1.2 CERTAIN ADDITIONAL DEFINITIONS. In addition to such terms as are defined in Section 1.1, the following terms are used in ---------- this Agreement and defined in the Sections set forth opposite such terms:

DEFINED TERM	SECTION REFERENCE
Acquirer	Preamble
AGL	Preamble
Agreement	Preamble
Applicable Environmental Laws	4.18(a)
Assumed Liabilities	3.3(b)
Atmos	Preamble
August Financial Statements	4.9(a)
CERCLA	4.18(a)
Closing	2.1
Closing Date	2.1
Financial Statements	4.9(a)
Financial Statement Date	4.9(a)

GP	Preamble
GP Interests Note	3.13(f)
GP LLC Agreement	4.2(a)
Hazardous Substance	4.18(c)
HHI Conveyances	3.3(a)
HHI Note	3.3(b)(iii)
Indemnified Party	10.3(a)
MLP Note	3.6(b)
Indemnifying Party	10.3(a)
NewGP	3.1
NewLP	3.1
NewLP Assets	3.3(b)
Piedmont	Preamble
Post-Signing Events	7.6
Pre-Signing Events	7.6
Purchase Price	3.4
RCRA	4.18(a)
Retained Assets	3.3(a)
Retained Liabilities	3.3(c)
Solid Waste	4.18(c)
TECO	Preamble
Third Party Action	10.3(a)
Transfer Instruments	3.3(e)
U.S. Propane	Preamble
U.S. Propane Agreement	4.2(a)
Venturer Board Member	3.6(b)
Venturers	Preamble
WARN	7.10

1.3 RULES OF CONSTRUCTION. Unless the context otherwise requires, (a) the gender (or lack of gender) of all words used in this Agreement includes the masculine, feminine and neuter; (b) the term "include" or "includes" means "includes, without limitation", and "including" means "including, without limitation"; references to Articles and Sections refers to Articles and Sections of this Agreement; (c) references to Exhibits or Schedules refer to the Exhibits and Schedules attached to this Agreement, which are made a part hereof for all purposes; (d) references to Laws refer to such Laws as they may be amended from time to time, and references to particular provisions of a Law include any corresponding provisions of any succeeding Law; and (e) references to money refer to legal currency of the United States of America.

ARTICLE II
CLOSING

2.1 CLOSING. Subject to the terms and conditions hereof, the closing (the "Closing") of the transactions described in Article 3 will take place at the time and place provided for in the Contribution Agreement on the third Business Day following the date on which the last of the conditions to Closing set forth in Sections 8.1 and 8.2 have been satisfied or waived by the party

or parties entitled to waive the same (the date and time of the Closing are herein referred to as the "Closing Date"). At the Closing, there shall be delivered the opinions, certificates and other agreements, documents and instruments to be delivered under Article 8. Except for purposes of Article 3, all Closing transactions will be deemed to have occurred simultaneously.

ARTICLE III
CLOSING TRANSACTIONS

3.1 FORMATION OF NEWLP. Prior to the Closing, the Venturers shall form NewGP ("NewGP"), which the Venturers will own in the same relative percentages as their existing ownership of the GP as set forth on Exhibit 3.1. Prior to the Closing, the Venturers and NewGP shall also form NewLP ("NewLP"), which the Venturers and NewGP will own in the same relative percentages as the existing ownership of U.S. Propane and the GP, respectively, as set forth on Exhibit 3.1.

3.2 TRANSFER OF EQUITY OWNERSHIP OF U.S. PROPANE. Immediately prior to the transactions described in Section 3.3, the declaration by HHI of the dividend described in Section 6.13(a) of the HHI Purchase Agreement and the declaration and payment by HHI of the dividend described in Section 6.13(b) of the HHI Purchase Agreement (a) the Venturers will assign, transfer and convey all of their respective Member Interests in the GP to NewGP and (b) NewGP and the Venturers will assign, transfer and convey all of their Member Interests in the GP and all of their Partner Interests in U.S. Propane to NewLP. As a consequence of the transactions described in this Section 3.2, (i) NewLP will become the sole member of the GP (which is the sole general partner of U.S. Propane) and the sole limited partner of U.S. Propane, and (ii) the Venturers shall cease to have any direct member interest or limited partner interest in the GP or U.S. Propane, including any rights to receive distributions directly from the GP or U.S. Propane.

3.3 TRANSFER OF ASSETS AND LIABILITIES TO NEWLP.

(a) Immediately prior to the Closing, U.S. Propane will distribute, assign, transfer, deliver and convey, without consideration, to NewLP, and NewLP will accept, all of the Assets and Properties of U.S. Propane, including all of the stock of HHI, all rights and obligations of U.S. Propane under the Original Formation Agreements (other than the agreements referred to in clauses (ii), (iii), (viii), (ix) and (xi) of the definition of Original Formation Agreements), all obligations (but not the rights) of U.S. Propane under the Original Contribution Agreement) and the 180,028 common units of Heritage MLP that are owned by U.S. Propane, but save and except for the following (collectively, the "Retained Assets"): (i) U.S. Propane's right to serve as the general partner of Heritage MLP and Heritage OLP, including all rights to exercise the rights and powers conferred upon U.S. Propane as a general partner pursuant to the Heritage MLP Partnership Agreement and the agreement of limited partnership of Heritage OLP, (ii) all Current Assets of U.S. Propane up to the amount of Current Liabilities of U.S. Propane, and cash balances held in the escrow accounts at Bank of Oklahoma, National Association in respect of non-compete payments owed under non-compete agreements entered into in connection with acquisitions by or on behalf of Heritage MLP, (iii) a one percent right to all allocations of income, gain, loss, deduction and credit from, the associated capital account balance of, and all associated distributions from, Heritage MLP, (iv) a 1.0101% percent right to all allocations of income, gain, loss, deduction and credit from, the associated capital account balance of, and all

associated distributions from, Heritage OLP, (v) the Incentive Distribution Rights, (vi) the rights and obligations of U.S. Propane under the agreements referred to in clauses (ii), (iii), (viii), (ix) and (xi) of the definition of Original Formation Agreements, (vii) all rights (but not the obligations) of U.S. Propane under the Original Contribution Agreement and all rights and obligations of U.S. Propane under (A) this Agreement and the Operative Documents to the extent arising after the Closing or (B) the Contribution Agreement, (viii) all rights of the GP or U.S. Propane resulting from or relating to any employment agreement or the employment relationship with present or former employees or independent contractors (other than independent contractors engaged for the purpose of representing the Venturers in connection with the transactions contemplated by this Agreement) of the GP or U.S. Propane, to the extent arising from the activities of such independent contractors on behalf of the Heritage Entities, (ix) all rights of the GP or U.S. Propane under any agreement, trust, plan, fund or other arrangement (whether pursuant to ERISA or otherwise) under which benefits are, or employment is, provided for present or former employees or independent contractors of the GP or U.S. Propane (including, without limitation, all rights of the GP or U.S. Propane under the employment agreements referred to in Section 8.1(j) hereof), (x) any rights to reimbursements from any Heritage Entities for Retained Liabilities, and (xi) those certain assets related to the operations of Heritage MLP and Heritage OLP conducted by HHI that were assigned and conveyed by HHI to U.S. Propane pursuant to that certain Assignment, Conveyance and Assumption Agreement (HPP) and that certain Assignment, Conveyance and Assumption Agreement (Operating), each dated as of February 4, 2002 (the "HHI Conveyances"). The Assets and Properties of U.S. Propane to be contributed or transferred to NewLP pursuant to this Section 3.3(a) are referred to herein collectively as the "NewLP Assets."

(b) Immediately prior to the Closing, NewLP will assume all Liabilities of U.S. Propane and of the GP that exist immediately prior to the Closing (whether or not known to U.S. Propane, the GP or the Venturers), except as set forth in Section 3.3(c) (collectively, the "Assumed Liabilities"). Without limiting the generality of the foregoing, and except as set forth in Section 3.3(c), the Assumed Liabilities include the following:

(i) all Liabilities of the GP or U.S. Propane that arise directly on account of any of the NewLP Assets;

(ii) any Liability of the GP or U.S. Propane existing at or arising after the date hereof under any leases, contracts, agreements or permits included in the NewLP Assets, including any indemnification obligations of U.S. Propane to Heritage OLP or Heritage MLP pursuant to the Original Contribution Agreement;

(iii) any Liability of the GP or U.S. Propane arising under any Indebtedness (other than any such Liability that may arise under the Original Indemnification Agreement and excluding any General Partner Status Liability), including all obligations in respect of that certain $11,538,944.36 promissory note payable by U.S. Propane to HHI (the "HHI Note");

(iv) any Liability or deficiency of the GP or U.S. Propane for any Taxes, to the extent applicable to periods (or portions thereof) ending on or prior to the Closing Date;

(v) all Liabilities of the GP or U.S. Propane to the extent arising from actions or inactions by the GP or U.S. Propane prior to the Closing and resulting from, caused by or arising out of or imposed pursuant to, the violation of any Applicable Law, including any Environmental Law (excluding any General Partner Status Liability of the GP or U.S. Propane existing solely as a result of their respective status as the general partner of U.S. Propane (in the case of the GP) or Heritage MLP or Heritage OLP (in the case of U.S. Propane));

(vi) all fees and expenses incurred or to be incurred by the GP (to the extent relating to the period prior to the Closing), U.S. Propane (to the extent relating to the period prior to the Closing), NewLP or the Venturers or their Affiliates in connection with the negotiation, execution, delivery and performance of this Agreement and the other Operative Documents, including investment banking fees, legal fees or similar transaction costs, but excluding any payments due under any change in control provisions to which any of the GP, U.S.Propane or any of the Heritage Entities is a party; and

(vii) all Liabilities of the GP or U.S. Propane to make reimbursements or make payments of indemnification of any kind to any person with respect to any of the Assumed Liabilities.

(c) Notwithstanding Section 3.3(b), (i) U.S. Propane will retain all General Partner Status Liabilities of U.S. Propane existing as of the Closing Date solely as a result of its status as the general partner of Heritage MLP or Heritage OLP, (ii) the GP will retain all General Partner Status Liabilities of the GP existing as of the Closing Date solely as a result of its status as the general partner of U.S. Propane (and not any other partnership), (iii) U.S. Propane and the GP will retain all General Partner Status Liabilities relating to the service or status of U.S. Propane as the general partner of Heritage MLP and Heritage OLP for all periods on and after the Closing Date, (iv) U.S. Propane and the GP will retain all Liabilities resulting from or relating to any employment agreement or relationship with current or former employees, or independent contractor relationship, of U.S. Propane or the GP or the termination of any such relationship, including, but not limited to, any severance pay or other similar benefits, whether accrued or accruing, and any claims filed or that may be filed by or on behalf of any such present or former employee or independent contractor relating to the employment or termination of employment or services by U.S. Propane or the GP of any such person, including any claim for wrongful discharge, breach of contract, unfair labor practice, employment discrimination, unemployment compensation, or workers' compensation; and any liability in respect of noncompete payments owed under noncompete agreements entered into in connection with prior acquisitions by or on behalf of Heritage MLP; provided, however, that this subsection (iv) shall not apply to any Liabilities owed to or on account of independent contractors engaged for the purpose of representing the Venturers in connection with the transactions contemplated by this Agreement or independent contractors not engaged to render activities on behalf of the Heritage Entities, (v) U.S. Propane and the GP will retain all Liabilities relating to any Benefit Plan, (vi) U.S. Propane and the GP will retain all Liabilities of the GP or U.S. Propane under (A) this Agreement or the other Operative Documents (other than the Contribution Agreement) arising after the Closing, (B) the Contribution Agreement or (C) the agreements referred to in clauses (ii), (iii), (viii), (ix) and (xi) of the definition of Original Formation Agreements, (vii) U.S.

Propane and the GP will retain all Liabilities resulting from or relating to the obligation to provide healthcare continuation coverage under Section 4980B of the Code to any covered employee or qualified beneficiary (as such terms are defined in Section 4980(f) of the Code) occurring prior to, on or after the transactions contemplated by this Agreement, (viii) U.S. Propane and the GP will retain all Liabilities pursuant to the HHI Conveyances and (ix) U.S. Propane and the GP will retain all Liabilities of U.S. Propane or the GP in respect of non-compete obligations to third parties for which the escrow amounts referred to in Section 3.3(a)(ii) are held (the "Retained Liabilities").

(d) It is the intention of the parties that immediately following the assumption of the Assumed Liabilities by NewLP, neither U.S. Propane nor the GP will have any liability or responsibility for any Liabilities of U.S. Propane or the GP other than the Retained Liabilities, and such Assumed Liabilities and Retained Liabilities will be the subject of the indemnity of NewLP and the Venturers (with respect to the Assumed Liabilities) and U.S. Propane and Acquirer (with respect to Retained Liabilities) as and to the extent provided in Section 10.1 and Section 10.2. It is the further intention of the parties that the characterization of Liabilities as Assumed Liabilities or Retained Liabilities, respectively, will not diminish any right of the Venturer Indemnified Parties to receive indemnification for Losses pursuant to Section 10.2 or any right of the Acquirer Indemnified Parties to receive indemnification for Losses pursuant to Section 10.1 for a breach of a representation or warranty contained in this Agreement pertaining to Assumed Liabilities or Retained Liabilities, respectively.

(e) In order to effect the transfers of the assets and the assumption or retention of the Assumed Liabilities and Retained Liabilities contemplated in this Section 3.3 at the Closing, the appropriate parties shall execute and deliver one or more instruments of assignment and assumption substantially in the form attached hereto as Exhibit 3.3(e) ("Transfer Instruments").

(f) Immediately prior to the Closing, but after the completion of the steps described in this Sections 3.3(a) through (e) above, U.S. Propane shall declare a dividend to NewGP and NewLP, the record holders of all general and limited partner interests of U.S. Propane on the record date to be established for such distribution, of the obligations to pay NewGP and NewLP the aggregate amounts determined as specified below (which obligation shall be evidenced by a note (the "GP Interests Note"), to be in a form mutually acceptable to the Acquirer and the Venturers, such dividend to be declared and paid immediately prior to the Closing. The GP Interests Note shall entitle NewGP and NewLP to receive aggregate amounts calculated as described below, which amounts shall be payable at the times specified below:

> If the Closing occurs before payment of the quarterly cash distributions by Heritage OLP and Heritage MLP for the quarterly period ending November 30, 2003, an aggregate amount equal to the sum of (A) the product of (I) the sum of the quarterly cash distribution paid for the quarterly period ending November 30, 2003 (which payment is to be made on or about January 14, 2003) by (w) Heritage OLP in respect of the 1.0101% general partner interest owned prior to Closing by U.S. Propane in Heritage OLP and (x) Heritage MLP in respect of the 1.0% general partner interest and the Incentive Distribution Right owned prior to Closing by U.S. Propane in Heritage MLP times (II) a fraction, of which the numerator is the number of days during the period that commences on, and

includes, September 1, 2003 and ends at, but excludes, the Closing (but in no event shall the numerator exceed 91) and of which the denominator is 91, and (B) if the Closing occurs after November 30, 2003, the product of (I) the sum of the quarterly cash distributions paid for the quarterly period ending February 28, 2004 (which payment is to be made on or about April 14, 2004) by (y) Heritage OLP in respect of the 1.0101% general partner interest owned prior to Closing by U.S. Propane in Heritage OLP and (z) Heritage MLP in respect of the 1.0% general partner interest and the Incentive Distribution Right owned prior to Closing by U.S. Propane in Heritage MLP times (II) a fraction, of which the numerator is the number of days during the period that commences on, and includes, December 1, 2003 and ends at, but excludes, the Closing (but in no event shall the numerator exceed 90) and of which the denominator is 90.

Acquirer shall pay the amounts calculated pursuant to this Section 3.3(f) to NewLP in immediately available funds within one Business Day following the payment date established by Heritage OLP or Heritage MLP, as the case may be, for the quarterly cash distribution in respect of which an amount calculated under this Section 3.4(b) is determined or determinable.

3.4 SALE AND PURCHASE OF U.S. PROPANE AND GP SECURITIES. At the Closing, NewLP shall sell to the Acquirer, and the Acquirer shall purchase from NewLP, the Securities, including the right to become a substituted member of the GP and a substituted limited partner of U.S. Propane. The purchase price for such Securities (the "Purchase Price") to be paid to NewLP shall be cash in immediately available funds in the amount of $30,000,000.00. As a consequence of the transactions described in this Section 3.4, (i) the Acquirer will become the substituted member of the GP, (ii) the Acquirer will become the substituted limited partner of U.S. Propane, (iii) NewLP shall cease to have any member interest or limited partner interest in the GP or U.S. Propane, including the cessation of any rights to receive allocations of income, gain, loss, deduction or credit from, the capital account balance of, or (subject to the rights to payments under the GP Interests Note) distributions from, the GP or U.S. Propane, and (iv) NewLP and the Venturers shall cease to have any deficit restoration obligation pursuant to the U.S. Propane agreement of limited partnership.

3.5 U.S. PROPANE GENERAL PARTNER INTERESTS. Immediately following the capital contribution to Heritage LP, Inc., described in Section 2.2 of the Contribution Agreement, U.S. Propane shall contribute to Heritage MLP all of its interest in Heritage OLP as an additional capital contribution to Heritage MLP in exchange for an additional 1% general partner interest in Heritage MLP such that when such capital contribution is made, U.S. Propane will own a 2% general partner interest in Heritage MLP.

3.6 RESIGNATIONS; VENTURERS' BOARD RIGHTS.

(a) Effective concurrently with the Closing, H. Michael Krimbill, James E. Bertelsmeyer, Andrew W. Evans, Royston K. Eustace, William N. Cantrell, Richard T. O'Brien, David J. Dzuricky, Kevin M. O'Hara, J. Patrick Reddy and J.D. Woodward (or their respective successors as members of the Board of Directors of the GP) will resign, or the Venturers will take such action to cause such members to be removed from the Board of Directors, as members of the Board of Directors of the GP and any other offices that such persons may hold with the GP

or U.S. Propane, and concurrently with such resignations, the Acquirer will take such actions as are necessary or appropriate to fill the vacancies created thereby. In addition, upon the request of Acquirer received not less than three business days in writing prior to Closing, each of Bill W. Byrne, Stephen L. Cropper and J. Charles Sawyer will resign as members of the Board of Directors of the GP effective as of Closing.

(b) During the period that commences immediately after the Closing, the Venturers collectively shall have the right to appoint one person (the "Venturer Board Member") who shall have the right to serve as a member of the Board of Directors of the GP, to receive notice of such meetings and to receive information provided by the GP to the Board of Directors; provided, however, that the GP may require as a condition precedent to the Venturers' rights under this Section 3.6 that the Venturer Board Member shall agree to hold in trust and confidence all information so received during such meetings; provided further, that the GP reserves the right not to provide information and to exclude the Venturer Board Member from any meeting or portion thereof if (i) delivery of such information or attendance at such meeting by the Venturer Board Member would adversely affect the attorney-client privilege between the GP and its counsel or (ii) the GP determines in its sole discretion that it is necessary or advisable to discuss matters relating to that certain Promissory Note of Heritage MLP dated as of the Closing Date and payable to NewLP in the original principal amount of $50,000,000 (the "MLP Note"). In the event of the death or Disability of the person serving as the Venturer Board Member, the Venturers shall have the right to designate a replacement to serve as the Venturer Board Member, and the person so designated as a replacement shall be subject to the approval (which will not be unreasonably withheld) of not less than a majority of the entire membership of Board of Directors of the GP (excluding the Venturer Board Member, if the Venturer Board Member is then a member of the Board of Directors), and if not so approved the Venturers may propose a different person as such a replacement. The right of the Venturers to designate the Venturer Board Member shall terminate upon the payment in full of all amounts due and payable under the MLP Note and the Venturer Board Member shall resign from the Board of Directors of the GP immediately upon such payment. The Parties agree that Richard T. O'Brien shall be the initial Venturer Board Member upon Closing. As used herein, "Disability" shall mean a physical or mental condition of the Venturer Board Member that, in the good faith judgment of not less than a majority of the entire membership of the Board of Directors of the GP (excluding the Venturer Board Member, if the Venturer Board Member is then a member of the Board of Directors), based upon certification by a licensed physician reasonably acceptable to the Venturer Board Member and the Board of Directors, (i) prevents the Venturer Board Member from being able to perform the services required of a member of the Board of Directors, (ii) has continued for a period of at least 180 days during any 12-month period and (iii) is expected to continue.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE VENTURERS

For the purposes of this Agreement, each of the Venturers, severally and not jointly, represents and warrants to the Acquirer as set forth in this Article 4.

4.1 ORGANIZATION AND EXISTENCE.

(a) Schedule 4.1(a) sets forth the form of organization, legal name and the Organization State of each of the Venturers. Each of the Venturers is either a limited liability company or corporation, as indicated on Schedule 4.1(a), duly organized or formed, validly existing and in good standing under the laws of its Organization State. Each of the Venturers has full power and authority to own, lease or otherwise hold and operate its properties and assets and to carry on its business as presently conducted. Each of the Venturers is duly qualified and in good standing to do business as a foreign limited liability company or corporation, as applicable, in each jurisdiction in which the conduct or nature of its business or the ownership, leasing, holding or operating of its properties makes such qualification necessary, except such jurisdictions where the failure to be so qualified or in good standing, individually or in the aggregate, would not have a Material Adverse Effect on such Venturer.

(b) As of the Closing, NewLP will (i) be a limited partnership duly organized or formed, validly existing and in good standing under the laws of the State of Delaware, (ii) have full power and authority to own, lease or otherwise hold and operate its properties and assets and to carry on its business as then conducted and (iii) be duly qualified and in good standing to do business as a foreign limited partnership in each jurisdiction in which the conduct or nature of its business or the ownership, leasing, holding or operating of its properties makes such qualification necessary, except in such jurisdictions where the failure to be so qualified or in good standing, individually or in the aggregate, would not have a Material Adverse Effect on NewLP.

(c) Each of U.S. Propane and the GP is a limited partnership or a limited liability company, respectively, in each case duly organized or formed, validly existing and in good standing under the laws of the State of Delaware. Each of U.S. Propane and the GP has full power and authority to own, lease or otherwise hold and operate its properties and assets and to carry on its business as presently conducted. Each of U.S. Propane and the GP is duly qualified and in good standing to do business as a foreign limited partnership or limited liability company, as applicable, in each jurisdiction in which the conduct or nature of its business or the ownership, leasing, holding or operating of its properties makes such qualification necessary, except such jurisdictions where the failure to be so qualified or in good standing, individually or in the aggregate, would not have a Material Adverse Effect on the GP or U.S. Propane.

4.2 CAPITALIZATION OF THE GP AND U.S. PROPANE.

(a) The respective authorized and outstanding Member Interests of the GP and the authorized and outstanding Partner Interests of U.S. Propane are as disclosed on Schedule 4.2(a). All outstanding Securities have been validly issued and are fully paid (to the extent required under the Amended and Restated Limited Liability Company Agreement of the GP (the "GP LLC Agreement") and the Amended and Restated Agreement of Limited Partnership of U.S. Propane (the "U.S. Propane Agreement"), respectively) and nonassessable (except as such non-assessability may be affected by the matters specified in Sections 17-303 and 17-607 of DRULPA and except for the capital account restoration obligation under the U.S. Propane Agreement), and none of the Securities has been issued in violation of preemptive or similar rights. U.S. Propane does not have a negative balance in its Capital Account (as defined in the

Heritage MLP Partnership Agreement, the Heritage OLP Partnership Agreement or the U.S. Propane Agreement, as applicable) maintained by Heritage MLP or Heritage OLP (in the case of U.S. Propane) or by U.S. Propane (in the case of GP) and in the case of the GP at Closing, the GP will not have a negative balance in its Capital Account. All issuances, sales, and repurchases by the GP and U.S. Propane of their respective Securities have been effected in compliance in all material respects with all Applicable Laws, including applicable Federal and state securities laws. None of the Venturers, in their respective capacities as the limited partners of U.S. Propane, have participated in the control of the business of U.S. Propane in a manner that would give rise to liability of a purchaser of the Securities for the obligations of U.S. Propane pursuant to Section 17-303(a) of DRULPA, and none of the Venturers has received a distribution from U.S. Propane or the GP in violation of Section 17-607(a) of DRULPA or Section 18-607(a) under the Delaware Limited Liability Company Act for which a purchaser of the Securities would be responsible.

(b) Except as contemplated by Article III of this Agreement and as set forth on Schedule 4.2(b), no authorized but unissued Securities of the GP or U.S. Propane, as applicable, are reserved for or subject to issuance.

(c) Except as contemplated by Article III of this Agreement, the Transfer Restriction Agreement and as set forth on Schedule 4.2(c), there are no outstanding options, warrants, subscriptions, rights, convertible or exchangeable securities or other agreements or plans under which the GP, U.S. Propane, NewLP or any Venturer may become obligated to issue, sell or transfer any Securities (whether issued or granted by, or binding upon any of the GP, U.S. Propane, NewLP or any Venturer).

(d) There are no outstanding registration rights with respect to any Securities.

(e) Except as contemplated by Article III of this Agreement, the GP LLC Agreement, the U.S. Propane Agreement and as set forth on Schedule 4.2(e), there are no voting trusts, agreements, proxies or other agreements or understandings to which any of the GP, U.S. Propane, NewLP or the Venturers is a party with respect to the issuance, sale, redemption, registration, voting or transfer or other disposition of any of the Securities.

(f) All outstanding Incentive Distribution Rights have been validly issued and are fully paid and nonassessable, and all outstanding general partner interests in Heritage MLP and Heritage OLP have been validly issued. None of the Incentive Distribution Rights nor such general partner interests in Heritage MLP and Heritage OLP are subject to, nor have any been issued in violation of, preemptive or similar rights. All prior issuances and sales by Heritage MLP of Incentive Distribution Rights, its outstanding general partner interests or Common Units owned by U.S. Propane or HHI and all issuances and sales by Heritage OLP of its outstanding general partner interests have been effected in compliance in all material respects with all Applicable Laws, including applicable Federal and state securities laws. Heritage MLP has not repurchased any of its Incentive Distribution Rights or outstanding general partner interests.

4.3 AUTHORITY. Each of the GP and U.S. Propane and each of the Venturers has full power and authority to execute, deliver and perform this Agreement and the other Operative Documents to which it is a party, and to consummate the transactions contemplated hereby or

thereby. The execution, delivery and performance by each of the GP and U.S. Propane and each of the Venturers of this Agreement and the other Operative Documents, and the consummation by it of the transactions contemplated thereby, have been duly authorized by all necessary action of such Person. This Agreement has been duly executed and delivered by each of the GP and U.S. Propane and each of the Venturers and constitutes, and each of the Operative Documents and each other agreement, instrument or document executed or to be executed by the GP, U.S. Propane or any of the Venturers in connection with the transactions contemplated by this Agreement has been, or when executed will be, duly executed and delivered by such party and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of such Person enforceable against it in accordance with its terms, except as may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium and similar Laws affecting creditors' rights generally and (b) general equitable principles.

4.4 NONCONTRAVENTION. The execution, delivery and performance by the each of the GP, U.S. Propane and each of the Venturers of this Agreement and the other Operative Documents to which it is a party, and the consummation by it of the transactions contemplated hereby and thereby do not and will not (a) result in a breach or violation of any provision of the respective charter or bylaws or other governing instruments of any of the GP, U.S. Propane, NewLP, any Venturer or any of the Heritage Entities, (b) result in a breach or violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or (except as disclosed on Schedule 4.4) give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation or acceleration under, any material bond, debenture, note, mortgage, indenture, lease, contract, agreement or other instrument or obligation to which the GP, U.S. Propane, NewLP or any Venturer is a party or by which their respective properties are bound, (c) result in the creation or imposition of any Encumbrance upon any of the GP or U.S. Propane or any of their respective Assets and Properties or (d) assuming compliance with the matters referred to in Section 4.5, violate any Applicable Law binding upon the GP, U.S. Propane, NewLP or any Venturer, or any of their respective Assets and Properties.

4.5 GOVERNMENTAL APPROVALS. Except as set forth in Schedule 4.5, except as may be required under state securities or "Blue Sky" laws and except for filings with Governmental Authorities with respect to the formation of NewGP and NewLP and the transactions contemplated by the Contribution Agreement, no consent, approval, order or authorization of, or declaration, filing or registration with, any Governmental Authority is required to be obtained or made by any of the GP, U.S. Propane, the Heritage MLP or the Heritage OLP in connection with the execution, delivery or performance of this Agreement and the other Operative Documents or the consummation by any of such Persons of the transactions contemplated hereby or thereby.

4.6 TITLE TO SECURITIES. A true and correct copy of the U.S. Propane Agreement and the GP LLC Agreement, together with all amendments through the date of this Agreement, have been provided to the Acquirer. Except for such consents and approvals as are referenced in Section 4.5 and provided that the consents referred to in Section 6.1 of this Agreement will be obtained from NewLP and the other Venturers pursuant to Section 6.1 of this Agreement, each Venturer has the power and authority to transfer, assign and convey the Securities owned by such Venturer to NewLP at the Closing as provided herein, and upon such transfer, assignment and conveyance, NewLP shall acquire good and marketable title to such Securities free and clear of

all Encumbrances (other than any Encumbrances listed on Schedule 4.6, Encumbrances arising under the U.S. Propane Agreement or the GP LLC Agreement, which to the extent such Encumbrances may be waived by the Venturers, are being waived pursuant to Section 6.1 of this Agreement, and any restriction on free transferability of the Securities arising under applicable federal or state securities laws). Prior to the Closing, NewLP will have the power and authority to transfer, assign and convey the Securities to the Acquirer at the Closing as provided herein, and upon such conveyance and assignment, Acquirer shall acquire good and marketable title to such Securities free and clear of all Encumbrances (other than any Encumbrances arising under the U.S. Propane Agreement or the GP LLC Agreement and any restriction on free transferability of the Securities arising under applicable federal or state securities laws), and Acquirer shall become a substituted member of the GP and a substituted limited partner of U.S. Propane.

4.7 SUBSIDIARIES; JOINT VENTURES.

(a) The only Subsidiaries of the GP and U.S. Propane are HHI and those set forth on Schedule 4.7(a) hereto. Schedule 4.7(a) hereto identifies the equity interests owned by the GP, U.S. Propane or HHI in each of the Heritage Entities (excluding the 1.0 percent general partner interest in Heritage MLP, the 1.0101 percent general partner interest in Heritage OLP, and the Incentive Distribution Rights owned by U.S. Propane), which equity interests (including such general partner interests not included on Schedule 4.7(a)) are so owned, beneficially and of record, and free and clear of all Encumbrances, by the GP, U.S. Propane or HHI, as applicable.

(b) Except (i) as set forth on Schedule 4.7(b), (ii) with respect to the status of the GP as the general partner of U.S. Propane and (iii) with respect to the status of U.S. Propane as the general partner of Heritage MLP and Heritage OLP, neither the GP nor U.S. Propane is engaged in any joint venture or partnership with any other Person.

4.8 TITLE TO ASSETS AND PROPERTIES. Immediately prior to the Closing and after giving effect to the transactions contemplated in Sections 3.1 through 3.5, inclusive, (i) NewLP will have good and marketable title to the Securities, (ii) the GP will have good and marketable title to the 0.01% general partner interest of U.S. Propane, (iii) U.S. Propane will have good and marketable title to, or valid leasehold interests in, the Retained Assets and (iv) NewLP will have title to, or valid leasehold interests in, the assets received from U.S. Propane pursuant to Section 3.3(a) and with respect to clauses (i) and (ii) of this Section 4.8 free and clear of all Encumbrances (except for Permitted Encumbrances, Encumbrances arising pursuant to this Agreement or the Operative Documents or any Encumbrance arising or existing under the charter, bylaws, limited liability company agreement or limited partnership agreement, as applicable, of such Person or, with respect to securities issued by a third party held by such Person, of the issuer of such securities.

4.9 FINANCIAL STATEMENTS; ABSENCE OF LIABILITIES.

(a) Attached hereto as Schedule 4.9(a) are copies of the audited balance sheet as of August 31, 2002 and the related unaudited statement of income and owners' equity for the fiscal year then ended (including in all cases the notes, if any, thereto) of U.S. Propane (collectively, the "Audited Financial Statements"). Also attached as Schedule 4.9(a) are copies of the unaudited balance sheet as of August 31, 2003 (the "Financial Statement Date") and the related

statement of income, cash flows and owners' equity for the fiscal quarter then ended of U.S. Propane (collectively, together with the Audited Financial Statements, the "Financial Statements"). The Financial Statements have been prepared in accordance with GAAP except in the case of the unaudited statements as of the Financial Statement Date for normal year-end adjustments and the absence of footnotes, and fairly present the respective consolidated financial position of U.S. Propane as of the date set forth therein.

(b) Except as reserved against in the Financial Statements, as otherwise disclosed on Schedule 4.9(b) or for Liabilities not exceeding $5,000 individually or in the aggregate, there are no Liabilities of, relating to or affecting the GP or U.S. Propane, other than the Assumed Liabilities, Liabilities incurred in the ordinary course of business consistent with past practice since the Financial Statement Date and General Partner Status Liabilities of the GP and U.S. Propane solely as a result of their status as general partner of U.S. Propane (in the case of the GP) and Heritage MLP and Heritage OLP (in the case of U.S. Propane). Immediately prior to the Closing, the Retained Liabilities and the GP Interests Note will be the only Liabilities of the GP or U.S. Propane for which neither the GP nor U.S. Propane will be entitled to indemnification under Section 10.2 hereof.

4.10 ABSENCE OF CERTAIN CHANGES. Since the Financial Statement Date, (a) there has been no event (except for changes resulting from general economic conditions and weather, seasonality and other conditions that may affect the industry of the GP, U.S. Propane, NewLP, the Heritage Entities and their respective Subsidiaries generally) that would have a Material Adverse Effect; (b) except for the execution, delivery and performance of this Agreement and the Operative Documents to which the GP or U.S. Propane is a party, the U.S. Propane Business has been conducted only in the ordinary course consistent with past practice; (c) except for, or as contemplated by, this Agreement or the other Operative Documents, none of the GP, U.S. Propane or NewLP have incurred any material liability, engaged in any material transaction or entered into any material agreement outside the ordinary course of business consistent with past practice that individually or in the aggregate would have a Material Adverse Effect; (d) none of the GP, U.S. Propane or NewLP has suffered any material loss, damage, destruction or other casualty to any of the Assets and Properties of such entity (whether or not covered by insurance) that individually or in the aggregate would have a Material Adverse Effect; and (e) none of the GP or U.S. Propane has taken any of the actions set forth in Section 7.5, except as permitted thereunder.

4.11 TAX MATTERS.

(a) Except as set forth on Schedule 4.11(a), each of the GP and U.S. Propane has filed all material Tax Returns required to be filed with the IRS or other applicable taxing authority through the date hereof and such Tax Returns are complete and correct in all material respects, and each of the GP and U.S. Propane has timely paid or has recorded a full reserve in the Financial Statements for payment of all Taxes shown to be due on any such Tax Return, and has withheld and paid to the appropriate taxing authority any Tax that it is required by Applicable Law to withhold and pay to a Taxing authority on or before the date hereof other than, in either case, those which are being contested in good faith as disclosed on Schedule 4.11(b). Neither the GP nor U.S. Propane has any material liability for Taxes other than those incurred in the ordinary course of business and in respect of which adequate reserves are being maintained on the

Financial Statements in accordance with GAAP. There are no material liens for Taxes upon any asset of any of the GP or U.S. Propane except for liens arising as a matter of Applicable Law relating to current Taxes not yet due. There are no Taxes that will be imposed on any of the GP or U.S. Propane in connection with the execution of this Agreement or the Operative Documents (excluding the Contribution Agreement) or in connection with any of the transactions contemplated hereby or thereby. Except as set forth on Schedule 4.11(a), neither the GP nor U.S. Propane currently is the beneficiary of any extension of time within which to file any Tax Return.

(b) Schedule 4.11(b) lists all Tax Returns filed by any of the GP or U.S. Propane or any affiliated, consolidated, combined, unitary or similar group of which any of the GP or U.S. Propane is or was a member on or after January 1, 2000 and on or before the date hereof and indicates those Tax Returns (i) that are the subject of audit, (ii) in respect of which there is any other suit, action, investigation or claim in progress by any Taxing authority or (iii) in respect of which any issue has been raised by any Taxing authority at an earlier time that is reasonably expected to be raised at a later time. Neither the GP nor U.S. Propane has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency or has received any notice from any Taxing authority that it intends to conduct an audit or investigation thereof or is subject to any ruling of any Taxing authority.

(c) Except for payments triggered by change of control provisions under the employment agreements identified on Schedule 3.18(a) to the Contribution Agreement, neither the GP nor U.S. Propane has made any payment, is obligated to make any payment, or is a party to any agreement that under certain circumstances could obligate it to make any payment that will not be deductible under Section 280G of the Code.

(d) Neither the GP nor U.S. Propane is a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code on the date hereof.

(e) Except as disclosed on Schedule 4.11(e), neither the GP nor U.S. Propane (i) has been a member of an affiliated group filing a consolidated federal income Tax Return or (ii) has any liability for Taxes of any Person (other than the GP or U.S. Propane) under Treas. Reg. 1.1502--6 (or any similar provision of state, local or foreign law), as a transferee or successor, by contract, or otherwise.

(f) Neither the GP nor U.S. Propane will be classified at the time of the transaction for which provision is made in Section 3.4, or will have been classified at any time before that time, as a corporation for federal, state, local or foreign income tax purposes or will be at that time, or will have been at any time before that time, subject to any federal, state, local or foreign income tax, except for Texas franchise taxes paid or payable by the GP. At the time of the transaction for which provision is made in Section 3.4(a) hereof, each of the GP and U.S. Propane will be disregarded for federal income tax purposes, within the meaning of Treasury Regulation Section 301.7701--3(a), and no election will have been filed with the IRS prior to such time that will cause either of the GP or U.S. Propane to be classified as a corporation for federal income tax purposes at any future time.

(g) Both Heritage MLP and Heritage OLP have currently effective elections under Section 754 of the Code.

(h) Prior to the transaction for which provision is made in Section 3.4(a) hereof, the Venturers will not cause or permit U.S. Propane or Heritage MLP or Heritage OLP to take any action or omit to take any action which, if taken or omitted (as the case may be), would cause or permit the currently effective elections by either such limited partnerships under Section 754 of the Internal Revenue Code to be revoked.

4.12 COMPLIANCE WITH LAWS. Subject to the specific representations and warranties in this Agreement, which representations and warranties shall govern the subject matter thereof, each of the GP and U.S. Propane has complied in all material respects with all Applicable Laws relating to the ownership or operation of their respective Assets and Properties and the conduct of their respective businesses. Neither the GP nor U.S. Propane are charged or, to the Knowledge of any of the Venturers, threatened with, or under investigation with respect to, any violation of any Applicable Law relating to any aspect of the ownership or operation of the GP or U.S. Propane or the U.S. Propane Business.

4.13 LEGAL PROCEEDINGS. Except as set forth on Schedule 4.13, there is (i) no Proceeding before or by any Governmental Authority or arbitrator or official, domestic or foreign, now pending or, to the Knowledge of any of the Venturers, threatened, to which any of the GP, U.S. Propane, NewLP or any of the Venturers is or may be a party or to which the business or property of any of the GP, U.S. Propane, NewLP or any of the Venturers is or may be subject, (ii) no statute, rule, regulation or order that has been enacted, adopted or issued by any Governmental Authority or that has been proposed by any Governmental Authority and (iii) no injunction, restraining order or order of any nature issued by a federal or state court or foreign court of competent jurisdiction to which any of the GP, U.S. Propane, NewLP or any of the Venturers is or may be subject, that, in the case of clauses (i), (ii) and (iii) above, is reasonably expected to have, individually or in the aggregate, a Material Adverse Effect.

4.14 SUFFICIENCY OF ASSETS AND PROPERTIES. The Assets and Properties of the GP and U.S. Propane constitute all the Assets and Properties the use or benefit of which are reasonably necessary for the operation of the business of each of such Persons as currently conducted. As of the Closing, all tangible Assets and Properties of the GP and U.S. Propane (excluding those Assets and Properties distributed and assigned or issued to NewLP pursuant to Sections 3.2, 3.3 and 3.4) will be in the possession, or under the control, of the GP and U.S. Propane, as applicable, subject to sales of inventory in the ordinary course of business, and all of such Assets and Properties are in good condition, normal wear and tear excepted, and are useable in the continued operation of the business of the GP and U.S. Propane, as applicable, consistent with past practice.

4.15 INTELLECTUAL PROPERTY. Except as set forth in Schedule 4.15, each of the GP and U.S. Propane owns or possesses or has the right to use, or at the Closing Date will own or possess or have the right to use in the localities where they are currently used by the GP or U.S. Propane, all patents, trademarks, trademark registrations, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights necessary for the conduct of the business of the GP or U.S. Propane, other than those which if not so owned or

possessed would not have a Material Adverse Effect, and none of the Venturers has any Knowledge of any claim to the contrary or any challenge by any other Person to the rights of the GP or U.S. Propane with respect to the foregoing.

4.16 STATUS AS GENERAL PARTNER. U.S. Propane became the sole general partner of each of Heritage MLP and Heritage OLP on February 4, 2002, and no consent, approval, waiver, permit, order or authorization of, or declaration to or filing with, any Person or Governmental Authority not otherwise obtained was necessary in order for U.S. Propane to become the sole general partner of Heritage MLP and Heritage OLP.

4.17 MATERIAL CONTRACTS. Set forth in Schedule 4.17 is a list of all Material Contracts to which the GP or U.S. Propane is a party or by which it or any of its properties may be bound (other than the GP LLC Agreement, the U.S. Propane Agreement, the Heritage MLP Agreement, the agreement of limited partnership, as amended, of Heritage OLP and the other Original Formation Agreements). Each such Material Contract to which the GP or U.S. Propane is a party is a valid and binding agreement of the GP or U.S. Propane (as the case may be) enforceable against the GP or U.S. Propane, as applicable, in accordance with its terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to the enforcement of creditors' rights generally and by general principles of equity. Neither the GP nor U.S. Propane is in breach, default (or an event that, with notice or lapse of time or both, would constitute such a default) or violation in the performance of any obligation, agreement or condition contained in any Material Contract to which it is a party or by which it or any of its properties may be bound. To the Knowledge of any Venturer, no third party to any Material Contract to which the GP or U.S. Propane is a party or by which any of them is bound or to which any of their properties are subject is in default under any such Material Contract.

4.18 ENVIRONMENTAL MATTERS.To the Knowledge of each of the Venturers, except as set forth in Schedule 4.18, neither the GP nor U.S. Propane is in violation of, or subject to, any pending or threatened Proceeding under, any Applicable Laws pertaining to health, safety, the environment, Hazardous Substances or Solid Wastes (such Applicable Laws as they now exist are herein collectively called "Applicable Environmental Laws") relating to the ownership or operation of the Assets and Properties of the GP or U.S. Propane or the operation of the respective businesses of the GP or U.S. Propane, including (i) the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA"), and (ii) the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"). To the Knowledge of each of the Venturers, except as set forth in Schedule 4.18, the GP and U.S. Propane have obtained all Permits to construct, occupy, lease, operate or use any real property or any equipment or other tangible property forming a part of their respective Assets and Properties by reason of any Applicable Environmental Laws.

(a) To the Knowledge of each of the Venturers, except as set forth in Schedule 4.18, there are no past or present events, conditions, circumstances or plans (i) that interfere with or prevent compliance or continued compliance, with respect to the Assets and Properties of the GP or U.S. Propane or their respective businesses, with Applicable Environmental Laws or (ii) that are reasonably expected to give rise to any common law or other legal liability or obligation with respect to the Assets and Properties of the GP or U.S. Propane or their respective businesses,

including liability or obligation under CERCLA or RCRA, based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling or the emission, discharge, release or threatened release into the environment, of any pollutant, contaminant, chemical, industrial toxin, Hazardous Substance or Solid Waste (other than any General Partner Status Liability of the GP or U.S. Propane existing solely as a result of their status as the general partner of U.S. Propane (in the case of the GP) or Heritage MLP or Heritage OLP (in the case of U.S. Propane).

(b) As used in this Agreement, the term "Hazardous Substance" shall have the meaning currently specified in CERCLA and the term "Solid Waste" shall have the meaning currently specified in RCRA; provided, that to the extent the Applicable Laws of the jurisdiction in which the particular asset is located have currently established a meaning for such term that is broader than that specified in CERCLA or RCRA, such broader meaning shall apply.

(c) To the Knowledge of each of the Venturers, except as set forth in Schedule 4.18, there are no (i) underground storage tanks, known contamination of soil or groundwater, or known or suspected asbestos or asbestos-containing materials on any property owned or leased by the GP or U.S. Propane, (ii) pending or threatened complaints, suits, actions or demand letters by any third party or Governmental Authority relating to any alleged violation of Applicable Environmental Law by any of the GP or U.S. Propane or (iii) permits required of the GP or U.S. Propane under applicable Environmental Laws to own, lease or operate their properties and conduct their respective businesses the terms and conditions of which any of the GP or U.S. Propane have violated or are violating (except, in each case as would not have a Material Adverse Effect on the GP or U.S. Propane), or (iv) real estate sites owned or operated by any of the GP or U.S. Propane that have been used as a manufactured gas plant site.

4.19 INSURANCE. The GP and U.S. Propane maintain insurance covering their respective properties, operations, personnel and businesses. In the reasonable judgment of the Venturers, such insurance insures against such losses and risks as are reasonably adequate to protect the GP and U.S. Propane and their respective businesses. Neither the GP nor U.S. Propane has received written notice from any insurer or agent of such insurer that substantial capital improvements or other expenditures will have to be made in order to continue such insurance; all such insurance is outstanding and duly in force on the date hereof and will be outstanding and duly in force on the Closing Date.

4.20 BOOKS AND RECORDS.

(a) Each of the GP and U.S. Propane (i) makes and keeps books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets and (ii) maintains systems of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(b) None of the GP, U.S. Propane nor, to the Knowledge of the Venturers, any employee or agent of any of the GP or U.S. Propane has made any payment of funds of any either of the GP or U.S. Propane or received or retained any funds in either case in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character which would be required to be disclosed in any reports which would be required to be filed by the GP or U.S. Propane if the such entity were subject to the reporting requirements of the Exchange Act.

4.21 EMPLOYEE MATTERS. Each of the GP and U.S. Propane has complied in all material respects with all Applicable Laws relating to the employment of labor, including provisions relating to wages, hours, equal opportunity, collective bargaining and the payment of Social Security and other taxes. Except as set forth in Schedule 4.21, neither the GP nor U.S. Propane is bound by or subject to (and none of its assets or properties is bound by or subject to) any written or, to the Knowledge of any of the Venturers, oral, express or implied, commitment or arrangement with any labor union, and, to the Knowledge of the GP, U.S. Propane or the Venturers, no labor union has requested or has sought to represent any of the employees, representatives or agents of the GP or U.S. Propane and there is no labor strike, dispute, slowdown or stoppage actually pending or, to the Knowledge of the Venturers, threatened against or involving the GP or U.S. Propane.

4.22 ERISA.Schedule 4.22(a) lists each Benefit Plan maintained by the GP, U.S. Propane or any ERISA Affiliate.

(a) Schedule 4.22(b) lists each defined benefit plan, within the meaning of Section 3(35) of ERISA (whether or not subject to Title IV thereof), maintained by the GP, U.S. Propane or any ERISA Affiliate within the last six years (or with respect to which any of them could reasonably be expected to have any liability), and copies of the most recent actuarial valuation report, if any, with respect to any such plan has been made available to the Acquirer. None of the GP, U.S. Propane, any ERISA Affiliate or any organization to which any of them is a successor or parent corporation (within the meaning of Section 4069(6) of ERISA) have engaged in any transaction which is subject to Section 4069 of ERISA.

(b) None of the GP, U.S. Propane or any ERISA Affiliate has any obligation to contribute to any Multiemployer Plan subject to Title IV of ERISA, and no circumstances exist pursuant to which the GP, U.S. Propane or any ERISA Affiliate could be assessed with withdrawal liability by any such multiemployer plan under Section 4201 of ERISA.

(c) Each Benefit Plan that is intended to be qualified under Section 401 of the Code has received a favorable determination as to its qualified status from the IRS, and to the Knowledge of the Venturers, nothing has occurred with respect to the operation of any such plan which could cause the loss of such qualification.

(d) To the Knowledge of the Venturers, each Benefit Plan has been maintained in all material respects in accordance with its terms and with all provisions of ERISA and the Code (including rules and regulations thereunder) and other Applicable Laws.

(e) None of the GP, U.S. Propane or any ERISA Affiliate have incurred any liability under Section 4062, 4063 or 4064 of ERISA.

4.23 CONSENTS. Schedule 4.23 sets forth each of the consents, approvals, orders, authorizations and waivers of, and declarations, filings and registrations with, all third parties (including Governmental Authorities) that are necessary or required to permit the transactions contemplated by this Agreement and otherwise to consummate the transactions contemplated hereby (the "Consents"). Schedule 4.23 includes all of the Consents that, if not obtained and in full force and effect at the time of the Closing, could result in a Material Adverse Effect.

4.24 FINDER'S FEES. Except as set forth on Schedule 4.24, none of the GP, U.S. Propane, NewLP, the Venturers, or any of their respective Affiliates, are obligated (directly or indirectly) under any agreement with any Person that would obligate the Acquirer to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated by this Agreement or the other Operative Documents.

4.25 REGULATION. Except as set forth on Schedule 4.25, neither the GP nor U.S. Propane is now, and immediately after the consummation of the transactions contemplated by this Agreement none of the Heritage Entities will be, (i) an "investment company" or a company "controlled by" an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" thereof, within the meaning of the Public Utility Holding Company Act of 1935, as amended.

4.26 CONDUCT OF BUSINESS. Except as provided on Schedule 4.26, since the Financial Statement Date, neither the GP nor U.S. Propane has taken any actions that would be prohibited by the provisions of Section 7.5, if such actions had been taken after the date of this Agreement.

4.27 EXEMPTION FROM REGISTRATION. Assuming the accuracy on the date hereof and on the Closing Date of the representations and warranties of the Acquirer set forth in Section 5.3 below, the transfer, assignment and conveyance of the Securities by the Venturers to NewLP and by NewLP to the Acquirer hereunder are exempt from the registration requirements of the Securities Act.

4.28 NO VIOLATION. None of the GP, U.S. Propane or NewLP is in (i) violation of its partnership agreement, certificate or articles of incorporation or bylaws or other organizational documents, (ii) violation of any law, statute, ordinance, administrative or governmental rule or regulation applicable to it or of any decree of any Governmental Authority having jurisdiction over it or (iii) breach, default (or an event which, with notice or lapse of time or both, would constitute such a default) or violation in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any agreement, indenture, lease or other instrument to which it is a party or by which it or any of its properties may be bound, which in the case of any breach, default or violation subject to clause (ii) or (iii) would, if continued, have a Material Adverse Effect. To the Knowledge of the Venturers, no third party to any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which any of the GP, U.S. Propane or NewLP is a party or by which any of them is bound or to which any of their respective properties are subject, is in default under any such agreement, which breach, default or violation would, if continued, have a Material Adverse Effect.

4.29 SEC FILINGS. To the Knowledge of Venturers, none of the SEC Filings, including, without limitation, any financial statements or schedules included therein, at the time filed, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE ACQUIRER

The Acquirer hereby represents and warrants to each of the Venturers as follows:

5.1 ORGANIZATION; POWER AND AUTHORITY. The Acquirer is duly organized and validly existing as a limited partnership under the laws of the State of Texas, and has full power and authority to execute and deliver this Agreement and the other Operative Documents to which it is a party and to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by the Acquirer of this Agreement and the performance by the Acquirer of its obligations hereunder have been, and the other Operative Documents will be, duly and validly authorized by the Acquirer. This Agreement has been duly and validly executed and delivered by the Acquirer and constitutes, and upon the execution and delivery by the Acquirer of the other Operative Documents to which it is a party, such other Operative Documents will constitute, legal, valid and binding obligations of the Acquirer enforceable against it in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to the enforcement of creditors' rights generally and by general principles of equity.

5.2 NONCONTRAVENTION. The execution, delivery and performance of this Agreement and the other Operative Documents to which the Acquirer is a party and the consummation by the Acquirer of the transactions contemplated hereby and thereby do not and will not conflict with, or constitute a breach, violation or default under, any Contract to which the Acquirer is a party, or result in a violation of the Acquirer's organizational documents or any order, judgment or decree of any court or Governmental Authority having jurisdiction over the Acquirer or any of its properties and, no consent, authorization or order of, or filing or registration with, any Governmental Authority (other than such filings as are contemplated in the Contribution Agreement, including any necessary filings under the HSR Act) is required by the Acquirer for the execution, delivery and performance of this Agreement or any of the other Operative Documents.

5.3 INVESTMENT INTENT.

(a) The Acquirer is acquiring the Securities for its own account as principal, for investment purposes only, and not for or with a view to the resale, distribution or granting of a participation therein, in whole or in part, in violation of the Securities Act or the securities laws of any jurisdiction applicable to the Acquirer.

(b) The Acquirer acknowledges its understanding that the offering and sale of Securities has not been registered under the Securities Act. The Acquirer acknowledges that it is familiar

with the limitations that are imposed by the Securities Act on any Transfer of an interest in the Securities. The Acquirer understands and acknowledges that it may have to bear the economic risk of its investment in the Securities for an indefinite period of time unless the Securities are subsequently registered under the Securities Act or an exemption therefrom is available. The Acquirer hereby agrees that the Securities will not be transferred other than (i) pursuant to a registration under the Securities Act or pursuant to an exemption therefrom, and (ii) in compliance with any applicable state securities laws.

5.4 BROKERS. No agent, broker, finder, investment banker, financial advisor or other similar Person will be entitled to any fee, commission or other compensation in connection with any of the transactions contemplated by this Agreement or the other Operative Documents on the basis of any act or statement made or alleged to have been made by the Acquirer or any of its Affiliates, directors, officers or other representatives.

5.5 REPRESENTATIONS REGARDING FUNDING. The Acquirer will have adequate funds available to it as are necessary to pay the Purchase Price in full at the Closing.

ARTICLE VI
APPROVALS, AUTHORIZATIONS AND CONSENTS

6.1 CONSENT OF THE GP, U.S. PROPANE AND THE VENTURERS. By its execution of this Agreement, (a) each of the GP, U.S. Propane and the Venturers consent to, and prior to the Closing will cause NewLP to consent to (to the extent applicable), the Transfer by each Venturer and NewLP of the Member Interests and the Partner Interests, as applicable, in accordance with the transactions contemplated in this Agreement, pursuant to (i) the U.S. Propane Agreement, (ii) the GP LLC Agreement, (iii) the Transfer Restriction Agreement and (iv) any other agreements by and among one or more Venturers that require such consent to the transactions contemplated in this Agreement, and (b) each of the Venturers waives any Encumbrances that exist under the U.S. Propane Agreement or the GP LLC Agreement on the Securities immediately prior to the Closing to the fullest extent that such Encumbrances may be so waived by such Venturer.

6.2 AUTHORIZATIONS AND CONSENTS.

(a) Each party hereto shall take all commercially reasonable steps necessary or desirable, and proceed diligently and in good faith and shall use all reasonable commercial efforts to obtain, as promptly as practicable, (i) all authorizations, consents, orders and approvals of all Governmental Authorities that may be or become necessary for such party's execution and delivery of, and the performance of its obligations pursuant to, this Agreement and the other Operative Documents, and (ii) all approvals and consents (including those approvals, consents and authorizations specified in Schedule 4.23) required under all Contracts to which the GP, U.S. Propane, NewLP or any of the Venturers is a party (including all Contracts involving Indebtedness) to consummate the transactions contemplated hereby. Each party will cooperate fully (including by providing all information the other party reasonably requests, subject to any confidentiality agreement (other than any confidentiality agreement exclusively between or among one or more of the parties to this Agreement) to which the party may be subject (and such party will use its reasonable commercial efforts to limit the applicability of any such

confidentiality agreement to the extent reasonably practicable, including by (1) obtaining a waiver thereof or (2) obtaining assurances from the requesting party that such information will remain confidential)) with the other parties in promptly seeking to obtain all such authorizations, consents, orders and approvals. To the extent that the parties hereto mutually agree that filings under the HSR Act are necessary or appropriate, each party hereto agrees to make an appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated hereby within five Business Days after the date of this Agreement, use their commercially reasonable efforts to cause the waiting period under the HSR Act to expire as quickly as possible and to supply promptly any additional information and documentary material that may be requested pursuant to the HSR Act. Notwithstanding the foregoing, no party hereto shall have any obligation to dispose of, hold separate or otherwise restrict its enjoyment of any of their assets or properties in order to obtain requisite approvals pursuant to the HSR Act.

(b) Each party hereto shall promptly inform the other party of any communication from any Governmental Authority regarding any of the transactions contemplated by this Agreement. If any party or Affiliate thereof receives a request for additional information or documentary material from any such Governmental Authority with respect to the transactions contemplated hereby, then such party will endeavor in good faith to make, or cause to be made, as soon as reasonably practicable and after consultation with the other party, an appropriate response in compliance with such request.

6.3 FURTHER ASSURANCES. The GP, U.S. Propane and each of the Venturers will, and, following the formation of NewLP and prior to Closing, the Venturers will cause NewLP to, whenever and as often as reasonably requested to do so by the Acquirer, perform, execute, acknowledge and deliver any and all such other and further acts, assignments, transfers and any instruments of further assurance, approvals and consents as are necessary or proper in order to complete, ensure and perfect the sale and transfer to the Acquirer of the Securities and the consummation of the other transactions contemplated hereby.

ARTICLE VII
ADDITIONAL AGREEMENTS

7.1 ACCESS TO INFORMATION.(a) Between the date hereof and the Closing, the Venturers shall cause the GP, U.S. Propane and NewLP to (i) give the Acquirer and its authorized representatives reasonable access to all facilities and all books and records relating to the GP, U.S. Propane and NewLP, (ii) permit the Acquirer and its authorized representatives to make such inspections of the Assets and Properties of the GP and U.S. Propane as they may reasonably require to verify the accuracy of any representation or warranty contained in Article 4 and (iii) shall furnish the Acquirer and their respective authorized representatives with such financial and operating data and other information with respect to the GP, U.S. Propane and NewLP as the Acquirer may from time to time reasonably request; provided, however, that the Venturers shall have the right to have a representative present at all times of any such inspections or examinations conducted at the offices or other facilities of the GP or U.S. Propane; and, provided further, however, that the Venturers shall not be required to cause the GP, U.S. Propane or NewLP to disclose or make available to the Acquirer any information or data the disclosure of which would violate any confidential or non-disclosure obligation (other than any obligation exclusively between or among one or more of the parties to this Agreement) to which the party may be subject, provided that such party will use its reasonable commercial efforts to limit the applicability of any confidential or non-disclosure obligation to the extent reasonably practicable, including by (1) obtaining a waiver thereof or (2) obtaining assurances from the Acquirer that such information will remain confidential.

(a) Acquirer agrees that at any time during the period commencing on the Closing Date and ending on November 6, 2009 NewLP and its Affiliates and representatives shall have reasonable access to inspect and copy all books and records of U.S. Propane relating to the Contributed Interests and Transferred Interests (as such terms are defined in the Original Contribution Agreement) to the extent that such access may reasonably be required in connection with matters relating to or affected by the operation of the Business (as such term is defined in the Original Contribution Agreement) prior to the Closing. U.S. Propane shall, and shall cause the Heritage Parties to, afford such access upon receipt of reasonable advance notice and during normal business hours. If U.S. Propane or any of the Heritage Entities desire to dispose of any such books and records prior to the expiration of such period, Acquirer agrees that U.S. Propane shall, and shall cause such Heritage Party to, give NewLP a reasonable opportunity, at its expense, to segregate and remove such books and records as they select. NewLP shall be solely responsible for any costs or expenses incurred by it pursuant to this Section 7.1(b).

7.2 MAINTENANCE OF BOOKS AND RECORDS; FINANCIAL STATEMENTS; REPORTS; ETC. Between the date hereof and the Closing, the GP and U.S. Propane shall keep adequate records and books of account with respect to each such Person's business activities in which proper entries are made in all material respects in accordance with GAAP reflecting all of their respective financial transactions. The GP and U.S. Propane shall furnish to the Acquirer promptly after the sending or filing thereof, as the case may be, copies of any financial statements or reports that the GP or U.S. Propane has made available to its partners or members.

7.3 PUBLIC ANNOUNCEMENTS. The GP, U.S. Propane, NewLP, the Venturers, the Acquirer and their respective Affiliates, will consult with each other before issuing, and provide each other

the opportunity to review and comment upon, any press release or other public statement with respect to the transactions contemplated by this Agreement and the other Operative Documents and shall not issue any such press release or make any such public statement without the advance approval of the other party following such consultation (such approval not to be unreasonably withheld, delayed or conditioned), except as each party may determine is required by Applicable Law, court process or by the requirements of any securities exchange.

7.4 CONDUCT AND PRESERVATION OF THE BUSINESS OF THE GP, U.S. PROPANE AND OTHER ENTITIES. Except as expressly provided in this Agreement and the Operative Documents or except as described in Schedule 7.4, between the date hereof and the Closing the Venturers and, following its formation, NewLP shall (a) cause the GP and U.S. Propane to conduct the respective businesses of the GP and U.S. Propane substantially as it is being conducted on the date hereof; (b) use their commercially reasonable efforts to cause the GP and U.S. Propane to preserve, maintain and protect the Assets and Properties of the GP and U.S. Propane and their respective businesses consistent with available resources; and (c) use their commercially reasonable efforts to cause the GP and U.S. Propane to preserve intact the business organization of the GP and U.S. Propane and their respective businesses, consistent with its available resources, to keep available the services of the employees of the GP and U.S. Propane and to maintain existing relationships with suppliers, contractors, distributors, customers and others having business relationships with the GP and U.S. Propane.

7.5 RESTRICTIONS ON CERTAIN ACTIONS OF THE GP, U.S. PROPANE AND OTHER ENTITIES. Without limiting the generality of Section 7.4, except as otherwise expressly contemplated by this Agreement and the Operative Documents, from and after the date hereof and until the Closing Date, without the approval of the Acquirer, with respect to the business of the GP and U.S. Propane:

(a) None of the GP, U.S. Propane, any of the Venturers or, after its formation, NewLP shall agree to sell, transfer or otherwise dispose, or grant or agree to grant an option to purchase, sell, transfer, or otherwise dispose of any Securities. Notwithstanding anything in this Section 7.5(b) or elsewhere in this Agreement, the Venturers may cause the GP or U.S. Propane, at any time or from time to time to distribute to their respective owners cash or cash equivalents, to the extent that Current Assets exceed Current Liabilities at such time.

(b) Except as set forth on Schedule 7.5 or as otherwise contemplated in this Agreement or the Operative Documents, none of the Venturers nor, after its formation, NewLP shall cause or permit any of the GP or U.S. Propane to:

(i) make any expenditures outside the ordinary course of business consistent with past practice which, individually or in the aggregate, exceed $20,000;

(ii) make any material change in the ongoing operations of the business of such entity;

(iii) create, incur, guarantee or assume any Indebtedness;

(iv) mortgage or pledge any of the securities or the Assets and Properties of any such entity or create or suffer to exist any Encumbrance thereupon, other than Permitted Encumbrances;

(v) sell, lease, transfer or otherwise dispose of, directly or indirectly, any of the Assets and Properties of any such entity;

(vi) enter into any lease, contract, agreement, commitment, arrangement or transaction relating to the Assets and Properties of any such entity other than in the ordinary course of business;

(vii) amend, modify or change any existing lease or contract, other than in the ordinary course of the business consistent with past practice;

(viii) waive, release, grant or transfer any rights of value relating to the business of such entity, other than in the ordinary course of business consistent with past practice;

(ix) hire any employees other than in the ordinary course of business consistent with past practice;

(x) delay payment of any account payable or other liability relating to the business of such entity beyond the later of its due date or the date when such liability would have been paid in the ordinary course of business consistent with past practice, unless such delay is due to a good faith dispute as to liability or amount;

(xi) to the extent commercially practicable, permit any current insurance or reinsurance or continuation coverage to lapse if such policy insures risks, contingencies or liabilities (including product liability) related to the business of such entity;

(xii) except as set forth in this Section 7.5, take any action which would make any of the representations or warranties of any of the Venturers untrue as of any time from the date of this Agreement to the date of the Closing, or would result in any of the conditions to Closing set forth in this Agreement not being satisfied;

(xiii) authorize or propose, or agree in writing or otherwise take, any of the actions described in this Section 7.5;

(xiv) merge into or with or consolidate with any other Person or acquire all or substantially all of the business or assets of any other Person;

(xv) purchase any securities of any Person;

(xvi) take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization, or other winding up of the business of such entity;

(xvii) create any employee benefit plans (within the meaning of Section 3(3) of ERISA) or any other employee benefit plan or program not subject to ERISA, except as required by law; or

(xviii) enter into or take any action in connection with hedges, trades or swaps of any commodity.

(c) The Acquirer shall not take any action which would make any of the representations and warranties of the Acquirer untrue as of any time from the date of this Agreement to the date of Closing, or would result in any of the conditions to Closing set forth in this Agreement not being satisfied.

7.6 UPDATING SCHEDULES. The GP, U.S. Propane and the Venturers will, promptly upon becoming aware of any fact, matter, circumstance or event, which fact, matter, circumstance or event arose either (i) on or prior to the date hereof (a "Pre-signing Event") or (ii) after the date hereof but prior to the Closing (a "Post-Signing Event"), in any case, requiring supplementation or amendment of the schedules provided by the Venturers in the Disclosure Schedules of the Venturers, supplement or amend such schedules to this Agreement to reflect any fact, matter, circumstance or event, which, if existing, occurring or known on the date of this Agreement, would have been required to be set forth or described in such schedules which were or have been rendered inaccurate thereby. Notwithstanding the immediately preceding sentence, any such supplements or amendments must be made prior to such date on which the last of the conditions to Closing set forth in Sections 8.1 and 8.2 have been satisfied or waived by the party or parties entitled to waive the same, it being the intention of the parties that such schedules may not be amended within 72 hours prior to the Closing. All supplements and amendments to the schedules provided by the Venturers are provided for the information of the Acquirer only and no such supplement or amendment to the schedules shall (i) amend or supplement the representations and warranties (and corresponding schedules) made as of the date hereof or (ii) have any effect for the purpose of determining (A) satisfaction of the conditions set forth in Article 8 hereof or (B) compliance by the GP, U.S. Propane and the Venturers with their respective covenants and agreements set forth herein; provided, however, that if the Closing occurs the Disclosure Schedules as so supplemented or amended as of the Closing with respect to Pre-Signing Events and Post-Signing Events shall be deemed to be the Disclosure Schedules for purposes of determining whether or not any breach of the representations and warranties of any of the Venturers has occurred.

7.7 TAX REPORTING. The parties intend that this Agreement effect a sale by U.S. Propane of the Retained Assets, including a general partner interest in Heritage MLP and a general partner interest in Heritage OLP. The parties have agreed to the transactions contemplated hereby in order to achieve the economic and Tax consequences of such sales. In furtherance thereof, the parties agree to report for federal income tax purposes the Tax consequences of the transactions contemplated by this Agreement in a manner that is consistent with the form (and

order) of the transactions described in Article 3, and in particular agree to report the federal income tax consequences of such transactions as follows:

(a) Each of US Propane and the GP is a partnership immediately prior to the transaction for which provision is made in Section 3.2.

(b) After the transfer of all of the equity in the GP to NewGP and the transfer of all of the equity of U.S. Propane to NewLP as provided in Section 3.2, NewGP will be the continuation of the GP (that is, the same partnership for federal income tax purposes as) and NewLP will be the continuation of (that is, the same partnership for federal income tax purposes as) U.S. Propane, and the GP and U.S. Propane are disregarded from and after such transfer until (at least) all of the transactions contemplated in this Agreement have occurred.

(c) The transfer of certain assets from U.S. Propane to NewLP and the assumption by NewLP of certain liabilities of U.S. Propane, as provided in Section 3.3, are each disregarded.

(d) The purchase by Acquirer, as provided in Section 3.4, of the Securities is treated as the purchase of the Assets and Properties of U.S. Propane. The parties agree that the fair market value of each of the then Assets and Properties of U.S. Propane is as set out in Schedule 7.7. Each of the parties shall use such fair market values for all tax reporting purposes. Further, the Parties agree that in determining the taxable income of each of the Parties attributable to their ownership of interests in the Heritage MLP and Heritage OLP for the taxable year of the Heritage MLP and Heritage OLP including the Closing Date, Acquirer shall cause Heritage MLP and Heritage OLP to close their books as of the Closing Date and to allocate the taxable income of Heritage MLP and Heritage OLP for the period prior to the Closing Date allocable to the Retained Assets to NewLP and the taxable income of Heritage MLP and Heritage OLP allocable to the Retained Assets for the period beginning with the Closing Date through the end of the taxable year to Acquirer. To the extent that Heritage MLP or Heritage OLP is unable to close its books as of the Closing Date, the Parties agree to cause the tax results to the Parties to equal as nearly as possible those that would have resulted if the books of Heritage MLP and Heritage OLP had been closed as provided in the preceding sentence.

In addition, each party agrees to so report the transactions for all other Tax purposes in a manner consistent with the foregoing provisions of this Section 7.7 unless such party receives a written opinion of counsel or its regular tax adviser that one or more of such positions is not permitted under then Applicable Law, in which case such party may then so report the transactions in a manner that is inconsistent with the foregoing only after providing such written opinion to the other parties hereto and consultation thereafter with such other parties. The requirements of the foregoing (taking into account the effect of the preceding sentence) are referred to herein as the "Reporting Position." If any Tax authority proposes to characterize the transactions contemplated in this Agreement as to a party in a manner that is inconsistent with the Reporting Position, then such party agrees to contest such proposed characterization in good faith using commercially reasonable efforts to defend the Reporting Position and further agrees to keep the other parties hereto reasonably informed as to the status of any such controversy. Likewise, the Parties agree that Heritage OLP and Heritage MLP will allocate to NewLP taxable income attributable to the amounts paid to NewLP pursuant to Section 3.3(f).

7.8 FEES AND EXPENSES. Except as otherwise expressly provided in this Agreement, the Venturers shall cause NewLP to pay the out-of-pocket fees and expenses of the GP, U.S. Propane, NewLP and the Venturers, on the one hand, and the Acquirer shall pay its out-of-pocket fees and expenses, on the other hand, incurred in connection with the negotiation, execution and delivery of this Agreement and the transactions contemplated hereby, whether or not the Closing shall have occurred. Notwithstanding the foregoing, all such out-of-pocket fees and expenses incurred by the GP or U.S. Propane for time periods after the Closing shall be paid by the GP, U.S. Propane or the Acquirer.

7.9 ACTIONS BY PARTIES. Each party hereto agrees to use its commercially reasonable efforts to satisfy the conditions to Closing set forth in Article 8 and to use its commercially reasonable efforts to refrain from taking any action within its control that would cause a breach of a representation, warranty, covenant or agreement set forth in this Agreement. Each party hereto shall take all commercially reasonable steps necessary or desirable, and proceed diligently and in good faith and shall use all reasonable efforts to, as promptly as practicable, consummate the transactions contemplated by this Agreement and the Operative Documents.

7.10 EMPLOYEES OF U.S. PROPANE. The Acquirer shall not, at any time prior to 60 days after the Closing Date, effectuate a "plant closing" or "mass layoff" as those terms are defined in the Worker Adjustment and Retraining Notification Act ("WARN") affecting any employee of U.S. Propane or GP without fully complying with the notice and other applicable requirements of WARN.

7.11 THIRD PARTY BENEFICIARY. The Acquirer will enforce the capital commitments of the members of the Acquirer to make capital contributions to the Acquirer, and will not permit the waiver, amendment or termination of (i) any of such capital commitments, or (ii) any provision of the limited liability agreement of the Acquirer that provides that the Venturers are third party beneficiaries of the obligations of the members to make such capital commitments.

7.12 CONFIDENTIALITY AND TAX SHELTER REGULATIONS. Except as reasonably necessary to comply with applicable securities laws and notwithstanding anything in this Agreement to the contrary (including the confidentiality provisions set forth in Section 7.3 and Section 7.4) or in any other agreement to which a party hereto is bound, the parties hereto (and each employee, representative, or other agent of any of the parties) are expressly authorized to disclose to any and all persons, without limitation of any kind, the U.S. federal income "tax treatment" and "tax structure" (as those terms are defined in Treas. Reg. Sections 1.6011-4(c)(8) and (9), respectively) of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to such parties relating to such "tax treatment" and "tax structure" of the transactions contemplated by this Agreement. For these purposes, "tax structure" is limited to facts relevant to the U.S. federal income tax treatment of the transaction described herein.

7.13 TRADEMARKS, LOGOS, ETC. The Heritage Entities shall have the right to continue to use all trademarks, service marks, trade names, service names and logos (i) of AGL Propane Services, Inc., a Delaware corporation, United Cities Propane Gas L.L.C., a Delaware limited liability company, Peoples Gas Company, L.L.C., a Delaware limited liability company and Piedmont Propane Company, a North Carolina corporation and (ii) that Heritage MLP and

Heritage OLP were granted the right to use pursuant to that certain Contribution Agreement dated June 15, 2000 among U.S. Propane, Heritage MLP and Heritage OLP, except as specifically set forth on Schedule 7.13 (the "Trademarks"), until the first anniversary of the Closing. From and after such first anniversary, the Heritage Entities shall cease all use of the Trademarks, including all use of the name "Peoples Gas."

7.14 VOTE OF COMMON UNITS. Each of the Venturers hereby covenants and agrees to vote, and to cause NewLP to vote at each meeting or other vote of the holders of Common Units of Heritage MLP, with respect thereto, all of the Common Units, if any, that such Venturer or NewLP may own as of the record date established for determining the holders of Common Units entitled to vote at such meeting or in such other vote for approval of the transactions contemplated hereby and for approval of the conversion of the Class D Subordinated Units (as defined in Amendment No. 5 to the Heritage MLP Partnership Agreement) to Common Units on a one-for-one basis and otherwise on the terms described in Amendment No. 5 to the Heritage MLP Partnership Agreement and any amendment to the Heritage MLP Partnership Agreement related thereto.

7.15 PRECLOSING TRANSACTIONS. Prior to the Closing, the Venturers shall cause the transactions described in Article III that are to be effected prior to the Closing to be so effected.

ARTICLE VIII
CONDITIONS TO CLOSING

8.1 CONDITIONS TO CLOSING OF THE ACQUIRER. The obligations of the Acquirer to consummate the transactions contemplated by this Agreement at the Closing shall be subject to the fulfillment by each of the GP, U.S. Propane and each of the Venturers on or prior to the Closing Date of each of the following conditions (all or any of which may be waived in whole or in part by the Acquirer in its sole discretion):

(a) Representations and Warranties True. The representations and warranties of the Venturers set forth in this Agreement shall be true and correct in all material respects on and as of the Closing Date (other than those that are qualified by a reference to materiality or Material Adverse Effect, which representations and warranties shall have been true and correct in all respects as so qualified), and any representations and warranties made as of a specified date earlier than the Closing Date shall have been true and correct in all material respects on and as of such earlier date (other than those that are qualified by a reference to materiality or Material Adverse Effect, which representations and warranties shall have been true and correct in all respects as so qualified).

(b) Covenants and Agreements Performed. Each of the GP, U.S. Propane and each of the Venturers shall have performed and complied with, in all material respects, all covenants and agreements required by this Agreement to be performed or complied with by it, and each of the Venturers shall have caused NewLP to have performed and complied with, in all material respects, all covenants and agreements required by this Agreement to be performed or complied with by NewLP.

(c) Certificates. The Acquirer shall have received a certificate from (i) each of the Venturers, in substantially the form set forth in Exhibit 8.1(c)(i), dated the Closing Date, representing and certifying that (A) the conditions set forth in Section 8.1(a) have been fulfilled and (B) except for matters relating to the Heritage Entities disclosed pursuant to the Contribution Agreement and except for the effects of general economic conditions or weather, seasonality or other conditions affecting the industry in which any of the Heritage Entities conduct business, to each such Venturer's Knowledge, since the Financial Statement Date there has not been any event or condition relative to any of the Heritage Entities having, or reasonably expected to have, a Material Adverse Effect on the GP or U.S. Propane, (ii) each of the GP, U.S. Propane and each of the Venturers, in substantially the form set forth in Exhibit 8.1(c)(ii), dated the Closing Date, representing and certifying that the conditions set forth in Section 8.1(b), have been fulfilled and a certificate as to the incumbency of the officers executing this Agreement on behalf of such party.

(d) Legal Proceedings. No preliminary or permanent injunction or other order, decree or ruling issued by a Governmental Authority, and no statute, rule, regulation or executive order promulgated or enacted by a Governmental Authority, shall be in effect that restrains, enjoins, prohibits or otherwise makes illegal the consummation of the transactions contemplated by this Agreement or the Operative Documents. No Proceeding before a Governmental Authority shall be pending (A) seeking to restrain or prohibit the consummation of the transactions contemplated by this Agreement or the Operative Documents or (B) that could reasonably be expected, if adversely determined, to impose any material limitation on the ability of any of the GP, U.S. Propane, NewLP or any of the Venturers to consummate the transactions contemplated hereby or by the Operative Documents.

(e) Consents. All Consents set forth on Exhibit 8.1(e) shall have been obtained or made and shall be in full force and effect as to each of the GP, U.S. Propane, NewLP and each of the Venturers, as applicable, at the time of the Closing.

(f) No Material Adverse Effect. Since the date of this Agreement, there shall not have been any event or condition having a Material Adverse Effect (excluding for purposes of such determination the effects on the GP and U.S. Propane of the transactions to be effected prior to Closing pursuant to Article 3).

(g) Deliveries. Each of the GP, U.S. Propane, NewLP and each of the Venturers shall have delivered to the Acquirer executed copies of the Operative Documents and the certificates representing all of the Securities purchased by the Acquirer hereunder, duly endorsed in blank or accompanied by transfer powers.

(h) Contribution Agreement; HHI Purchase Agreement. All conditions to the closing of the transactions contemplated by the Contribution Agreement (other than a condition relating to the satisfaction of all conditions to closing of this Agreement) shall have been satisfied or waived. The HHI Purchase Agreement shall have been executed and delivered by each of the Persons party thereto and the closing thereunder shall have occurred.

(i) Assumption of Assumed Liabilities; Dividend of GP Interests Note. NewLP shall have delivered to the GP and U.S. Propane the Transfer Instruments whereby NewLP agrees to

assume all of the Assumed Liabilities, and U.S. Propane shall have declared and paid the GP Interests Note as a dividend to NewGP and NewLP.

(j) Resignations. Each of H. Michael Krimbill, James E. Bertelsmeyer, Andrew W. Evans, Royston K. Eustace, William N. Cantrell, Richard T. O'Brien, David J. Dzuricky, J. Patrick Reddy, Kevin M. O'Hara and J.D. Woodward (or their respective successors as members of the Board of Directors of the GP) shall have, and, if requested in writing by Acquirer not less than three business days prior to Closing, each of Bill W. Byrne, Stephen L. Cropper and J. Charles Sawyer shall have, tendered their resignations as a member of the GP's Board of Directors, effective as of the Closing.

(k) HSR Waiting Period. If applicable, the waiting period under the HSR Act applicable to the consummation of the transactions contemplated hereby shall have expired or been terminated without any adverse condition attached thereto.

8.2 CONDITIONS TO CLOSING OF NEWLP AND THE VENTURERS. The obligations of NewLP and each of the Venturers to consummate the transactions contemplated by this Agreement at the Closing shall be subject to the fulfillment by the Acquirer on or prior to the Closing Date of each of the following conditions (all or any of which may be waived in whole or in part by the Venturers in their sole discretion):

(a) Representations and Warranties True. The representations and warranties of the Acquirer set forth in this Agreement shall be true and correct in all material respects on and as of the Closing Date (other than those that are qualified by a reference to materiality or Material Adverse Effect, which representations and warranties shall have been true and correct in all respects as so qualified), and any representations and warranties made as of a specified date earlier than the Closing Date shall have been true and correct in all material respects on and as of such earlier date (other than those that are qualified by a reference to materiality or Material Adverse Effect, which representations and warranties shall have been true and correct in all respects as so qualified).

(b) Covenants and Agreements Performed. The Acquirer shall have performed and complied with, in all material respects, all covenants and agreements required by this Agreement to be performed or complied with by it.

(c) Certificates. Each of the Venturers shall have received a certificate from the Acquirer, in substantially the form set forth in Exhibit 8.2(c), dated the Closing Date, representing and certifying that the conditions set forth in Sections 8.2(a) and 8.2(b) have been fulfilled and a certificate as to the incumbency of the officers executing this Agreement on behalf of the Acquirer.

(d) Legal Proceedings. No preliminary or permanent injunction or other order, decree or ruling issued by a Governmental Authority, and no statute, rule, regulation or executive order promulgated or enacted by a Governmental Authority, shall be in effect that restrains, enjoins, prohibits or otherwise makes illegal the consummation of the transactions contemplated by this Agreement or the Operative Documents. No Proceeding before a Governmental Authority shall be pending (A) seeking to restrain or prohibit the consummation of the transactions contemplated

by this Agreement or the Operative Documents or (B) that could reasonably be expected, if adversely determined, to impose any material limitation on the ability of any of the Acquirer to consummate the transactions contemplated hereby or by the Operative Documents.

(e) Consents. All Consents set forth on Exhibit 8.2(e) shall have been obtained or made and shall be in full force and effect as to the Acquirer at the time of the Closing.

(f) Deliveries. The Acquirer and each Person that is a party thereto (other than the GP, U.S. Propane, NewLP or any of the Venturers) shall have delivered executed copies of the Operative Documents to the GP, U.S. Propane, NewLP and the Venturers.

(g) Contribution Agreement; HHI Purchase Agreement. The Contribution Agreement shall have been executed and delivered by each of the Persons party thereto and all conditions to closing therein (other than a condition relating to the satisfaction of all conditions to closing of this Agreement and the HHI Purchase Agreement) shall have been satisfied or waived. The HHI Purchase Agreement shall have been executed and delivered by each of the Persons party thereto and the closing thereunder shall have occurred.

(h) Payment. NewLP shall have received full payment in cash or immediately available funds (wired to the account of NewLP in accordance with wiring instructions to be specified by NewLP not less than three Business Days prior to the Closing) of the Purchase Price from the Acquirer in consideration for the transfer, assignment and conveyance of the Securities.

(i) HSR Waiting Period. If applicable, the waiting period under the HSR Act applicable to the consummation of the transactions contemplated hereby shall have expired or been terminated without any adverse condition attached thereto.

ARTICLE IX
TERMINATION, AMENDMENT AND WAIVER

9.1 TERMINATION. This Agreement may be terminated and the transactions contemplated hereby abandoned by written notice at any time prior to the Closing in any of the following manners:

(a) concurrently with any permitted termination of the Contribution Agreement; provided, however, that if the Contribution Agreement is terminated due to a breach or default (i) by La Grange (as such term is defined in the Contribution Agreement) of its obligations thereunder or a failure by La Grange to satisfy its conditions to closing thereunder, this Agreement shall not be terminated automatically but may be terminated by election of the Venturers furnished in writing to the other parties hereto, or (ii) by Heritage MLP or Heritage OLP of their respective obligations thereunder or a failure by Heritage MLP or Heritage OLP to satisfy their conditions to closing thereunder, this Agreement shall not be terminated automatically but may be terminated by election of the Acquirer furnished in writing to the other parties hereto;

(b) by written consent of each of the parties to this Agreement;

(c) by any party if the Closing has not occurred on or before February 15, 2004, unless such failure to close resulted from a breach of this Agreement by the party or its Affiliate seeking to terminate this Agreement pursuant to this Section 9.1(c);

(d) by any party if (i) there is any statute, rule or regulation that makes consummation of the transactions contemplated hereby illegal or otherwise prohibited or (ii) a Governmental Authority (A) has issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby, and such order, decree, ruling or other action shall have become final and nonappealable or (B) has made any order, decree, ruling or other action consenting to or approving consummation of the transactions contemplated hereby contingent or conditional in any manner that has a Material Adverse Effect, which order, decree, ruling or other action shall have become final and nonappealable;

(e) by any party, if there has been any violation or breach by any other party (other than an Affiliate or related party of the first party) of any representation, warranty, covenant or agreement contained in this Agreement that has rendered impossible the satisfaction of any condition to the obligations of such other party set forth in Section 8.1 or Section 8.2 and such violation or breach has neither been cured within 30 days after notice by such first party to the other party nor waived by the first party;

(f) by any party, if any other event shall occur that shall render the satisfaction of any condition to the obligations of any other party (other than an Affiliate or related party of the first party) impossible and such condition has not been waived by the other parties; or

(g) by the Acquirer, if any amendment is made to any schedule in accordance with Section 7.6 that in the Acquirer's reasonable judgment (i) with respect to any Pre-Signing Event, is material or (ii) with respect to any Post-Signing Event, the effect of the event or circumstance to which such amendment relates materially impairs the financial condition, business, properties, prospects, net worth or results of operations of the GP or U.S. Propane.

9.2 EFFECT OF TERMINATION. If this Agreement is terminated pursuant to Section 9.1 by any party, written notice thereof shall forthwith be given to the other parties specifying the provision hereof pursuant to which such termination is made. If this Agreement is terminated for any reason, this Agreement shall become void and have no effect, except that (a) the agreements contained in this Section 9.2 and in Section 7.8 shall survive the termination hereof, (b) nothing contained in this Section 9.2 shall relieve any party from liability for any willful breach of this Agreement and (c) nothing shall relieve any party from any liability for a breach of its obligations hereunder existing at the time of such termination. If this Agreement is terminated (y) because the Acquirer is unable to arrange the funding necessary to consummate the Closing, the Acquirer agrees to pay $500,000 to the Venturers or (z) by the Acquirer pursuant to Section 9.1(g) because of an amendment to any schedule with respect to a Pre-Signing Event, the Venturers agree to pay $500,000 to the Acquirer. The parties stipulate and agree that (a) the $500,000 amount referred to in the immediately preceding sentence shall constitute liquidated damages payable in lieu of any other costs or expenses incurred by a party upon such termination, shall constitute the sole remedy upon a termination in accordance with clause (y) or (z) of the preceding sentence and (b) they each believe that such amounts constitute a fair and

reasonable resolution if this Agreement is terminated under the circumstances referred to in such clauses (y) or (z).

9.3 AMENDMENT. This Agreement may not be amended except by an instrument in writing signed by each of the parties.

9.4 WAIVER. Any party may, on behalf of itself only and not on behalf of any other party, (a) waive any inaccuracies in the representations and warranties of any other party (other than an Affiliate or related party of the first party) contained herein or in any document, certificate or writing delivered pursuant hereto, (b) waive compliance by any other party (other than an Affiliate or related party of the first party) with any of its agreements contained herein and (c) waive fulfillment of any conditions to its obligations contained herein. Any agreement on the part of a party to any such waiver shall be valid only if set forth in an instrument in writing signed by or on behalf of such party. No failure or delay by a party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

ARTICLE X
INDEMNIFICATION; SURVIVAL OF REPRESENTATIONS

10.1 INDEMNIFICATION OBLIGATIONS OF NEWLP AND THE VENTURERS. NewLP and, if NewLP is unable to satisfy its obligations hereunder and, with respect to each Venturer, only to the extent that a Venturer has received after the Closing from NewLP any distribution of cash or property, each such Venturer shall, except for indemnification in respect of the clause (b) below with respect to the last sentence of Section 4.6, which indemnification shall only be several as among NewLP and each of the Venturers, indemnify the Acquirer Indemnified Parties, as the case may be, and hold the Acquirer Indemnified Parties harmless from, against and in respect of any and all Losses arising out of, based upon or resulting from:

(a) the breach of any representation or warranty of any Venturer contained in or made pursuant to this Agreement (other than those in Section 4.2, Section 4.3, the last sentence of Section 4.6 or in Section 4.24);

(b) the breach of any representation or warranty of any Venturer contained in or made pursuant to Section 4.2, Section 4.3, the last sentence of Section 4.6 or in Section 4.24;

(c) the breach by any Venturer or the failure of any of the Venturers to observe or perform in any material respect, any of its covenants or agreements contained in this Agreement or any other Operative Document; and

(d) the Assumed Liabilities.

Notwithstanding the foregoing, NewLP and the Venturers will not have any obligation to indemnify the Acquirer Indemnified Parties for Losses under Section 10.1(a) unless and until the aggregate amount of all such Losses under Section 10.1(a) exceeds $300,000 (regardless of whether, in the case of third party actions, suits or proceedings with respect to any of the foregoing, the Venturers may have a meritorious defense), at and after which time NewLP and

the Venturers shall be liable for all Losses in excess of $300,000 and which do not in the aggregate exceed $3,000,000. Notwithstanding anything else herein to the contrary, none of the Venturers shall be required pursuant to this Section 10.1 to make any payment to any of the Acquirer Indemnified Parties for Losses unless such Acquirer Indemnified Party has first sought to collect payment of such Losses from NewLP and NewLP has failed or refused to make payment thereof to the extent required under this Article 10, after which such Acquirer Indemnified Party may, only to the extent specified in this Section 10.1, seek payment of such Losses from a Venturer (unless the failure or refusal of NewLP to make such payment is due to a good faith dispute regarding such Acquirer Indemnified Party's right under this Section 10.1 to indemnification for such Losses). The rights and remedies of the Acquirer Indemnified Parties based upon, arising out of or otherwise in respect of any clause of this Section 10.1 or any representation, warranty or covenant in this Agreement or other Operative Documents shall in no way be limited by the fact that the act, omission, occurrence or other state of facts upon which any such claim is based may also be the subject matter of any representation, warranty or covenant in this Agreement or other Operative Document that would not give rise to any rights or remedies of the Acquirer Indemnified Parties.

10.2 INDEMNIFICATION OBLIGATIONS OF THE ACQUIRER. The Acquirer, shall indemnify the Venturer Indemnified Parties, as the case may be, and hold the Venturer Indemnified Parties harmless from, against and in respect of any and all Losses arising out of, based upon or resulting from:

(a) the breach of any representation or warranty of the Acquirer contained in or made pursuant to this Agreement (other than those in the second and third sentences of Section 5.1 and in Section 5.3 and Section 5.4);

(b) the breach of any representation or warranty of Acquirer contained in or made pursuant to the second and third sentences of Section 5.1, or in Section 5.3 or Section 5.4;

(c) the breach by the Acquirer or failure of the Acquirer or any of its Affiliates to observe or perform in any material respect, any of their covenants or agreements contained in this Agreement or any other Operative Document; and

(d) the Retained Liabilities.

Notwithstanding the foregoing, the Acquirer will not have any obligation to indemnify the Venturer Indemnified Parties for Losses under Section 10.2(a) unless and until the aggregate amount of all such Losses under Section 10.2(a) exceeds $300,000 of the Purchase Price (regardless of whether, in the case of third party actions, suits or proceedings with respect to any of the foregoing, the Acquirer may have a meritorious defense), at and after which time the Acquirer shall be liable for all Losses in excess of $300,000 and which do not in the aggregate exceed $3,000,000. The rights and remedies of the Venturer Indemnified Parties based upon, arising out of or otherwise in respect of any clause of this Section 10.2 or any representation, warranty or covenant in this Agreement or other Operative Document shall in no way be limited by the fact that the act, omission, occurrence or other state of facts upon which any such claim is based may also be the subject matter of any representation, warranty or covenant in this

Agreement or other Operative Document that would not give rise to any rights or remedies of the Venturer Indemnified Parties.

10.3 INDEMNIFICATION PROCEDURES.

(a) Promptly upon receipt by a party indemnified under this Article 10 (an "Indemnified Party") of notice of the commencement of any action against such Indemnified Party (a "Third Party Action") in respect of which indemnity or reimbursement may be sought against a party or parties required to make indemnification hereunder (an "Indemnifying Party"), such Indemnified Party shall notify the Indemnifying Party in writing of the commencement of such Third Party Action, but the failure so to notify the Indemnifying Party shall not relieve it of any liability which it may have to any Acquirer Indemnified Party under Section 10.1 or any Venturer Indemnified Party under Section 10.2, as applicable, unless such failure actually and materially adversely affects the defense of such Third Party Action. In case notice of commencement of any such Third Party Action shall be given to the Indemnifying Party as above provided, the Indemnifying Party shall be entitled to participate in and to assume the defense of such action at its own expense, with counsel chosen by it that is reasonably satisfactory to the Indemnified Party; provided, however, that:

(i) the Indemnified Party shall be entitled to participate in the defense of such Third Party Action and to employ counsel at its own expense to assist in the handling of such Third Party Action (provided that the Indemnified Party shall be entitled to reimbursement for the reasonable out-of-pocket expenses for such counsel in accordance with subclauses (A) and (B) below in this Section 10.3(a));

(ii) the Indemnifying Party shall obtain the prior written approval of the Indemnified Party, which approval shall not be unreasonably withheld or delayed, before entering into any settlement of such Third Party Action or ceasing to defend against such Third Party Action, if pursuant to or as a result of such settlement or cessation, injunctive or other equitable relief would be imposed against the Indemnified Party or the Indemnified Party would be adversely affected thereby;

(iii) no Indemnifying Party shall consent to the entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by each claimant or plaintiff to each Indemnified Party of a release from all liability in respect of such Third Party Action; and

(iv) the Indemnifying Party shall not be entitled to control the defense of any Third Party Action unless within 15 days after receipt of such written notice from the Indemnified Party, the Indemnifying Party confirms in writing its responsibility to indemnify the Indemnified Party with respect to such Third Party Action and reasonably demonstrates that it will be able to pay the full amount of the reasonably expected Losses in connection with any such Third Party Action.

Except as set forth in the following sentence, after written notice by the Indemnifying Party to the Indemnified Party of its election to assume control of the defense of any such Third Party Action in accordance with the foregoing, (i) the Indemnifying Party shall not be liable to the

Indemnified Party hereunder for any fees and expenses of counsel subsequently incurred by the Indemnified Party attributable to defending against such Third Party Action, and (ii) as long as the Indemnifying Party is reasonably contesting such Third Party Action in good faith, the Indemnified Party shall not admit any liability with respect to, or settle, compromise or discharge the claim underlying, such Third Party Action without the prior written consent of the Indemnifying Party. If (A) the Indemnifying Party does not assume control of the defense of such Third Party Action in accordance with this Section 10.3(a), or (B) the Indemnified Party has been advised in writing by counsel that representation of such Indemnified Party and the Indemnifying Party by the same counsel would be inappropriate under applicable standards of professional conduct (in which case the Indemnifying Party shall not have the right to assume the defense of such Third Party Action on behalf of the Indemnified Party), in each case the Indemnified Party shall have the right to defend such Third Party Action in such manner as it may deem appropriate at the cost and expense of the Indemnifying Party, provided that (i) the Indemnifying Party shall be obligated to reimburse the Indemnified Parties for the costs and expenses of only a single counsel for such Third Party Action and any matters related thereto and (ii) the Indemnified Party shall not settle or resolve such Third Party Action without the prior written consent of the Indemnifying Party (which consent will not be unreasonably withheld, conditioned or delayed), and the Indemnifying Party shall promptly reimburse the Indemnified Party therefor in accordance with this Article 10. The reimbursement of fees and expenses of counsel required by this Article 10 shall be made by periodic payments during the course of the investigation or defense, as and when bills are received or expenses incurred.

(b) If the Indemnifying Party shall be obligated to indemnify the indemnified Party pursuant to this Article 10, the Indemnifying Party shall be subrogated to all rights of the Indemnified Party with respect to the claims to which such indemnification relates. If an Indemnified Party becomes entitled to any indemnification from an Indemnifying Party, such indemnification shall be made in cash upon demand, unless the Indemnifying Party is disputing the right of such Indemnified Party to indemnification hereunder.

(c) The right of indemnification pursuant to this Article 10 shall constitute the sole and exclusive remedy of each of the Parties to this Agreement and their respective Affiliates, managers, directors, officers, members, employees and other agents and representatives, other than with respect to fraud or willful breach by a Party.

10.4 SURVIVAL. All representations, warranties, covenants and agreements contained in this Agreement shall survive (and not be affected in any respect by) the Closing, any investigation conducted by any party and any information that any party may receive (other than information identified in the Schedules attached hereto).

(a) The right to indemnification:

(i) with respect to any breach or violation of any of the representations and warranties contained in this Agreement (other than those in the last sentence of Section 4.6, or Sections 4.11, 4.18, 4.22, 4.24 and 5.4), shall survive for one (1) year from the Closing Date;

(ii) with respect to any breach of violation of any of the representations and warranties contained in the last sentence of Section 4.6 and in Sections 4.24 or 5.4, shall survive indefinitely;

(iii) with respect to any breach or violation of any of the representations and warranties contained in Sections 4.11, 4.18 and 4.22, shall survive for the applicable statute of limitations; and

(iv) with respect to all covenants and agreements contained in this Agreement, shall survive for the applicable statute of limitations (including all periods of extension thereof, whether automatic or permissive).

(b) The expiration of any survival period under this Agreement will not affect the liability of any Party under this Article 10 for any Losses as to which a bona fide claim has been asserted prior to the termination of such survival period.

10.5 NO SPECIAL OR CONSEQUENTIAL DAMAGES. No party and no Indemnified Party shall be entitled to recover special, consequential, exemplary or punitive damages from the other parties or any Indemnifying Party in connection with any claim for indemnification under this Article 10 or otherwise, and each party hereby waives any claim or right to special, consequential, exemplary or punitive damages hereunder, even if caused by the active, passive, sole, joint, concurrent or comparative negligence, strict liability, or other fault of any party, other than fraud or intentional misconduct.

10.6 LIMITATIONS ON INDEMNIFICATION.

(a) Neither NewLP nor any of the Venturers shall have any obligation to indemnify the Acquirer Indemnified Parties hereunder with respect to any breach of a representation or warranty of the Venturers resulting from a Pre-Signing Event or Post-Signing Event to the extent that the Disclosure Schedules of the Venturers to this Agreement were amended or supplemented in accordance with Section 7.6 to reflect such Pre-Signing Event or Post-Signing Event prior to Closing. Following the Closing, the determination of whether any of the Venturers have breached any of their representations or warranties shall be determined on the basis of the Disclosure Schedules of the Venturers as amended or supplemented as of the Closing.

(b) The Acquirer shall not have any obligation to indemnify the Venturer Indemnified Parties hereunder with respect to any breach of a representation or warranty of the Acquirer resulting from a Pre-Signing Event or from a Post-Signing Event to the extent that the Acquirer submits Disclosure Schedules to the Venturers reflecting such Pre-Signing Event or Post-Signing Event prior to Closing.

(c) Following the Closing, the determination of whether the Acquirer has breached any of its representations or warranties shall be determined on the basis of the Disclosure Letter of the Acquirer as so amended or supplemented as of the Closing.

ARTICLE XI
MISCELLANEOUS

11.1 NOTICES. All notices, requests, demands and other communications required or permitted to be given or made hereunder by any party shall be in writing, and shall be delivered either personally, or by registered or certified mail (postage prepaid and return receipt requested) or by express courier or delivery service, or by telegram, telefax, telex or similar facsimile means, to the Parties, at the addresses (or at such other addresses as shall be specified by the Parties by like notice) set forth below:

(a) If to the GP, U.S. Propane, NewLP or the Venturers, to:

AGL Propane Services, Inc.
AGL Energy Corporation
10 Peachtree Place
Atlanta, Georgia 30309
Attention: General Counsel
Facsimile: (404) 584-3419

United Cities Propane Gas, Inc.
c/o Atmos Energy Corporation
5430 LBJ Freeway
1800 Three Lincoln Centre
Dallas, Texas 75240
Attention: J. Patrick Reddy
Facsimile: (972) 855-3793

TECO Propane Ventures, LLC
c/o TECO Energy, Inc.
702 N. Franklin Street
Tampa, Florida 33602
Attention: General Counsel
Facsimile: (813) 228-4811

Piedmont Propane Company
1915 Rexford Road
Charlotte, North Carolina 28211
Attention: David Dzuricky
Kevin M. O'Hara
Facsimile: (704) 365-8515

with a copy to:

Andrews Kurth LLP
600 Travis Street
Houston, Texas 77002
Attention: G. Michael O'Leary
Facsimile: (713) 220-4285

(b) If to the Acquirer, to:

c/o ETC Holdings, LP
2838 Woodside Street
Dallas, Texas 75204
Attention: Clay Kutch
Facsimile: (214) 981.0701

with a copy to:

Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Attention: Jeffrey A. Zlotky
Facsimile: (214) 969-1751

Notices and other communications shall be deemed given or made (i) when received, if sent by telegram, telefax, telex or similar facsimile means (written confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by telefax, telex or similar facsimile means) and (ii) when delivered and receipted for (or upon the date of attempted delivery where delivery is refused), if hand delivered, sent by registered or certified mail or sent by express courier or delivery service, except in the case of facsimile transmissions received after the normal close of business at the receiving location, which shall be deemed given on the next Business Day.

11.2 ENTIRE AGREEMENT. This Agreement and the documents referred to herein, together with the Schedules and Exhibits hereto (where applicable, as executed and delivered), and that certain letter agreement, dated September 15, 2003, among Acquirer and the Venturers, constitute the entire agreement between the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof.

11.3 BINDING EFFECT; ASSIGNMENT; NO THIRD PARTY BENEFIT. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned (whether by operation of law or otherwise) by any party without the prior written consent of each of the parties, and any purported assignment without such consent shall be void; provided, however, that Acquirer may assign its rights, interests and obligations under this Agreement to an Affiliate of Acquirer without the prior written consent of any of the other parties, but no such assignment shall relieve the Acquirer of its obligations hereunder. Except as provided in Article 10, nothing in this Agreement, express or implied, is intended to or shall confer upon any Person other than the parties, and their respective successors and permitted assigns, any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

11.4 SEVERABILITY. If any provision of this Agreement is held to be unenforceable, this Agreement shall be considered divisible and such provision shall be deemed inoperative to the extent it is deemed unenforceable, and in all other respects this Agreement shall remain in full force and effect; provided, however, that if any such provision may be made enforceable by limitation thereof, then such provision shall be deemed to be so limited and shall be enforceable to the maximum extent permitted by Applicable Law.

11.5 GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Texas or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Texas.

11.6 JURISDICTION. Any legal action, suit or proceeding in law or equity arising out of or relating to this Agreement or the transactions contemplated by this Agreement may only be instituted in any state or federal court located in the State of Texas, and each party agrees not to assert, by way of motion, as a defense or otherwise, in any such action, suit or proceeding, any claim that it is not subject personally to the jurisdiction of such court, that its property is exempt or immune from attachment or execution, that the action, suit or proceeding is brought in an inconvenient forum, that the venue of the action, suit or proceeding is improper or that this Agreement, or the subject matter hereof or thereof may not be enforced in or by such court. Each party further irrevocably submits to the jurisdiction of any such court in any such action, suit or proceeding. Any and all service of process and any other notice in any such action, suit or proceeding shall be effective against any party if given by registered or certified mail (return receipt requested) or by any other means which requires a signed receipt in accordance with, and at the address listed in, Section 10.1. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law.

11.7 FURTHER ASSURANCES. From time to time following the Closing, at the request of any party and without further consideration, the other parties shall execute and deliver to such requesting party such instruments and documents and take such other action as such requesting party may reasonably request or as may be otherwise necessary to (a) cause the Acquirer, the GP, U.S. Propane, NewLP or the Venturers to fulfill their respective obligations under this Agreement and the other Operative Documents and (b) otherwise consummate more fully and effectively the transactions contemplated by this Agreement and the Operative Documents.

11.8 DESCRIPTIVE HEADINGS. The descriptive headings herein are inserted for convenience of reference only, do not constitute a part of this Agreement and shall not affect in any manner the meaning or interpretation of this Agreement.

11.9 COUNTERPARTS. This Agreement may be executed by the Parties in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement.

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, this Acquisition Agreement has been duly executed and delivered by the duly authorized representative of each party hereto as of the date first above written.

GP: U.S. PROPANE, L.L.C.

By:_____
Name:
Title:

U.S. PROPANE: U.S. PROPANE, L.P.

By: U.S. Propane, L.L.C., its general partner

By:_____
Name:
Title:

[SIGNATURE PAGE TO ACQUISITION AGREEMENT]

VENTURERS:

AGL PROPANE SERVICES, INC.

By:_____
Name:
Title:

AGL ENERGY CORPORATION

By:_____
Name:
Title:

UNITED CITIES PROPANE GAS, INC.

By:_____
Name:
Title:

TECO PROPANE VENTURES, LLC

By:_____
Name:
Title:

PIEDMONT PROPANE COMPANY

By:_____
Name:
Title:

[SIGNATURE PAGE TO ACQUISITION AGREEMENT]

ACQUIRER: LA GRANGE ENERGY, L.P.

By: LE GP, LLC, its general partner

By:_____
Name:
Title:

[SIGNATURE PAGE TO ACQUISITION AGREEMENT]

EXHIBIT 10.31

==========

CONTRIBUTION AGREEMENT

BY AND AMONG

LA GRANGE ENERGY, L.P.,

AND

HERITAGE PROPANE PARTNERS, L.P., AND
U.S. PROPANE, L.P.

NOVEMBER 6, 2003

==========

CONTRIBUTION AGREEMENT

TABLE OF CONTENTS

SUMMARY of SCHEDULES AND EXHIBITS

SCHEDULES

Schedule 4.8(b)	Aquila Financial Statements
Schedule 4.8(c)	Oasis Financial Statements
Schedule 4.10(a)	Tax Matters
Schedule 4.10(b)	Tax Matters
Schedule 4.10(d)	Tax Matters
Schedule 4.12	Legal Proceedings
Schedule 4.14(a)	Owned Property
Schedule 4.14(b)	Leased Property
Schedule 4.15	Tangible Personal Property
Schedule 4.16	Software License Agreements
Schedule 4.17(a)	Permits
Schedule 4.17(b)	Burdensome Permit Conditions
Schedule 4.18(a):	
4.18(a)(i)	Collective Bargaining Agreements
4.18(a)(ii)	Employee Benefit Arrangements
4.18(a)(iii)	Agreements with Officers, Directors and Employees
4.18(a)(iv)	Capital Stock Agreements
4.18(a)(v)	Affiliate Agreements
4.18(a)(vi)	Mortgages, Security Agreements
4.18(a)(vii)	Acquisition or Disposition of Assets
4.18(a)(viii)	Leases
4.18(a)(ix)	Management or Operation Agreements
4.18(a)(x)	Supplier, Marketing and Consulting Agreements
4.18(a)(xi)	Software License Agreements
4.18(a)(xii)	Partnership and Joint Venture Agreements
4.18(a)(xiii)	Governmental Agreements
4.18(a)(xiv)	Settlement Agreements
4.18(a)(xv)	Non-Competition Agreements
4.18(a)(xvi)	Agreements Not Made in the Ordinary Course of Business
4.18(a)(xvii)	Other Material Agreements
4.18(a)(xviii)	Agreements or Commitments
4.18(b)	Defaults
Schedule 4.19(a)	Remedial Obligations
Schedule 4.19(b)	Environmental Conditions
Schedule 4.19(c)(i)	Underground Storage Tanks
Schedule 4.19(c)(ii)	Pending Governmental Actions
Schedule 4.19(c)(iii)	Permit Violations
Schedule 4.19(c)(iv)	Manufactured Gas Sites
Schedule 4.21	Liabilities that Result in Encumbrances
Schedule 4.24(a)	Employee Matters
Schedule 4.24(b)	Employee Matters
Schedule 4.24(c)	Employee Matters
Schedule 4.25	Consents and Approvals
Schedule 4.26	Prohibited Actions
Schedule 4.28(a)(i)	Employee Benefit Plans
Schedule 4.28(a)(ii)	Employee Benefit Plans

Schedule 4.28(b)	Employee Benefit Plans
Schedule 4.28(d)	Employee Benefit Plans
Schedule 4.28(f)	Employee Benefit Plans
Schedule 4.28(g)	Employee Benefit Plans
Schedule 4.29	Finder's Fees
Schedule 4.30	Entities with Investment Company or Holding Company Status
Schedule 5.1	Conduct and Preservation of Business
Schedule 5.2	Restricted Actions
Schedule 5.4	Conduct And Preservation Of Business
Schedule 5.5	Restricted Actions
Schedule 7.1(e)	Material Consents
Schedule 7.2(e)	Material Consents

EXHIBITS

Exhibit 1.1	Noncompete Agreement
Exhibit 2.2(a)(iii)	Distribution of La Grange Partnerships and New ETC Texas Working Capital Assets to La Grange
Exhibit 2.2(a)(iv)	Form of Warranty Deed
Exhibit 3.2(e)(i)	Amendment No. 5 to Heritage MLP Partnership Agreement
Exhibit 7.1(c)	Certificate of the Heritage Parties
Exhibit 7.2(j)	Application for Issuance of Common Units

CONTRIBUTION AGREEMENT

This Contribution Agreement (this "Agreement"), dated as of November 6, 2003, is entered into by and among the following:

1. La Grange Energy, L.P., a Texas limited partnership ("La Grange"); and

2. Heritage Propane Partners, L.P., a Delaware limited partnership ("Heritage MLP") and U.S. Propane, L.P., a Delaware limited partnership ("Heritage GP").

RECITALS:

A. La Grange is engaged in the business of purchasing, gathering, treating, processing, marketing, sales, storage, transportation, fractionation and distribution of natural gas and natural gas liquids through La Grange and its subsidiaries.

B. La Grange desires to contribute to Heritage MLP, and Heritage MLP desires to accept from La Grange all of the interests of certain subsidiaries of La Grange.

C. In consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

ARTICLE 1
DEFINITIONS

1.1 DEFINITIONS. As used in this Agreement, the following defined terms shall have the meanings indicated below:

"Accounts Payable" means all liabilities, excluding Long-Term Debt, amounts to be paid pursuant to the Capital Expenditures Payment, amounts to be paid pursuant to the Bossier Pipeline Reimbursement Payment, and deferred income taxes.

"Acquisition Agreement" means the Acquisition Agreement by and among Heritage GP, U.S. Propane, L.L.C., AGL Propane Services, Inc., AGL Energy Corporation, United Cities Propane Gas, Inc., TECO Propane Ventures, LLC, Piedmont Propane Company, and La Grange, dated November 6, 2003.

"Affiliate" means, with respect to a Person, (a) any other Person more than 50 percent of whose outstanding voting securities are directly or indirectly owned, controlled or held with the power to vote by such Person and (b) any other Person directly or indirectly controlling, controlled by, or under common control with such Person. The term "controls" (and the variants thereof) as used in this definition means the possession of the power, acting alone, to direct or cause the direction of the management and policies of a Person by virtue of ownership of voting securities or otherwise.

"Applicable Law" means any law to which a specified Person or property is subject.

"Average Market Value" of the Units means an amount equal to the average of the closing sales prices of the Common Units as reported in the Wall Street Journal - Corporate Transactions for the 45 consecutive trading days ending on the third business day before the Closing Date.

"Bossier Pipeline Project" means the approximately 55 mile natural gas pipeline extension from Limestone County, Texas to Katy, Texas, with XTO Energy, Inc. as its initial customer, and for which the Bossier Pipeline Reimbursement Payment shall be made pursuant to Section 2.5.

"Business Day" means a day other than Saturday, Sunday or any day on which banks located in the State of Texas are authorized or obligated to close.

"Capital Stock" means, with respect to: (i) any corporation, any share, or any depositary receipt or other certificate representing any share, of an equity ownership interest in that corporation; and (ii) any other entity, any share, membership or other percentage interest, unit of participation or other equivalent (however designated) of an equity interest in that entity.

"Class C Unit" means a Class C Unit, as defined in the Heritage MLP Partnership Agreement.

"Class D Unit" means a Class D Unit, as defined in the Heritage MLP Partnership Agreement (after giving effect to Amendment No. 5).

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to a corresponding provision of any successor law.

"Commercially Reasonable Best Efforts" or any phrase of similar tenor as used in this Agreement shall mean such good faith efforts as are commercially reasonable, comparing the cost and expense of the efforts to the benefit to be gained (without regard to the identity of the beneficiary).

"Common Unit" means a Common Unit, as defined in the Heritage MLP Partnership Agreement.

"Contract" means any agreement, contract, obligation, promise, or undertaking (whether written or oral and whether express or implied) that is legally binding.

"Contribution Agreement" means this Agreement.

"Delaware LP Act" means the Delaware Revised Uniform Limited Partnership Act, as amended.

"Encumbrance" means any security interest, lien, pledge, claim, charge, escrow, encumbrance, option, right of first offer, right of first refusal, preemptive right, mortgage,

indenture, security agreement or other similar agreement, arrangement, contract, commitment, understanding or obligation, whether written or oral and whether or not relating in any way to credit or the borrowing of money.

"ERISA" means the Employee Retirement Income Security Act of 1974 (or any successor legislation thereto), as amended from time to time and any regulations promulgated thereunder.

"ET Company, Ltd." means ET Company Ltd., a Texas limited partnership.

"ETC Oasis GP, LLC" means ETC Oasis GP, LLC, a Texas limited liability company.

"ETC OLP" means La Grange Acquisition, L.P., a Texas limited partnership.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC thereunder.

"Five Dawaco, LLC" means the Texas limited liability company formed in connection with the conversion of Five Dawaco, Inc., a Texas corporation.

"GAAP" means generally accepted accounting principles as in effect in the United States of America on the applicable date.

"Governmental Authority" or "Governmental" means a federal, state, local or foreign governmental authority; a state, province, commonwealth, territory or district thereof; a county or parish; a city, town, township, village or other municipality; a district, ward or other subdivision of any of the foregoing; any executive, legislative or other governing body of any of the foregoing; any agency, authority, board, department, system, service, office, commission, committee, council or other administrative body of any of the foregoing; any court or other judicial body; and any officer, official or other representative of any of the foregoing.

"Heritage Assets" means all assets and properties of every kind, character and description, whether tangible, intangible, real, personal or mixed, which are owned, used or held for use by the Heritage Entities as of the date hereof.

"Heritage Business" means all business activities of the Heritage Entities as conducted on the date hereof.

"Heritage Employee" means an employee of Heritage GP, any of the Heritage Entities, or their respective Affiliates, who is employed in the Heritage Business.

"Heritage Entities" means the Heritage Parties and the following entities: M-P Oils, Ltd., an Alberta, Canada corporation; Heritage Bi-State L.L.C., a Delaware limited liability company; Heritage Energy Resources, L.L.C., an Oklahoma limited liability company; Heritage Service Corp., a Delaware corporation; 902 Gilbert Street, LLC, a North Carolina limited liability company; EarthAmerica, L.L.C., a Delaware limited liability company; EarthAmerica GP, L.L.C., a Delaware limited liability company; and EarthAmerica of Texas, L.P., a Texas limited partnership.

"Heritage OLP" means Heritage Operating, L.P., a Delaware limited partnership.

"Heritage Parties" means Heritage MLP and Heritage OLP.

"Heritage Permitted Acquisition" means the acquisition by any of the Heritage Entities of (i) one or more companies, businesses or assets that are similar in nature, or complementary to, the Heritage Business for an aggregate purchase price of not more than $10 million, or (ii) the acquisition of the assets or ownership interests of any Heritage Entity that will become a Heritage Wholly Owned Subsidiary upon such acquisition.

"Heritage Wholly Owned Subsidiary" means any corporation or other entity all of whose outstanding Capital Stock on a fully diluted basis either of the Heritage Parties owns and controls, directly or indirectly through another Heritage Wholly Owned Subsidiary.

"HHI" means Heritage Holdings, Inc., a Delaware corporation.

"HHI Purchase Agreement" means that certain Stock Purchase Agreement, dated as of November 6, 2003, among Heritage MLP and the Sellers named therein.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Incentive Distribution Right" means an Incentive Distribution Right as defined in the Heritage MLP Partnership Agreement.

"Intellectual Property" means patents, trademarks, service marks, trade names, service names, logos, marks, designs, copyrights, licenses, inventions, trade secrets and similar rights, and all registrations, applications, licenses and rights with respect to any of the foregoing.

"IRS" means the Internal Revenue Service.

"La Grange Assets" means all assets and properties of every kind, character and description, whether tangible, intangible, real, personal or mixed, which are owned, used or held for use by the La Grange Entities as of the date hereof.

"La Grange Business" means all business activities of La Grange Energy, L.P. and the La Grange Entities as conducted on the date hereof.

"La Grange Contracts" means all of the Contracts identified in Schedule 4.18(a) and each Contract relating to or used in connection with the La Grange Business that is not required to be identified in Schedule 4.18(a).

"La Grange Credit Agreement" means the Amended and Restated Credit Agreement, dated as of December 27, 2002, between La Grange Acquisition, L.P., as borrower, Fleet National Bank, as administrative agent, Fleet Securities, Inc. as arranger and book manager, Fortis Capital Corp. and U.S. Bank National Association, as documentation agents and the other lenders named therein (as amended and supplemented as of the date hereof).

"La Grange Employee" means an employee of La Grange, any of the La Grange Entities, or their respective Affiliates, who is employed in the La Grange Business.

"La Grange Entity" and "La Grange Entities" means each entity and all of the entities, respectively, required to be identified on Schedule 4.1., including the La Grange GP Entities and the La Grange Partnerships.

"La Grange GP Entities" means (i) LA GP, LLC, (ii) LG PL, LLC, (iii) LGM, LLC, (iv) ETC Oasis GP, LLC and (v) Five Dawaco, LLC.

"LA GP, LLC" means LAGP, LLC, a Texas limited liability company.

"La Grange Interests" means all of the ownership interests in the La Grange GP Entities, ETC OLP, and the Dallas Office Building.

"La Grange Partnerships" means Texas Energy Transfer Company, Ltd.; Chalkley Transmission Company, Ltd.; Whiskey Bay Gathering Company, Ltd.; Whiskey Bay Gas Company, Ltd.; ETC Gas Company, Ltd.; ETC Oklahoma Pipeline, Ltd.; ETC Oasis, LP; ETC Texas Processing, Ltd.; ETC Marketing, Ltd.; ET Company I, Ltd.; ETC Texas Pipeline, Ltd.; La Grange Acquisition Sub; and ETC OLP.

"La Grange Permitted Acquisition" means the acquisition by any of the La Grange Entities of one or more companies, businesses or assets that are similar in nature, or complementary to, the La Grange Business or the La Grange Assets for an aggregate purchase price of not more than $10 million.

"La Grange Wholly Owned Subsidiary" means any corporation or other entity all of whose outstanding Capital Stock on a fully diluted basis La Grange owns and controls, directly or indirectly through another La Grange Wholly Owned Subsidiary.

"Law" means any applicable constitutional provision, statute, act, code (including the Code), law, regulation, rule, ordinance, order, decree, ruling, proclamation, resolution, judgment, decision, declaration, or interpretative or advisory opinion or letter of a Governmental Authority having valid jurisdiction.

"LG PL, LLC" means LG PL, LLC, a Texas limited liability company.

"LGM, LLC" means LGM, LLC, a Texas limited liability company.

"LP, Inc." means a newly formed corporation to be formed by Heritage MLP, and which will own a .001% limited partner interest in Heritage OLP.

"Long-Term Debt" means long-term debt, the current portion of long-term debt, and all interest, fees and expenses due on the repayment of long-term debt, with such amount being equal to the amount of the payment made by Heritage MLP to pay off the La Grange Credit Agreement pursuant to Section 2.3(c).

"Losses" means losses, damages, liabilities, claims, costs and expenses (including, without limitation, related Legal Expenses), but excluding losses, damages, liabilities, claims, costs and expenses incurred in connection with or relating to lost profits or special, consequential, exemplary or punitive damages.

"New OLP" means a newly formed Delaware limited partnership to be formed by Heritage MLP and which will be wholly owned, directly or indirectly, by Heritage MLP.

"Noncompete Agreement" means that Noncompete Agreement by and among ETC Holdings, LP, ET GP, LLC, La Grange, LE GP, LLC, Ray Davis, Kelcy Warren and Heritage MLP, in substantially the form attached as Exhibit 1.1.

"Organization State" means, as applied to (i) any corporation, its state or other jurisdiction of incorporation, (ii) any limited liability company or limited partnership, the state or other jurisdiction under whose laws it is formed, organized and existing in that legal form, and (iii) any other entity, the state or other jurisdiction whose laws govern that entity's internal affairs.

"Other Parties" means, with respect to a Party, each Party other than such Party and its Affiliates.

"Other Transaction Documents" means the Acquisition Agreement and the HHI Purchase Agreement.

"Parties" means, collectively, each of the parties named in the Preamble.

"Permits" means licenses, permits, franchises, consents, approvals, variances, exemptions and other authorizations of or from Governmental Authorities.

"Permitted Encumbrances" with respect to a Party, means (a) the Encumbrances set forth in the Schedules to this Agreement, and specifically identified as such, (b) liens for Taxes not yet due and payable or, if due and payable, the validity of which is being contested in good faith by appropriate legal proceedings and for which adequate reserves have been set aside, (c) statutory liens (including materialmen's, mechanic's, repairmen's, landlord's and other similar liens) arising in connection with the ordinary course of business securing payments not yet due and payable or, if due and payable, the validity of which is being contested in good faith by appropriate legal proceedings and for which adequate reserves have been set aside, (d) liens of landlords under lease agreements with respect to property located on the leased premises, and (e) such imperfections or irregularities of title, if any, as (i) are not substantial in character, amount or extent and do not materially detract from the value of the property subject thereto, (ii) do not materially interfere with either the present or intended use of such property and (iii) do not, individually or in the aggregate, materially interfere with the conduct of the business of such Party.

"Person" means any individual, corporation, firm, partnership, limited partnership, limited liability company, joint venture, association, joint-stock company, trust, enterprise, other entity, unincorporated association or Governmental Authority.

"Proceedings" means all proceedings, actions, claims, suits, investigations and inquiries by or before any arbitrator or Governmental Authority.

"Restricted Unit Plan" means the Restricted Unit Plan of Heritage GP dated as of June 28, 1996, as amended and restated as the Amended and Restated Restricted Unit Plan dated August 10, 2000, as amended and restated as the Second Amended and Restated Restricted Unit Plan dated February 4, 2002.

"Software" means computer software, including systems software, documentation and object and source codes.

"Special Committee" means the Special Committee of the Board of Directors of Heritage GP consisting of Stephen L. Cropper, J. Charles Sawyer and Bill W. Byrne.

"Special Units" means a Special Unit as defined in the Heritage MLP Partnership Agreement (after giving effect to Amendment No. 5).

"Subsidiary" means as to any Person, (a) any corporation more than 50 percent of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (excluding stock of any class or classes of such corporation that might have voting power by reason of the happening of any contingency) is at the time owned by such Person and/or one or more Subsidiaries of such Person and (b) any partnership, limited partnership, limited liability company, joint venture, association, joint-stock company, trust, enterprise, other entity or unincorporated association in which such Person and/or one or more Subsidiaries of such Person has more than a 50 percent equity interest at the time.

"Tax Return" means any return (including an information return) or report, including any related or supporting information, with respect to Taxes.

"Taxes" means any income taxes or similar assessments or any sales, gross receipts, excise, occupation, use, ad valorem, property, production, severance, transportation, employment, payroll, franchise or other tax imposed by any United States federal, state or local (or any foreign or provincial) taxing authority, including any interest, penalties or additions attributable thereto.

"Technology" means trade secrets, confidential information (whether or not of a technological or commercial nature), proprietary information, inventions, technical data, spreadsheets, technical plans and drawings, blueprints, general specifications, tooling specifications, purchase specifications, know-how, formulae, processes, procedures, research records, records of inventions, test information, market surveys and marketing know-how.

"TETC, LLC" means the Texas limited liability company formed in connection with the conversion of TETC, Inc., a Texas corporation.

"Units" means the Common Units, Class D Units and Special Units issuable as the Equity Consideration.

1.2 CERTAIN ADDITIONAL DEFINITIONS. In addition to such terms as are defined in Section 1.1, the following terms are used in this Agreement as defined in the Sections set forth opposite such terms:

DEFINED TERM	SECTION REFERENCE
Agreement	Preamble
Amendment No. 5	3.2(e)
Applicable Environmental Laws	3.17(a)
Aquila Financial Statements	4.8(b)
Bossier Pipeline Reimbursement Payment	2.5
Cash Consideration	2.3(a)(i)
Capital Expenditures Payment	2.4
CERCLA	3.17(a)
Closing	2.1
Closing Date	2.1
Consents	4.25
Dallas Office Building	2.2(a)(v)
Debt Financing	7.1(n)
Equity Consideration	2.3(a)(ii)
Equity Financing	7.1(m)
Estimated ETC OLP Accounts Payable	2.6(a)
Estimated Long-Term Debt	2.3(a)(i)
ETC OLP Accounts Payable	2.3(a)(i)
ETC OLP Interest	2.2(c)(i)
Final Statement	2.6(b)
Financial Statement Date	4.8(a)
Hazardous Substance	3.17(c)
Heritage Consents	3.21
Heritage Documents	3.3
Heritage Financial Statements	3.9(a)
Heritage GP	Preamble
Heritage Indemnified Parties	9.1(a)
Heritage MLP	Preamble
Heritage MLP Partnership Agreement	3.2(a)
Heritage Material Adverse Effect	3.10
Heritage OLP Partnership Agreement	3.2(d)
Heritage Plans	3.23(a)
Indemnified Party	9.3(a)
Indemnifying Party	9.3(a)
Independent Accounting Firm	2.6(b)(iii)
La Grange	Preamble
La Grange Acquisition Sub	2.7
La Grange Documents	4.3
La Grange Financial Statements	4.8(a)
La Grange Indemnified Parties	9.2(a)
La Grange Material Adverse Effect	4.9

La Grange Plans	4.28(a)
Oasis Financial Statements	4.8(c)
Post-Signing Event	6.8
Prepayment Waivers	7.1(o)
Pre-Signing Event	6.8
RCRA	3.17(a)
Resolution Period	2.6(b)(iii)
SEC	3.8(a)
SEC Reports	3.8(a)
Securities Act	3.8(a)
Solid Waste	3.17(c)
Stub Period Financial Statements	6.12
Third Party Action	9.3(a)

1.3 RULES OF CONSTRUCTION. Unless the context requires otherwise: (a) the gender (or lack of gender) of all words used in this Agreement includes the masculine, feminine, and neuter; (b) the term "include" or "includes" means "includes, without limitation," and "including" means "including, without limitation"; (c) references to Articles and Sections refer to Articles and Sections of this Agreement; (d) references to Exhibits and Schedules refer to the Exhibits and Schedules attached to this Agreement, which are made a part hereof for all purposes; (e) references to Laws refer to such Laws as they may be amended from time to time, and references to particular provisions of a Law include any corresponding provisions of any succeeding Law; and (f) references to money refer to legal currency of the United States of America.

ARTICLE 2
CLOSING

2.1 CLOSING. Subject to the terms and conditions hereof, the closing (the "Closing") of the transactions described in Article 2 will take place at such time and place as La Grange and the Heritage Parties shall mutually agree, at 9:00 A.M., central daylight time, on the third Business Day following the date on which the last of the conditions to Closing set forth in Article 7 have been satisfied or waived by the Party or Parties entitled to waive the same or such other date as to which La Grange and the Heritage Parties shall mutually agree (the date and time of the Closing are herein referred to as the "Closing Date"). At the Closing, there shall be delivered the opinions, certificates and other agreements, documents and instruments to be delivered under Article 7.

2.2 PRE-CLOSING TRANSACTIONS.(a) Prior to or at the Closing, La Grange agrees to effect the actions required to be taken so that,

(i) TETC, Inc. and Five Dawaco, Inc. shall have taken such action as is required to convert in each case to a limited liability company under the laws of their respective Organization State and shall have taken such action as may be required to be taxed as a partnership for income tax purposes;

(ii) ETC Holdings, LP shall have taken such action as is required to convey its interest in each of the La Grange GP Entities to La Grange;

(iii) Each of the La Grange Partnerships shall have distributed its respective cash, cash equivalents and receivables as of the Closing Date as specified in Exhibit 2.2(a)(iii) to La Grange; and

(iv) ET Company, Ltd. shall have contributed the Dallas, Texas office building owned by ET Company, Ltd. (the "Dallas Office Building") to ETC OLP, free and clear of all Encumbrances other than Permitted Encumbrances, pursuant to a Warranty Deed substantially in the form attached hereto as Exhibit 2.2(a)(iv), and shall have terminated any prior leases relating to the Dallas Office Building.

(b) Prior to the Closing, Heritage MLP and its subsidiaries shall have taken the action necessary to,

(i) restructure its ownership of Heritage Operating, L.P., including the formation of LP, Inc., a Delaware corporation; and

(ii) accommodate its ownership of La Grange.

(c) Prior to or at the Closing,

(i) La Grange will convey to Heritage GP a limited partner interest in ETC OLP in an amount that has a value equivalent to 2% of the total equity to be contributed to Heritage MLP at Closing (the "ETC OLP Interest"); and

(ii) Heritage GP will convey the ETC OLP Interest to Heritage MLP in exchange for the continuation of its 2% general partner interest in Heritage MLP.

2.3 CONTRIBUTION.

(a) On the terms and subject to the conditions of this Agreement, at the Closing, La Grange shall contribute, transfer and deliver or cause to be contributed, transferred and delivered to Heritage MLP all of the La Grange Interests and Heritage MLP shall acquire from La Grange all of the La Grange Interests, free and clear of all Encumbrances other than Permitted Encumbrances, in exchange for the following:

(i) An amount in cash equal to $300 million, less (A) the amount of Accounts Payable of ETC OLP and its consolidated subsidiaries (the "ETC OLP Accounts Payable") as of the Closing Date which shall continue to be obligations of ETC OLP immediately following the Closing, less (B) if, at Closing, the amount by which the Long-Term Debt is more than $151.5 million (the "Estimated Long-Term Debt"), plus (C) if, at Closing, the amount by which the Long-Term Debt is less than $151.5 million, less (D) the amount, if any, by which $2,000,000 exceeds the appraised value of the Dallas Office Building, by wire transfer of immediately available funds to an account designated by La Grange at least three (3) days prior to the Closing Date (the "Cash Consideration");

(ii) The number of Common Units, Class D Units and Special Units as set forth in Section 2.3(b), having a total value of $680 million, plus an amount equal to the lesser of (x) $2,000,000 and (y) the appraised value of the Dallas Office Building, less the amount of the Estimated Long-Term Debt (the "Equity Consideration");

(iii) the Capital Expenditures Payment set forth in Section 2.4.; and

(iv) the Bossier Pipeline Reimbursement Payment set forth in Section 2.5.

(b) The number of Common Units, Class D Units and Special Units which comprise the Equity Consideration, shall be an aggregate of 15,883,234 Units, divided as follows: (i) a number of Common Units equal to the number of Common Units outstanding immediately prior to Closing (not including any Common Units to be issued hereunder) multiplied by 19.99%, (ii) a number of Class D Units equal to the aggregate number of Units minus the number of Common Units determined in (i) hereof and the number of Special Units set forth in (iii) hereof, and (iii) 3,742,515 Special Units.

(c) Immediately following the transactions described above, (i) Heritage MLP will contribute (A) its interest in the GP Entities (other than LA GP, LLC) and cash in an amount sufficient to replenish the working capital of the LaGrange Partnerships to ETC OLP as a capital contribution and (B) all of the capital stock of LP, Inc. and its interest in each of Heritage OLP, LA GP, LLC and ETC OLP to New OLP and (ii) the Heritage Parties shall pay in full the Long-Term Debt and shall obtain (x) the release of all collateral held by the lenders to secure such obligations and (y) authorization of such lenders to file any lien release or termination documents as may be necessary to effectively terminate any and all liens and security interests held by such lenders in the collateral, including, but not limited to UCC-3 financing statement amendments.

2.4 CAPITAL EXPENDITURES PAYMENT. Additional cash shall be paid to La Grange at Closing as reimbursement for capital expenditures paid to third parties through the Closing Date with respect to the following growth projects, in an amount as mutually agreed to by the Parties, and not to exceed five million ($5,000,000) dollars (the "Capital Expenditures Payment"):

(a) Prentis Treater located in Elk City, Oklahoma;

(b) Katy 30" Interconnect;

(c) La Grange Inlet Compression Project; and

(d) Navasota Treater Shutdown.

2.5 BOSSIER PIPELINE REIMBURSEMENT PAYMENT.

Additional cash shall be paid to La Grange at Closing as reimbursement for capital expenditures paid to third parties through the Closing Date with respect to the Bossier Pipeline Project, in an amount as mutually agreed to by Parties, and not to exceed seventy-five million ($75,000,000) dollars (the "Bossier Pipeline Reimbursement Payment").

2.6 ACCOUNTS PAYABLE TRUE-UP.

(a) Within five (5) days of the Closing Date, La Grange shall estimate the amount of the Accounts Payable of ETC OLP as of the Closing Date (the "the Estimated ETC OLP Accounts Payable"), which shall continue to be the obligations of ETC OLP following the Closing.

(b) Within 60 days after the Closing Date, Heritage MLP shall prepare an unaudited statement (the "Final Statement") of the ETC OLP Accounts Payable as of the close of business on the Closing Date, such Final Statement to be prepared in the following manner:

(i) Heritage MLP shall deliver to La Grange the Final Statement, fairly presenting the ETC OLP Accounts Payable as of the close of business on the Closing Date. The Final Statement shall be accompanied by a report setting forth (A) the ETC OLP Accounts Payable, in reasonable detail, as reflected in the Final Statement, and (B) the amount of any difference between the ETC OLP Accounts Payable as reflected on the Final Statement and the Estimated ETC OLP Accounts Payable, to whom such difference is to be paid and the basis therefore. The principles of presentation in the Final Statement shall be the same as those presented in determining the Estimated ETC OLP Accounts Payable at Closing.

(ii) Following the Closing, Heritage MLP, on the one hand, and La Grange, on the other hand, shall deliver to each other and each other's authorized representatives, if any, full access at all reasonable times to the properties, books, records and personnel of the La Grange Entities relating to periods prior to the Closing Date for purposes of preparing, reviewing and resolving any disputes concerning the Final Statement. La Grange shall have 30 days following delivery of the Final Statement during which to notify Heritage MLP of any dispute of any item contained in the Final Statement, which notice shall set forth in reasonable detail the basis for such dispute. If La Grange fails to notify Heritage MLP of any such dispute within such 30-day period, the Final Statement shall be deemed to be accepted. If La Grange shall so notify Heritage MLP of any dispute, La Grange and Heritage MLP shall cooperate in good faith to resolve such dispute as promptly as possible.

(iii) If Heritage MLP and La Grange are unable to resolve any such dispute within 30 days of La Grange's delivery of such notice (the "Resolution Period"), then all amounts remaining in dispute shall be submitted to such nationally recognized accounting firm as shall be reasonably acceptable to Heritage MLP and La Grange (the "Independent Accounting Firm") within 10 days after the expiration of the Resolution Period. Each party agrees to execute, if requested by the Independent Accounting Firm, a reasonable engagement letter. All fees and expenses relating to the work, if any, to be performed by the Independent Accounting Firm shall be borne equally by Heritage MLP and La Grange. The Independent Accounting Firm shall act as an arbitrator to determine, based solely on presentations by Heritage MLP and La Grange, and not by independent review, only those issues still in dispute and shall be limited to those adjustments, if any, that need be made for the Final Statement to comply with the standards set forth in this Section 2.6(b)(iii). The Independent Accounting Firm's determination shall be requested to be made within 30 days of their selection, shall be set forth in a written statement delivered to Heritage MLP and La Grange and shall be final, binding and conclusive.

The Final Statement, as modified by resolution of any disputes by Heritage MLP and La Grange or by the Independent Accounting Firm, shall be the "Final Statement."

(c) Heritage MLP shall pay, or cause to be paid, to La Grange, the amount by which the Estimated ETC OLP Accounts Payable exceeds the ETC OLP Accounts Payable as set forth in the Final Statement, and La Grange shall pay, or cause to be paid, to Heritage MLP the amount by which the Estimated ETC OLP Accounts Payable is less than the ETC OLP Accounts Payable as set forth in the Final Statement.

(d) The amounts, if any, referred to in Section 2.6(c), shall be paid by the paying party under Section 2.6(c) by wire transfer in immediately available funds to an account to be designated by the recipient.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF THE HERITAGE PARTIES

For the purposes of this Agreement, each of the Heritage Parties, jointly and severally, represents and warrants as set forth in this Article 3. The Heritage Parties do not make any representations and warranties in this Article 3 with respect to the La Grange Entities.

3.1 ORGANIZATION AND EXISTENCE. Schedule 3.1 sets forth the form of organization, legal name and the Organization State of each of the Heritage Entities and Heritage GP. Each of the Heritage Entities and Heritage GP is either a general partnership, limited partnership, limited liability company or corporation, as indicated on Schedule 3.1, duly organized or formed, validly existing and in good standing under the laws of its Organization State. Each of the Heritage Entities and Heritage GP has full power and authority to own, lease or otherwise hold and operate its properties and assets and to carry on its business as presently conducted, and in the case of Heritage GP, to act as general partner of Heritage MLP and Heritage OLP, in each case in all material respects as described in the SEC Reports. Each of the Heritage Entities and Heritage GP is duly qualified and in good standing to do business as a foreign general partnership, limited partnership, limited liability company or corporation, as applicable, in each jurisdiction in which the conduct or nature of its business or the ownership, leasing, holding or operating of its properties makes such qualification necessary, except such jurisdictions where the failure to be so qualified or in good standing, individually or in the aggregate, would not have a Heritage Material Adverse Effect.

3.2 CAPITALIZATION OF THE HERITAGE ENTITIES.

(a) All of the outstanding Common Units, Class C Units and Incentive Distribution Rights have been duly authorized and validly issued in accordance with the Amended and Restated Agreement of Limited Partnership of Heritage MLP, as amended by Amendment No. 1, No. 2, No. 3 and No. 4 (the "Heritage MLP Partnership Agreement"), are fully paid (to the extent required under the Heritage MLP Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in Sections 17-303 and 17-607 of the Delaware LP Act), and, as of the respective dates of the SEC Reports and the Heritage Financial Statements, were issued and held as described therein. Prior to the Closing and prior to the restructuring contemplated by Section 2.2, Heritage GP was the sole general partner of Heritage

MLP and Heritage OLP with a 1% general partner interest in Heritage MLP and a 1.0101% general partner interest in Heritage OLP. In conjunction with the transactions to be completed prior to or at Closing pursuant to Section 2.2, Heritage GP is the sole general partner of Heritage MLP and Heritage OLP with a 2% general partner interest in Heritage MLP and a 0.0% general partner interest in Heritage OLP, and Heritage MLP owns, directly and indirectly, a 100% limited partner interest in Heritage OLP. On the date hereof, the issued and outstanding limited partner interests of Heritage MLP consist of [18,013,229] Common Units, 1,000,000 Class C Units and the Incentive Distribution Rights. On the date hereof, there are no Class D Units or Special Units outstanding.

(b) The Common Units, Class D Units and Special Units to be issued to La Grange at the Closing (and the limited partner interests represented thereby), will be duly authorized in accordance with the Heritage MLP Partnership Agreement, and, when issued and delivered to La Grange against payment therefore in accordance with the terms hereof, will be validly issued, fully paid (to the extent required under the Heritage MLP Partnership Agreement) and nonassessable (except as such nonassessability may be affected by matters described in Sections 17-303 and 17-607 of the Delaware LP Act) and will be issued free and clear of any lien, claim or Encumbrance.

(c) Each Heritage Entity (other than Heritage MLP and Heritage OLP) is a Heritage Wholly Owned Subsidiary. No Encumbrance exists upon any outstanding share (or other percentage ownership interests) of Capital Stock of any Heritage Entity which Heritage MLP directly or indirectly owns other than (i) the Encumbrances, if any, set forth in Schedule 3.2(c), and (ii) Permitted Encumbrances. Except as set forth in Schedule 3.2(c), Heritage MLP does not own, of record or beneficially, directly or indirectly through any Person, and does not control, directly or indirectly through any Person or otherwise, any Capital Stock or derivative securities of any entity other than a Heritage Entity. All of the outstanding shares of Capital Stock of the Heritage Entities that are corporations or limited liability companies have been duly authorized and validly issued and are fully paid and nonassessable. All of the outstanding shares of Capital Stock of the Heritage Entities that are general or limited partnerships have been duly authorized and validly issued in accordance with such Heritage Entity's partnership agreement and such Capital Stock has been fully paid for (to the extent required under such Heritage Entity's partnership agreement and the Heritage OLP Partnership Agreement, as applicable,) and is nonassessable (except as such nonassessability may be affected by matters described in Sections 17-303 and 17-607 of the Delaware LP Act or similar partnership laws of its Organization State).

(d) Except (i) as described in the SEC Reports, (ii) arising under any Heritage Plan, and (iii) for the Common Units, Class D Units and Special Units to be issued pursuant to this Agreement and the Class E Units to be issued to HHI in exchange for the Common Units currently held by HHI, there are no preemptive rights or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any interests in Heritage MLP or Heritage OLP pursuant to the Heritage MLP Partnership Agreement or the agreement of limited partnership of Heritage OLP as amended by Amendment No. 1 and No. 2 thereto (the "Heritage OLP Partnership Agreement") or any other agreement or instrument to which Heritage MLP or Heritage OLP is a party or by which either of them may be bound. Neither the offering nor the sale of the Common Units, Class D Units or Special Units, as contemplated by this Agreement, or the issuance of Class E Units to HHI, gives rise to any rights for or relating to the registration

of any Common Units or other securities of Heritage MLP or Heritage OLP, except pursuant to this Agreement, to the Registration Rights Agreement among Heritage MLP and the other parties named therein, dated as of August 10, 2000, or such rights as have been waived or satisfied. Except (i) as set forth in the SEC Reports (ii) pursuant to the Heritage Plans, and (iii) for the Common Units, Class D Units and Special Units to be issued pursuant to this Agreement and the Class E Units to be issued to HHI in exchange for the Common Units currently held by HHI, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations into or exchange any securities for, Capital Stock of Heritage MLP or Heritage OLP are outstanding.

(e) The Common Units when issued and delivered against payment therefor as provided herein, will conform in all material respects to the description thereof contained in the Heritage MLP Partnership Agreement, as amended by the Amendment contemplated by this Agreement and attached hereto as Exhibit 3.2(e)(i) ("Amendment No. 5") or the Heritage OLP Partnership Agreement. Heritage MLP has all requisite power and authority to issue, sell and deliver the Common Units, Class D Units and Special Units in accordance with and upon the terms and conditions set forth in this Agreement and the Heritage MLP Partnership Agreement, as such Heritage MLP Partnership Agreement will be amended by Amendment No. 5 thereto prior to the Closing. As of the Closing Date, all corporate and partnership action, as the case may be, required to be taken by the Heritage Parties or any of their respective stockholders or partners for the authorization, issuance, sale and delivery of the Common Units, Class D Units and Special Units shall have been validly taken, and no other authorization by any of such parties is required therefore.

3.3 AUTHORITY AND BINDING AGREEMENT. Each of Heritage GP and the Heritage Parties has full power and authority to execute, deliver and perform this Agreement and the Other Transaction Documents (collectively, the "Heritage Documents") to which they are a party, and to consummate the transactions contemplated thereby. The execution, delivery and performance by Heritage GP and the Heritage Parties of the Heritage Documents, and the consummation by them of the transactions contemplated thereby, have been duly authorized by all necessary action. This Agreement has been duly executed and delivered by Heritage GP and the Heritage Parties and constitutes, and each of the Heritage Documents and each other agreement, instrument or document executed or to be executed by Heritage GP and the Heritage Parties in connection with the transactions contemplated by the Heritage Documents has been, or when executed will be, duly executed and delivered by such Party and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of such Party enforceable against it in accordance with its terms, except that such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium and similar Laws affecting creditors' rights generally and (b) equitable principles.

3.4 AGREEMENTS OF LIMITED PARTNERSHIP. The Heritage MLP Partnership Agreement has been, and prior to the Closing the Heritage MLP Partnership Agreement, as amended by Amendment No. 5 thereto, will be, duly authorized, executed and delivered by Heritage GP and is, and will be, a valid and legally binding agreement of Heritage GP, enforceable against Heritage GP in accordance with its terms; the Heritage OLP Partnership Agreement has been, and prior to the Closing the Heritage OLP Partnership Agreement, as amended by Amendment No. 3 thereto, will be duly authorized, executed and delivered by Heritage GP and is, and will be,

a valid and legally binding agreement of Heritage GP, enforceable against Heritage GP in accordance with its terms; provided, however, that the enforceability thereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3.5 NON-CONTRAVENTION. The execution, delivery and performance by the Heritage Parties of the Heritage Documents to which they are a party, and the consummation by them of the transactions contemplated thereby do not and will not (a) conflict with or result in a violation of any provision of the respective certificate or agreement of limited partnership (in the case of the Heritage MLP Partnership Agreement as amended by Amendment No. 5 and in the case of the Heritage OLP Partnership Agreement, as amended through the date hereof), charter or bylaws or other governing instruments of Heritage GP or the Heritage Entities, (b) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination, cancellation or acceleration under, any bond, debenture, note, mortgage, indenture, lease, contract, agreement or other instrument or obligation to which Heritage GP or the Heritage Entities may be bound, (c) result in the creation or imposition of any Encumbrance upon any of the Heritage Entities or Heritage Assets, (d) assuming compliance with the matters referred to in Section 3.6, violate any Applicable Law binding upon the Heritage Entities or (e) conflict with or result in a violation of any Permit held by the Heritage Entities.

3.6 GOVERNMENTAL APPROVALS. Except as set forth in Schedule 3.6 and except as may be obtained under state securities or "Blue Sky" laws and under the HSR Act, no consent, approval, order or authorization of, or declaration, filing or registration with, any Governmental Authority is required to be obtained or made by the Heritage GP or the Heritage Entities in connection with the execution, delivery or performance of this Agreement by the Heritage Parties or the consummation by them of the transactions contemplated thereby.

3.7 TITLE TO HERITAGE ASSETS. As of the Closing, the Heritage Entities will have good and marketable title to, or valid leasehold interests in, all of the Heritage Assets, free and clear of all Encumbrances other than Permitted Encumbrances and Encumbrances set forth in Schedule 3.7.

3.8 SEC REPORTS.

(a) Heritage MLP's annual report on Form 10-K for the year ended August 31, 2002, and the quarterly and current reports on Form 10-Q and 8-K, if any, filed by Heritage MLP with the Securities and Exchange Commission ("SEC") since August 31, 2002 (collectively, the "SEC Reports") were timely filed with the SEC. Such documents, at the time they were filed with the SEC, complied in all material respects with the requirements of the Exchange Act and did not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. In addition, each of the statements made in such documents within the coverage of Rule 175(b) of the rules and regulations under the Securities Act of 1933, as amended (the "Securities Act"), was made by Heritage MLP with a reasonable basis and in

good faith. Other than the SEC Reports, none of the Heritage Entities nor any of their respective subsidiaries is required to file any form, report or other document with the SEC that has not been filed.

(b) There are no agreements, contracts, indentures, leases or other instruments that are required to be described in the SEC Reports or to be filed as exhibits to the SEC Reports that are not described or filed as required by the Exchange Act.

(c) Since August 31, 2002, no transaction has occurred between or among Heritage GP, Heritage MLP, Heritage MLP's Subsidiaries and any of their respective officers, directors, stockholders or affiliates or, to the best knowledge of the Heritage Parties, any affiliate of any such officer, director or stockholder, that is required to be described in the SEC Reports that is not so described.

3.9 FINANCIAL STATEMENTS.

(a) Attached as Schedule 3.9(a) or filed with the SEC Reports are copies of (i) the audited consolidated balance sheet as of August 31, 2002, the unaudited consolidated balance sheet as of May 31, 2003, and (ii) the related audited and unaudited, respectively, consolidated statements of income, cash flows and owners' equity for the fiscal year and quarterly period then ended (including in all cases the notes, if any, thereto) of the Heritage Entities (the "Heritage Financial Statements"). The Heritage Financial Statements have been prepared in accordance with GAAP applied on a basis consistent with past practices except, in the case of unaudited interim financial statements, for normal year-end adjustments, and fairly present the respective consolidated financial position of Heritage MLP and its Subsidiaries as of the respective dates set forth therein and the respective results of operations and cash flows for Heritage MLP and its Subsidiaries for the respective fiscal periods set forth therein.

(b) The books of account and other financial records of Heritage MLP and its Subsidiaries from which the Heritage Financial Statements were prepared: (i) reflect all items of income and expense and all assets and liabilities required to be reflected therein in accordance with GAAP applied on a basis consistent with past practices, (ii) are complete and correct, and do not contain or reflect any inaccuracies or discrepancies that are inconsistent with financial reporting requirements in accordance with GAAP and (iii) have been maintained in accordance with good business and accounting practices.

(c) None of the Heritage Entities has any material liabilities or obligations (whether accrued, absolute, contingent, unliquidated or otherwise, whether or not known, and whether due or to become due), other than as set forth in the Schedules to this Agreement, that will create or result in any Encumbrances on the Heritage Assets or the Heritage Entities, except for Permitted Encumbrances.

(d) Heritage MLP has heretofore furnished to La Grange complete and correct copies of (i) all agreements, documents and other instruments not yet filed by Heritage MLP with the SEC but that are currently in effect and that Heritage MLP expects to file with the SEC after the date of this Agreement (with the exception of documents contemplated by this Agreement to be filed with the Form 8-K expected to be filed with the SEC after the signing of this Agreement to

disclose the transactions contemplated by this Agreement) and (ii) all amendments and modifications that have not been filed by Heritage MLP with the SEC to all agreements, documents and other instruments that previously have been filed by Heritage MLP with the SEC and are currently in effect.

(e) Schedule 3.9(e) sets forth a list of all outstanding restricted units that have been granted under the Heritage Plans and the number of Common Units issuable upon vesting thereof. Except for the Common Units, Class D Units and Special Units issuable pursuant to this Agreement at the Closing, and the Class E Units issuable to HHI, no other Common Units are or will be issuable as a result of the Closing and the consummation of the transactions contemplated by this Agreement.

3.10 ABSENCE OF CERTAIN CHANGES. Since August 31, 2002, except as disclosed in the SEC Reports and except for the execution and delivery of this Agreement and the Other Transaction Documents, (a) there has been no event that (A) would have a material adverse effect on the financial condition, business, prospects, properties, net worth or results of operations of the Heritage Entities, taken as a whole, except for general economic changes and changes that may affect the industry of the Heritage Entities generally or (B) would adversely affect the ability of the Heritage Parties to consummate the transactions contemplated by this Agreement and the Other Transaction Documents (clauses (A) and (B), or either of such clauses, a "Heritage Material Adverse Effect"); (b) the Heritage Business has been conducted only in the ordinary course consistent with past practice; (c) except for, or as contemplated by, this Agreement, the Acquisition Agreement, and the HHI Purchase Agreement, none of the Heritage Entities has incurred any material liability, engaged in any material transaction or entered into any material agreement outside the ordinary course of business consistent with past practice that individually or in the aggregate would result in a Heritage Material Adverse Effect; (d) none of the Heritage Entities has suffered any material loss, damage, destruction or other casualty to any of the Heritage Assets (whether or not covered by insurance) that individually or in the aggregate would result in a Heritage Material Adverse Effect; and (e) none of the Heritage Entities has taken any of the actions set forth in Section 5.5 except as permitted thereunder.

3.11 TAX MATTERS.

(a) Except as set forth on Schedule 3.11(a), (i) each of the Heritage Entities has filed when due, after giving effect to applicable extensions, all material Tax Returns required to be filed with the IRS or other applicable taxing authority through the date hereof; (ii) such Tax Returns are true, complete and correct in all material respects; and (iii) each of the Heritage Entities has timely paid or has provided an accrual for all Taxes which are or have become due (whether or not shown on any such Tax Return), and has withheld and paid to the appropriate taxing authority any Tax that it is required by Applicable Law to withhold and pay to a taxing authority on or before the date hereof other than, in either case, those (x) which, if not paid, would not have a Heritage Material Adverse Effect or (y) which are being contested in good faith; (iv) no claim has been made by any taxing authority in a jurisdiction in which any of the Heritage Entities does not currently file a Tax Return that it is or may be subject to Tax by such jurisdiction; (v) none of the Heritage Entities has entered into any agreement or arrangement with any tax authority that requires any of the Heritage Entities to take or refrain from taking any action; (vi) none of the Heritage Entities is a party to any agreement, whether written or

unwritten, providing for the payment of Taxes, payment of Tax losses, entitlements to refunds or similar Tax matters; and (vii) none of the Heritage Entities that is not a corporation has elected to be treated as a corporation. None of the Heritage Entities has any material liability for Taxes other than those incurred in the ordinary course of business and in respect of which adequate reserves are being maintained in accordance with GAAP. There are no material liens for Taxes upon any asset of any of the Heritage Entities except for liens arising as a matter of Applicable Law relating to current Taxes not yet due. There are no Taxes that will be imposed on any of the Heritage Entities in connection with the execution of this Agreement or the Other Transaction Documents or in connection with any of the transaction contemplated hereby or thereby. Except as set forth on Schedule 3.11(a), none of the Heritage Entities currently is the beneficiary of any extension of time within which to file any Tax Return.

(b) Schedule 3.11(b) lists all federal or state income and franchise Tax Returns filed by any of the Heritage Entities or any affiliated, consolidated, combined, unitary or similar group of which any Heritage Entity is or was a member on or after August 31, 1999, (i) that are as of the date hereof the subject of audit, (ii) in respect of which there is any other suit, action, investigation or claim in progress by any taxing authority or (iii) in respect of which any issue has been raised by any taxing authority at an earlier time that is reasonably expected to be raised at a later time. Except as set forth on Schedule 3.11(b), none of the Heritage Entities has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency or has received any notice from any taxing authority that it intends to conduct an audit or investigation thereof or is subject to any ruling of any taxing authority.

(c) Except as set forth on Schedule 3.11(c), none of the Heritage Entities has made any payment, is obligated to make any payment, or is a party to any agreement that under certain circumstances could obligate it to make any payment that will not be deductible under Section 280G of the Code.

(d) Since August 31, 1999, none of the Heritage Entities (i) has been a member of an affiliated group filing a consolidated federal income Tax Return or (ii) has any liability for Taxes of any Person (other than Heritage GP or a Heritage Entity) under Treas. Reg. 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor, by contract, or otherwise, excluding liability for Taxes to the extent set forth on Schedule 3.11(d) for stock acquisitions for which Heritage GP or HHI obtained commercially reasonable indemnification (which indemnification was assigned or otherwise made available to Heritage OLP) and which liability was assumed by Heritage OLP upon the transfer of the assets of the acquired entity to Heritage OLP.

(e) Since their formation and up to and including the current tax year, Heritage MLP and Heritage OLP have each been treated as a partnership for federal income tax purposes, and will immediately before, at, and immediately after, the Closing also each be treated as a partnership for federal income tax purposes. Moreover, as to the transactions for which provision is made in Section 2.2(b), neither of Heritage MLP or Heritage OLP will be an "investment partnership", that is a partnership that would be treated as an investment company (within the meaning of Section 351 of the Code) if it were a corporation for federal income tax purposes. Moreover, for each taxable year since their formation more than 90% of the gross income of

Heritage MLP and Heritage OLP has constituted "qualifying income" within the meaning of Section 7704(d) of the Code.

3.12 COMPLIANCE WITH LAWS. Subject to the specific representations and warranties in this Agreement, which representations and warranties shall govern the subject matter thereof, the Heritage Entities have complied in all material respects with all Applicable Laws relating to the ownership or operation of the Heritage Assets and the conduct of the Heritage Business. None of the Heritage Entities is charged or, to the knowledge of the Heritage Parties, threatened with, or under investigation with respect to, any violation of any Applicable Law relating to any aspect of the ownership or operation of the Heritage Assets or Heritage Business.

3.13 LEGAL PROCEEDINGS. Except as described in the SEC Reports, there is (i) no Proceeding before or by any Governmental Authority or arbitrator or official, domestic or foreign, now pending or, to the knowledge of the Heritage Parties, threatened, to which any of the Heritage Entities or any of their respective subsidiaries is or may be a party or to which the business or property of any of the Heritage Entities or any of their respective subsidiaries is or may be subject, (ii) no statute, rule, regulation or order that has been enacted, adopted or issued by any Governmental Authority or that has been proposed by any Governmental Authority and (iii) no injunction, restraining order or order of any nature issued by a federal or state court or foreign court of competent jurisdiction to which any of the Heritage Entities or any of their respective subsidiaries is or may be subject, that, in the case of clauses (i), (ii) and (iii) above, is reasonably expected to (A) individually or in the aggregate have a Heritage Material Adverse Effect, (B) prevent or result in the suspension of the issuance and sale of the Common Units, Class D Units or Special Units, or (C) affect adversely the ability of the Heritage Parties to consummate the Closing as contemplated herein.

3.14 SUFFICIENCY OF HERITAGE ASSETS. The Heritage Assets constitute all the assets and properties the use or benefit of which are reasonably necessary for the operation of the Heritage Business as conducted on the date of this Agreement. As of the Closing, all tangible assets and properties included in the Heritage Assets will be in the possession, or under the control, of the Heritage Entities. All Heritage Assets necessary for the conduct of the Heritage Business are in good condition, normal wear and tear excepted, and are useable in the continued operation of the Heritage Business consistent with past practice.

3.15 REAL PROPERTY.

(a) Set forth in Schedule 3.15(a) is the street address, a brief description and a legal description of all real property owned by any of the Heritage Entities and used or held for use in connection with the operation of the Heritage Business, which if not so owned would have a Heritage Material Adverse Effect.

(b) Set forth in Schedule 3.15(b) is the street address and a brief description of the real property, including facilities and structures, leased by any of the Heritage Entities and used or held for use in connection with the operation of the Heritage Business, which if not so leased would have a Heritage Material Adverse Effect.

3.16 INTELLECTUAL PROPERTY. Except as set forth on Schedule 3.16, each of the Heritage Entities owns or possesses or has the right to use, and at the Closing Date will own or possess or have the right to use in the localities where they are currently used by the Heritage Entities, all Intellectual Property described in the SEC Reports as being owned by it or any of the Heritage Entities or necessary for the conduct of its respective business, other than those which if not so owned or possessed would not have a Heritage Material Adverse Effect, and none of the Heritage Entities is aware of any claim to the contrary or any challenge by any other Person to the rights of the Heritage Entities with respect to the foregoing.

3.17 PERMITS. Each of the Heritage Entities has, or at the Closing Date will have, such Permits as are necessary to own its properties and to conduct its business in the manner described in the SEC Reports, subject to such qualifications as may be set forth in the SEC Reports and except for such Permits which, if not obtained, would not have, individually or in the aggregate, a Heritage Material Adverse Effect; each of the Heritage Entities has, or at the Closing Date will have, fulfilled and performed all its material obligations with respect to such Permits, and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any impairment of the rights of the holder of any such Permit, except for such revocations, terminations and impairments that would not have a Heritage Material Adverse Effect; and, except as described in the SEC Reports, none of such Permits contains any restriction that is materially burdensome to the Heritage Entities considered as a whole.

3.18 AGREEMENTS.

(a) Set forth in Schedule 3.18(a) is a list of all the following Contracts to which any of the Heritage GP or the Heritage Entities is a party or by which Heritage GP or the Heritage Entities are bound that are not terminable at the option of Heritage GP or one of the Heritage Entities (or Heritage GP or one of their Affiliates) within 30 days for convenience and without penalty:

(i) collective bargaining agreements and similar agreements with Heritage Employees as a group;

(ii) agreements, trusts, plans, funds or other employee benefit arrangements of any nature;

(iii) agreements with any director or officer of Heritage GP;

(iv) agreements relating to the acquisition of any Capital Stock of any Heritage Entity or options thereof;

(v) indentures, mortgages, security agreements, notes, loan or credit agreements or other agreements relating to the borrowing of money by one of the Heritage Entities;

(vi) license, royalty or other agreements relating to Intellectual Property, Technology or Software;

(vii) partnership, joint venture and profit sharing agreements;

(viii) agreements with any Governmental Authority;

(ix) agreements in the nature of a settlement or a conciliation agreement arising out of any claim asserted by any other Person;

(x) agreements not made in the ordinary course of the Heritage Business;

(xi) other agreements, whether or not made in the ordinary course of business, that are material to the Heritage Business or the ownership or operation of the Heritage Assets; and

(xii) agreements or commitments to enter into any of the foregoing.

(b) Each of such Contracts is a valid and binding agreement of the applicable Heritage Entities. None of the Heritage Entities is in breach of or in default in any material respect under, nor has any event occurred which (with or without the giving of notice or the passage of time or both) would constitute a material default by it under, any material provision of any of such agreements, and none of the Heritage Entities has received any written notice from any other party indicating that it is in breach of or in default under any such material provision. Except as described on Schedule 3.18(b), no other party to any of such agreements is, to the Knowledge of the Specified Heritage Persons, in breach of or in default under such agreements in any material respect, nor has any assertion been made by any of the Heritage Entities of any such breach or default.

3.19 ENVIRONMENTAL MATTERS.

(a) Except as set forth in Schedule 3.19(a), none of the Heritage Entities is in violation of, or subject to, any pending or threatened Proceeding under, or subject to any remedial obligations under, any Applicable Laws pertaining to health, safety, the environment, Hazardous Substances or Solid Wastes (such Applicable Laws as they now exist are herein collectively called "Applicable Environmental Laws") relating to the ownership or operation of the Heritage Assets or the operation of the Heritage Business, including (i) the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA"), and (ii) the Resource Conservation and Recovery Act of 1976, as amended ("RCRA"). Except as set forth on Schedule 3.19(a), the Heritage Entities have obtained all Permits to construct, occupy, lease, operate or use any real property or equipment or other tangible property forming a part of the Heritage Assets by reason of any Applicable Environmental Laws.

(b) Except as set forth on Schedule 3.19(b), there are no past or present events, conditions, circumstances or plans (i) that interfere with or prevent compliance or continued compliance, with respect to, the Heritage Assets or Heritage Business, with Applicable Environmental Laws or (ii) that could be reasonably expected to give rise to any common law or other legal liability or obligation with respect to the Heritage Assets or Heritage Business, including liability or obligation under CERCLA or RCRA, based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling or

the emission, discharge, release or threatened release into the environment, of any pollutant, contaminant, chemical, industrial toxin, Hazardous Substance or Solid Waste.

(c) As used in this Agreement, the term "Hazardous Substance" shall have the meaning currently specified in CERCLA and the term "Solid Waste" shall have the meaning currently specified in RCRA; provided, that to the extent the Applicable Laws of the jurisdiction in which the particular asset is located have currently established a meaning for such term that is broader than that specified in CERCLA or RCRA, such broader meaning shall apply.

(d) Except as set forth on Schedule 3.19(d), there are no (i) non-propane underground storage tanks, known contamination of soil or groundwater, or known or suspected asbestos or asbestos-containing material that is not in an intact and undisturbed condition on any property owned or leased by the Heritage Entities, (ii) pending or threatened complaints, suits, actions or demand letters by any third party or Governmental Authority relating to any alleged violation of Applicable Environmental Law by the Heritage Entities, (iii) Permits required of the Heritage Entities under Applicable Environmental Laws to own, lease or operate their properties and conduct their business as described in the SEC Reports that the Heritage Entities do not possess or Permits the terms and conditions of which the Heritage Entities have violated or are violating (except, in each case as would not have a Heritage Material Adverse Effect), or (iv) real estate sites owned or operated by any of the Heritage Entities that have been used as a manufactured gas plant site.

3.20 INSURANCE. The Heritage Parties maintain insurance covering the properties, operations, personnel and businesses of the Heritage Entities. In the reasonable judgment of the Heritage Parties, such insurance insures against such losses and risks as are reasonably adequate to protect the Heritage Entities and their businesses. None of the Heritage Entities has received notice from any insurer or agent of such insurer that substantial capital improvements or other expenditures will have to be made in order to continue such insurance; all such insurance is outstanding and duly in force on the date hereof and will be outstanding and duly in force on the Closing Date.

3.21 ABSENCE OF LIABILITIES. None of the Heritage Entities has any material liabilities or obligations (whether accrued, absolute, contingent, unliquidated or otherwise, whether or not known, and whether due or to become due), other than as set forth on Schedule 3.21, that will create or result in any Encumbrances on the Heritage Assets, except for Permitted Encumbrances.

3.22 BOOKS AND RECORDS.

(a) Each of the Heritage Entities (i) makes and keeps books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets and (ii) maintains systems of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific

authorization; and (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(b) None of the Heritage Entities nor any Heritage Employee or agent of any of the Heritage Entities has made any payment of funds of any of the Heritage Entities or received or retained any funds in either case in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character required to be disclosed in the SEC Reports.

3.23 LISTING. The outstanding Common Units are listed for trading on the New York Stock Exchange.

3.24 EMPLOYEE MATTERS.

(a) Except as set forth on Schedule 3.24(a), neither Heritage GP nor any of the Heritage Entities has violated any federal, state or local law relating to discrimination in the hiring, promotion or pay of employees nor any applicable wage or hour laws, nor any provisions of ERISA or the rules and regulations promulgated thereunder; neither Heritage GP nor any of the Heritage Entities has engaged in any unfair labor practice, which in each case would have a Heritage Material Adverse Effect; there is (i) no unfair labor practice complaint pending against Heritage GP or any of the Heritage Entities or, to the best knowledge of Heritage GP and the Heritage Parties, threatened against any of them, before the National Labor Relations Board or any state or local labor relations board, and no grievance or arbitration proceeding arising out of or under any collective bargaining agreement pending against Heritage GP or any of the Heritage Entities or, to the best knowledge of Heritage GP and the Heritage Parties, threatened against any of them, (ii) no significant strike, labor dispute, slowdown or stoppage pending against Heritage GP or any of the Heritage Entities and (iii) except as described in Schedule 3.24(a), neither Heritage GP nor any of the Heritage Entities has any obligation or liability under any union pension plans or collective bargaining agreements related to the Heritage Employees or the Heritage Business that will be an obligation or liability of or binding on Heritage GP or any of the Heritage Entities after the Closing, except in the cases of clauses (i), (ii) and (iii) such complaints, grievances, arbitration proceedings, strikes, labor disputes, slowdowns, stoppages or liabilities which if determined adversely to Heritage GP or the Heritage Entities, would not individually or in the aggregate result in a Heritage Material Adverse Effect.

(b) Schedule 3.24(b) lists all express employment agreements and related noncompete agreements in excess of $75,000 per annum in salary not terminable upon convenience and without penalty upon less than 60 days notice to which Heritage GP or any of the Heritage Entities is a party or by which any of such Persons is bound.

3.25 CONSENTS. Schedule 3.25 sets forth each of the consents, approvals, orders, authorizations and waivers of, and declarations, filings and registrations with, all third parties (including Governmental Authorities) that are necessary or required to permit the transactions contemplated by this Agreement and otherwise to consummate the transactions contemplated hereby (the "Heritage Consents"). Schedule 7.1(e) includes all of the Heritage Consents that, if not obtained and in full force and effect at the time of the Closing, could reasonably be expected to result in a Material Adverse Effect on the Heritage Business.

3.26 CONDUCT OF THE HERITAGE BUSINESS. Except as provided on Schedule 3.26, since May 31, 2003, neither Heritage GP nor the Heritage Entities have taken any actions that would be prohibited by the provisions of Section 5.5 if such actions had been taken after the date of this Agreement.

3.27 DISCLOSURE. Neither this Agreement nor any Schedule or Exhibit hereto nor any other certificate or instrument delivered to La Grange by or on behalf of Heritage GP or any of the Heritage Parties 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 herein not misleading.

3.28 EMPLOYEE BENEFIT PLANS.

(a) Schedule 3.28(a) contains a true and complete list of all employee benefit plans (within the meaning of Section 3(3) of ERISA), and all bonus, stock option, unit option, stock purchase, unit purchase, restricted stock, restricted unit, incentive, deferred compensation, medical or life insurance, supplemental retirement, severance or other benefit plans, programs or arrangements, and all employment, termination, severance or other contracts or agreements to which Heritage GP or any of the Heritage Entities is a party, with respect to which Heritage GP or any of the Heritage Entities has any liability or which are maintained, contributed to or sponsored by Heritage GP or any of the Heritage Entities for the benefit of any current or former Heritage Employee, officer or director of Heritage GP or any of the Heritage Entities (collectively, referred to herein as the "Heritage Plans"). Except as set forth on Schedule 3.28(a), neither Heritage GP nor the Heritage Entities has any express or implied commitment (i) to create, incur liability with respect to or cause to exist any other employee benefit plan, program or arrangement, (ii) to enter into any contract or agreement to provide compensation or benefits to any individual or (iii) to modify, change or terminate any Heritage Plan, other than with respect to a modification, change or termination required by ERISA or the Code.

(b) Except as set forth in Schedule 3.28(b), none of the Heritage Plans is a multiemployer plan, within the meaning of Section 3(37) or 4001(a)(3) of ERISA, or is a single employer pension plan, within the meaning of Section 4001(a)(15) of ERISA, for which Heritage GP or any of the Heritage Entities could incur liability under Section 4063 or 4064 of ERISA. Except to the extent set forth in Schedule 3.28(b), none of the Heritage Plans (i) provides for the payment of separation, severance, termination or similar-type benefits to any person, (ii) obligates Heritage GP or any Heritage Entity to pay separation, severance, termination or other benefits as a result of the transaction or (iii) obligates Heritage GP or any Heritage Entity to make any payment or provide any benefit that could be subject to a tax under Section 4999 of the Code. Except as disclosed in Schedule 3.28(b), none of the Heritage Plans provides for or promises retiree medical, disability or life insurance benefits to any current or former Heritage Employee, officer or director of Heritage GP or any Heritage Entity.

(c) Each Heritage Plan which is intended to be qualified under Section 401(a) or 401(k) of the Code is and has always been so qualified.

(d) Except to the extent set forth on Schedule 3.28(d), each Heritage Plan is now and always has been operated in all respects in accordance with the requirements of Applicable Law,

including, without limitation, ERISA and the Code, and Heritage GP and each Heritage Entity has performed all obligations required to be performed by it under such Heritage Plan, is not in any respect in default under or in violation of, and has no knowledge of any default or violation by any party to, any Heritage Plan. Except as set forth on Schedule 3.28(d), no Heritage Plan is subject to Title IV of ERISA or Section 412 of the Code.

(e) With respect to each Heritage Plan, there are no prohibited transactions or breaches of fiduciary duties that could result in liability (directly or indirectly) for Heritage GP or any Heritage Entity.

(f) Except as set forth on Schedule 3.28(f), each Heritage Plan may be unilaterally terminated any time by a Heritage Entity without material liability, other than for benefits accrued prior to such termination.

(g) Except as set forth on Schedule 3.28(g), all contributions to, and payments from, each Heritage Plan that are required to be made in accordance with the terms of the Heritage Plan and Applicable Law have been timely made.

3.29 FINDER'S FEES. Except in accordance with the letter agreement dated September 23, 2003 between the Special Committee of the Board of Directors of Heritage GP and Merrill Lynch and except as set forth on Schedule 3.29, none of the Heritage Entities, or any of their respective Affiliates, are obligated (directly or indirectly) under any agreement with any Person that would obligate any of the Heritage Entities or La Grange or any of their respective Affiliates to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated herein.

3.30 REGULATION. Except as set forth on Schedule 3.30, none of the Heritage Entities is now, or after the consummation of the transactions contemplated by this Agreement and the Other Transaction Documents and application of the net proceeds thereof will be, (i) an "investment company" or a company "controlled by" an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" thereof, within the meaning of the Public Utility Holding Company Act of 1935, as amended.

3.31 NO VIOLATION. None of Heritage GP or the Heritage Entities is in (i) violation of its partnership agreement, certificate or articles of incorporation or bylaws or other organizational documents, or of any law, statute, ordinance, administrative or governmental rule or regulation applicable to it or of any decree of any Governmental Authority having jurisdiction over it or (ii) breach, default (or an event which, with notice or lapse of time or both, would constitute such a default) or violation in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any agreement, indenture, lease or other instrument to which it is a party or by which it or any of its properties may be bound, which breach, default or violation would, if continued, have a Heritage Material Adverse Effect. No third party to any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which Heritage GP or any of the Heritage Entities is a party or by which any of them is bound or to which any of their properties are subject, is in

default under any such agreement, which breach, default or violation would, if continued, have a Heritage Material Adverse Effect.

3.32 OPINION OF FINANCIAL ADVISOR. The Special Committee has received the opinion of Merrill Lynch to the effect that, as of the date of such opinion, the consideration to be paid by Heritage MLP in connection with the transactions contemplated by this Agreement is fair, from a financial point of view, to the Common Unitholders of Heritage MLP.

3.33 APPROVAL OF SPECIAL COMMITTEE. Subject to the rights of the Special Committee under Section 6.15, the Special Committee has recommended that the Board of Directors of Heritage GP approve the transactions contemplated hereby.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF LA GRANGE

For the purposes of this Agreement, La Grange represents and warrants as set forth in this Article 4. La Grange does not make any representations and warranties in this Article 4 with respect to the Heritage Entities.

4.1 ORGANIZATION AND EXISTENCE. Schedule 4.1 sets forth the form of organization, legal name and the Organization State of La Grange and each Subsidiary of La Grange. Each of the La Grange Entities is either a limited partnership, limited liability company or corporation, as indicated on Schedule 4.1, duly organized or formed, validly existing and in good standing under the laws of its Organization State. Each of the La Grange Entities has full power and authority to own, lease or otherwise hold and operate its properties and assets and to carry on its business as presently conducted. Each of the La Grange Entities is duly qualified and in good standing to do business as a foreign limited partnership, limited liability company or corporation, as applicable, in each jurisdiction in which the conduct or nature of its business or the ownership, leasing, holding or operating of its properties makes such qualification necessary, except such jurisdictions where the failure to be so qualified or in good standing, individually or in the aggregate, would not have a La Grange Material Adverse Effect.

4.2 CAPITALIZATION OF THE LA GRANGE ENTITIES.

(a) Schedule 4.2(a) sets forth by each class and each series within each class, (i) the La Grange Interests (ii) the name and address of record and number and percentage ownership of those shares of each holder of record thereof. No Encumbrance exists upon any outstanding La Grange Interests other than the Encumbrances, if any, set forth in Schedule 4.2(a), all of which will be released at or before the Closing.

(b) Except as set forth in Schedule 4.2(b), each La Grange Entity is a La Grange Wholly Owned Subsidiary or will be as of Closing, by virtue of the actions required to be taken pursuant to Section 2.2(a), a La Grange Wholly Owned Subsidiary. In the case of any La Grange Entity that is not a La Grange Wholly Owned Subsidiary, Schedule 4.2(b) sets forth, by each class and each series within each class, the number of outstanding shares (or other percentage ownership interests) of Capital Stock of the La Grange Entity, (i) La Grange's aggregate direct and indirect ownership of those shares (or interests) and (ii) the name and address of record and percentage ownership of those shares (or interests) of each holder of record thereof other than La

Grange or a La Grange Entity. No Encumbrance exists upon any outstanding share (or other percentage ownership interests) of Capital Stock of any La Grange Entity which La Grange directly or indirectly owns other than the Encumbrances, if any, set forth in Schedule 4.2(b), all of which will be released at or before the Closing. Except as set forth in Schedule 4.2(b), La Grange does not own, of record or beneficially, directly or indirectly through any Person, and does not control, directly or indirectly through any Person or otherwise, any Capital Stock or derivative securities of any entity other than a La Grange Entity. All of the outstanding shares of Capital Stock of the La Grange Entities that are corporations or limited liability companies have been duly authorized and validly issued and are fully paid and non-assessable. All of the outstanding shares of Capital Stock of the La Grange Entities that are general or limited partnerships have been duly authorized and validly issued in accordance with such La Grange Entity's partnership agreement and such Capital Stock has been fully paid for (to the extent required under such La Grange Entity's partnership agreement) and is nonassessable (except as such nonassessability may be affected by matters described in Sections 17-303 and 17-607 of the Delaware LP Act or similar partnership laws of its Organization State).

(c) Except as set forth in Schedule 4.2(c), there are no subscriptions, options, convertible securities, warrants, calls, preemptive rights or other rights of any kind to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any interests in the La Grange Entities pursuant to any agreement or instrument to which the La Grange Entities or La Grange is a party or by which any of them may be bound. Neither the offering nor the sale of the La Grange Interests as contemplated by this Agreement gives rise to any rights for or relating to the registration of any Capital Stock of the La Grange Entities, except pursuant to this Agreement or such rights as have been waived or satisfied.

4.3 AUTHORITY AND BINDING AGREEMENT. La Grange has full power and authority to execute, deliver and perform this Agreement and the Other Transaction Documents (collectively, the "La Grange Documents") to which it is a party, and to consummate the transactions contemplated thereby. The execution, delivery and performance by La Grange of such La Grange Documents, and the consummation by it of the transactions contemplated thereby, have been duly authorized by all necessary action. This Agreement has been duly executed and delivered by La Grange and constitutes, and each of the La Grange Documents and each other agreement, instrument or document executed or to be executed by La Grange in connection with the transactions contemplated by the La Grange Documents has been, or when executed will be, duly executed and delivered by La Grange and constitutes, or when executed and delivered will constitute, a valid and legally binding obligation of such Party enforceable against it in accordance with its terms, except that such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium and similar Laws affecting creditors' rights generally and (b) equitable principles.

4.4 NON-CONTRAVENTION. The execution, delivery and performance by La Grange of the La Grange Documents to which it is a party, and the consummation by it of the transactions contemplated thereby do not and will not (a) conflict with or result in a violation of any provision of the respective charter or bylaws or other governing instruments of the La Grange Entities, (b) conflict with or result in a violation of any provision of, or constitute (with or without the giving of notice or the passage of time or both) a default under, or give rise (with or without the giving of notice or the passage of time or both) to any right of termination,

cancellation or acceleration under, any bond, debenture, note, mortgage, indenture, lease, contract, agreement or other instrument or obligation to which the La Grange Entities may be bound, (c) result in the creation or imposition of any Encumbrance upon any of the La Grange Entities or La Grange Assets, (d) assuming compliance with the matters referred to in Section 4.4, violate any Applicable Law binding upon them or the La Grange Entities or (e) conflict with or result in a violation of any Permit held by the La Grange Entities.

4.5 GOVERNMENTAL APPROVALS. Except as set forth in Schedule 4.5 and except as may be obtained under state securities or "Blue Sky" laws and under the HSR Act, no consent, approval, order or authorization of, or declaration, filing or registration with, any Governmental Authority is required to be obtained or made by La Grange or the La Grange Entities in connection with the execution, delivery or performance of this Agreement by La Grange or the consummation by them of the transactions contemplated thereby.

4.6 EXCLUSIVE OPERATION OF THE BUSINESS. Except as set forth in Schedules 4.1, 4.2(b) or 4.6, the La Grange Entities do not have any direct or indirect equity or ownership interest in any corporation, partnership, joint venture or other entity that is involved, directly or indirectly, in the conduct of the La Grange Business.

4.7 TITLE TO LA GRANGE ASSETS. As of the Closing, the La Grange Entities will have good and marketable title to, or valid leasehold and right-of-way interests in, all of the La Grange Assets, free and clear of all Encumbrances other than Permitted Encumbrances and Encumbrances set forth in Schedule 4.7.

4.8 FINANCIAL STATEMENTS.

(a) Attached as Schedule 4.8(a) are copies of (i) the audited combined balance sheet as of December 31, 2002 (the "Financial Statement Date") and the related combined statement of income, cash flows and partners' equity for the period from October 1, 2002 through December 31, 2002 (including in all cases the notes, if any, thereto) of ETC OLP and its subsidiaries, and (ii) the unaudited combined balance sheet of ETC OLP and its subsidiaries as of June 20, 2003 and the related combined statement of income and cash flows for the six months ended June 20, 2003 (the "La Grange Financial Statements"). The La Grange Financial Statements have been prepared in accordance with GAAP applied on a basis consistent with past practices and fairly present the respective consolidated financial position of La Grange as of the date set forth therein and the respective results of operations and cash flows of La Grange for the fiscal period set forth therein.

(b) Attached as Schedule 4.8(b) are copies of (i) the audited consolidated balance sheet as of September 30, 2002 and December 31, 2001 and the related consolidated statement of income, cash flows and stockholders' equity for the fiscal periods ended September 30, 2002 and December 31, 2001 and 2000 (including in all cases the notes, if any, thereto) of Aquila Gas Pipeline Corporation and its subsidiaries ("Aquila"); and (ii) the unaudited consolidated balance sheet of Aquila and its subsidiaries as of June 20, 2002 and the related consolidated statement of income and cash flows for the six months ended June 20, 2002 (the "Aquila Financial Statements"). To the knowledge of La Grange, the Aquila Financial Statements have been prepared in accordance with GAAP applied on a basis consistent with past practices and fairly

present the respective consolidated financial position of Aquila as of the date set forth therein and the respective results of operations and cash flows of Aquila for the fiscal period set forth therein.

(c) Attached as Schedule 4.8(c) are copies of the audited consolidated balance sheet as of December 27, 2002 and December 31, 2001 and the related consolidated statement of income, cash flows and changes in shareholders' equity for the fiscal periods ended December 27, 2002 and December 31, 2001 and 2000 (including in all cases the notes, if any, thereto) of Oasis Pipe Line Company ("Oasis") and its subsidiaries (the "Oasis Financial Statements"). To the knowledge of La Grange, the Oasis Financial Statements have been prepared in accordance with GAAP applied on a basis consistent with past practices and fairly present the respective consolidated financial position of Oasis as of the date set forth therein and the respective results of operations and cash flows of Oasis for the fiscal period set forth therein.

(d) The books of account and other financial records of the La Grange Entities from which the La Grange Financial Statements were prepared: (i) reflect all items of income and expense related to the La Grange Business and La Grange Assets and all assets and liabilities relating to the La Grange Business and La Grange Assets required to be reflected therein in accordance with GAAP applied on a basis consistent with past practices; (ii) are complete and correct, and do not contain or reflect any inaccuracies or discrepancies that are inconsistent with financial reporting requirements in accordance with GAAP and (iii) have been maintained in accordance with good business and accounting practices.

(e) None of the La Grange Entities has any material liabilities or obligations (whether accrued, absolute, contingent, unliquidated or otherwise, whether or not known, and whether due or to become due), other than as set forth in the Schedules to this Agreement, that will create or result in any Encumbrances on the La Grange Assets or the La Grange Entities, except for Permitted Encumbrances.

4.9 ABSENCE OF CERTAIN CHANGES. Since the Financial Statement Date, (a) there has been no event that (A) would have a material adverse effect on the financial condition, business, prospects, properties, net worth or results of operations of the La Grange Entities, taken as a whole, except for general economic changes and changes that may affect the industry of the La Grange Entities generally or (B) would adversely affect the ability of La Grange to consummate the transactions contemplated by this Agreement and the Other Transaction Documents (clauses (A) and (B), or either of such clauses, a "La Grange Material Adverse Effect"); (b) the La Grange Business has been conducted only in the ordinary course consistent with past practice; (c) except for, or as contemplated by, this Agreement, none of the La Grange Entities has incurred any material liability, engaged in any material transaction or entered into any material agreement outside the ordinary course of business consistent with past practice that individually or in the aggregate would result in a La Grange Material Adverse Effect; (d) none of the La Grange Entities has suffered any material loss, damage, destruction or other casualty to any of the La Grange Assets (whether or not covered by insurance) that individually or in the aggregate would result in a La Grange Material Adverse Effect; and (e) none of the La Grange Entities has taken any of the actions set forth in Section 5.2 except as permitted thereunder.

4.10 TAX MATTERS.

(a) Except as set forth on Schedule 4.10(a), (i) each of the La Grange Entities has filed when due, after giving effect to applicable extensions, all material Tax Returns required to be filed with the IRS or other applicable taxing authority through the date hereof; (ii) all such Tax Returns are true, complete and correct in all material respects; (iii) each of the La Grange Entities has timely paid or has provided an accrual for all Taxes which are or have become due (whether or not shown on any such Tax Return), and has withheld and paid to the appropriate taxing authority any Tax that it is required by Applicable Law to withhold and pay to a taxing authority on or before the date hereof other than, in either case, those (x) which, if not paid, would not have a La Grange Material Adverse Effect or (y) which are being contested in good faith; (iv) no claim has been made by any taxing authority in a jurisdiction in which any of the La Grange Entities does not currently file a Tax Return that it is or may be subject to Tax by such jurisdiction; (v) none of the La Grange Entities has entered into any agreement or arrangement with any tax authority that requires any of the La Grange Entities to take or refrain from taking any action; (vi) none of the La Grange Entities is a party to any agreement, whether written or unwritten, providing for the payment of Taxes, payment of Tax losses, entitlements to refunds or similar Tax matters; and (vii) none of the La Grange Entities that is not a corporation has elected or will elect to be treated as a corporation. None of the La Grange Entities has any material liability for Taxes other than those incurred in the ordinary course of business and in respect of which adequate reserves are being maintained in accordance with GAAP. There are no material liens for Taxes upon any asset of any of the La Grange Entities except for liens arising as a matter of Applicable Law relating to current Taxes not yet due. There are no Taxes that will be imposed on any of the La Grange Entities in connection with the execution of this Agreement or the Other Transaction Documents or in connection with any of the transaction contemplated hereby or thereby. Except as set forth on Schedule 4.10(a), none of the La Grange Entities currently is the beneficiary of any extension of time within which to file any Tax Return.

(b) Schedule 4.10(b) lists all federal or state income and franchise Tax Returns filed by any of the La Grange Entities or any affiliated, consolidated, combined, unitary or similar group of which any La Grange Entity is or was a member on or after August 31, 1999 and on or before the date hereof, (i) that are as of the date hereof the subject of audit, (ii) in respect of which there is any other suit, action, investigation or claim in progress by any taxing authority or (iii) in respect of which any issue has been raised by any taxing authority at an earlier time that is reasonably expected to be raised at a later time. None of the La Grange Entities has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency or has received any notice from any taxing authority that it intends to conduct an audit or investigation thereof or is subject to any ruling of any taxing authority.

(c) None of the La Grange Entities has made any payment, is obligated to make any payment, or is a party to any agreement that under certain circumstances could obligate it to make any payment that will not be deductible under Section 280G of the Code.

(d) Except as set forth on Schedule 4.10(d), since August 31, 1999, none of the La Grange Entities (i) has been a member of an affiliated group filing a consolidated federal income Tax Return or (ii) has any liability for Taxes of any Person (other than a La Grange Entity) under

Treas. Reg. 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor, by contract, or otherwise.

4.11 COMPLIANCE WITH LAWS. Subject to the specific representations and warranties in this Agreement, which representations and warranties shall govern the subject matter thereof, the La Grange Entities have complied in all material respects with all Applicable Laws relating to the ownership or operation of the La Grange Assets and the conduct of the La Grange Business. None of the La Grange Entities is charged or, to the knowledge of the La Grange Entities, threatened with, or under investigation with respect to, any violation of any Applicable Law relating to any aspect of the ownership or operation of the La Grange Assets or the La Grange Business.

4.12 LEGAL PROCEEDINGS. Except as set forth in Schedule 4.12, there is (i) no Proceeding before or by any Governmental Authority or arbitrator or official, domestic or foreign, now pending or, to the knowledge of the La Grange Entities, threatened, to which any of the La Grange Entities or any of their respective subsidiaries is or may be a party or to which the business or property of any of the La Grange Entities or any of their respective subsidiaries is or may be subject, (ii) no statute, rule, regulation or order that has been enacted, adopted or issued by any Governmental Authority or that has been proposed by any Governmental Authority and (iii) no injunction, restraining order or order of any nature issued by a federal or state court or foreign court of competent jurisdiction to which any of the La Grange Entities or any of their respective subsidiaries is or may be subject, that, in the case of clauses (i), (ii) and (iii) above, is reasonably expected to (A) individually or in the aggregate have a La Grange Material Adverse Effect or (B) affect adversely the ability of La Grange to consummate the Closing as contemplated herein.

4.13 SUFFICIENCY OF LA GRANGE ASSETS. The La Grange Assets constitute all the assets and properties the use or benefit of which are reasonably necessary for the operation of the La Grange Business as conducted on the date of this Agreement. As of the Closing, all tangible assets and properties included in the La Grange Assets will be in the possession, or under the control, of the La Grange Entities. All La Grange Assets necessary for the conduct of the La Grange Business are in good condition, normal wear and tear excepted, and are useable in the continued operation of the La Grange Business consistent with past practice.

4.14 REAL PROPERTY.

(a) Set forth in Schedule 4.14(a) is the street address, a brief description and a legal description of all real property owned by any of the La Grange Entities and used or held for use in connection with the operation of the La Grange Business other than those which if not so owned would not have a La Grange Material Adverse Effect.

(b) Set forth in Schedule 4.14(b) is the street address and a brief description of the real property, including facilities and structures, leased by any of the La Grange Entities and used or held for use in connection with the operation of the La Grange Business other than those which if not so leased would not have a La Grange Material Adverse Effect.

4.15 TANGIBLE PERSONAL PROPERTY. Set forth in Schedule 4.15 is a list of all furniture, fixtures, leasehold improvements, equipment, machinery, computer hardware, prototypes, spare parts, supplies, materials, motor vehicles, apparatus, tools, implements, appliances and other tangible personal property (other than inventories) owned or leased by any of the La Grange Entities and used or held for use in connection with the operation of the La Grange Business, except for items having a value individually of less than $10,000 and having, in the aggregate of like items, a value of less than $200,000.

4.16 INTELLECTUAL PROPERTY. Except as set forth in Schedule 4.16, each of the La Grange Entities owns or possesses or has the right to use, or at the Closing Date will own or possess or have the right to use in the localities where they are currently used by the La Grange Entities, all Intellectual Property necessary for the conduct of the La Grange Business, other than those which if not so owned or possessed would not have a La Grange Material Adverse Effect, and La Grange is not aware of any claim to the contrary or any challenge by any other Person to the rights of the La Grange Entities with respect to the foregoing.

4.17 PERMITS. Schedule 4.17(a) lists all of the Permits held by the La Grange Entities. The Permits described in Schedule 4.17(a) are all of the Permits which are necessary to own its properties and to conduct its business in the manner in which it is currently conducted and except for such Permits which, if not obtained, would not have, individually or in the aggregate, a La Grange Material Adverse Effect; each of the La Grange Entities has, or at the Closing Date will have, fulfilled and performed all its material obligations with respect to such Permits, and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any impairment of the rights of the holder of any such Permit, except for such revocations, terminations and impairments that would not have a La Grange Material Adverse Effect; and, except as described in Schedule 4.17(b), none of such Permits contains any restriction that is materially burdensome to the La Grange Entities considered as a whole.

4.18 AGREEMENTS.

(a) Set forth in Schedule 4.18(a) is a list of all the following Contracts to which any of the La Grange Entities is a party or by which the La Grange Entities are bound that are not terminable at the option of one of the La Grange Entities (or one of their Affiliates) within 30 days for convenience and without penalty:

(i) collective bargaining agreements and similar agreements with La Grange Employees as a group;

(ii) agreements, trusts, plans, funds or other employee benefit arrangements of any nature;

(iii) agreements with any La Grange Employee, or any director or officer of one of the La Grange Entities or any of their Affiliates;

(iv) agreements relating to the acquisition of any Capital Stock of any La Grange Entity or options thereof;

(v) agreements between or among one of the La Grange Entities and any of their Affiliates;

(vi) indentures, mortgages, security agreements, notes, loan or credit agreements or other agreements relating to the borrowing of money by one of the La Grange Entities or to the direct or indirect guarantee or assumption by any one of the La Grange Entities of any obligation of one of their Affiliates;

(vii) agreements relating to the acquisition or disposition of any assets, involving obligations or revenues of $100,000 or more;

(viii) agreements with respect to the lease of any real or personal property, involving annual obligations or revenues of $100,000 or more;

(ix) agreements concerning the management or operation of any real property, involving annual obligations or revenues of $100,000 or more;

(x) supplier, broker, distributor, dealer, manufacturer's representative, sales, agency, sales promotion, advertising, marketing, consulting, research and development, maintenance, service and repair agreements, involving annual obligations or revenues of $100,000 or more;

(xi) license, royalty or other agreements relating to Intellectual Property, Technology or Software;

(xii) partnership, joint venture and profit sharing agreements;

(xiii) agreements with any Governmental Authority;

(xiv) agreements in the nature of a settlement or a conciliation agreement arising out of any claim asserted by any other Person;

(xv) agreements containing any covenant that would limit the freedom of any of the La Grange Entities to engage in any line of business or compete with any other Person in any geographic area or during any period of time;

(xvi) agreements not made in the ordinary course of the La Grange Business;

(xvii) other agreements, whether or not made in the ordinary course of business, that are material to the La Grange Business or the ownership or operation of the La Grange Assets; and

(xviii) agreements or commitments to enter into any of the foregoing.

(b) Each of such Contracts is a valid and binding agreement of the applicable La Grange Entities. None of the La Grange Entities is in breach of or in default in any material respect under, nor has any event occurred which (with or without the giving of notice or the passage of time or both) would constitute a material default by it under, any material provision of

any of such agreements, and none of the La Grange Entities has received any written notice from any other party indicating that it is in breach of or in default under any such material provision. Except as described on Schedule 4.18(b), no other party to any of such agreements is, to the Knowledge of the Specified La Grange Persons, in breach of or in default under such agreements in any material respect, nor has any assertion been made by any of the La Grange Entities of any such breach or default.

4.19 ENVIRONMENTAL MATTERS.

(a) Except as set forth in Schedule 4.19(a), none of the La Grange Entities is in violation of, or subject to, any pending or threatened Proceeding under, or subject to any remedial obligations under, any Applicable Environmental Laws relating to the ownership or operation of the La Grange Assets or the operation of the La Grange Business, including (i) CERCLA, and (ii) the RCRA. Except as set forth in Schedule 4.19(a), the La Grange Entities have obtained all Permits to construct, occupy, lease, operate or use any real property or any equipment or other tangible property forming a part of the La Grange Assets by reason of any Applicable Environmental Laws.

(b) Except as set forth in Schedule 4.19(b), there are no past or present events, conditions, circumstances or plans (i) that interfere with or prevent compliance or continued compliance, with respect to the La Grange Assets, La Grange Business or La Grange Entities, with Applicable Environmental Laws or (ii) that could be reasonably expected to give rise to any common law or other legal liability or obligation with respect to the La Grange Assets, La Grange Business or La Grange Entities, including liability or obligation under CERCLA or RCRA, based on or related to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling, or the emission, discharge, release or threatened release into the environment, of any pollutant, contaminant, chemical, industrial toxin, Hazardous Substance or Solid Waste.

(c) Except as set forth in Schedule 4.19(c), there are no (i) underground storage tanks, known contamination of soil or groundwater, or known or suspected asbestos or asbestos-containing material that is not in an intact and undisturbed condition on any property owned or leased by the La Grange Entities, (ii) pending or threatened complaints, suits, actions or demand letters by any third party or Governmental Authority relating to any alleged violation of Applicable Environmental Law by any La Grange Entity, (iii) Permits required of the La Grange Entities under Applicable Environmental Laws to own, lease or operate their properties and conduct the La Grange Business the terms and conditions of which the La Grange Entities have violated or are violating (except, in each case as would not have a La Grange Material Adverse Effect), or (iv) real estate sites transferred under this Agreement that have been used as a manufactured gas plant site.

4.20 INSURANCE. The La Grange Entities maintain insurance covering the properties, operations, personnel and businesses of the La Grange Entities. In the reasonable judgment of the La Grange Entities, such insurance insures against such losses and risks as are reasonably adequate to protect the La Grange Entities and the La Grange Business. None of the La Grange Entities has received notice from any insurer or agent of such insurer that substantial capital improvements or other expenditures will have to be made in order to continue such insurance; all

such insurance is outstanding and duly in force on the date hereof and will be outstanding and duly in force on the Closing Date.

4.21 ABSENCE OF LIABILITIES. None of the La Grange Entities has any material liabilities or obligations (whether accrued, absolute, contingent, unliquidated or otherwise, whether or not known, and whether due or to become due), other than as set forth on Schedule 4.21, that will create or result in any Encumbrances on the La Grange Assets, except for Permitted Encumbrances.

4.22 BOOKS AND RECORDS.

(a) Each of the La Grange Entities (i) makes and keeps books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets and (ii) maintains systems of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(b) None of the La Grange Entities nor any La Grange Employee or agent of any of the La Grange Entities has made any payment of funds of any of the La Grange Entities or received or retained any funds in either case in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character which would be required to be disclosed in any reports which would be required to be filed by the La Grange Entities if the La Grange Entities were subject to the reporting requirements of the Exchange Act.

4.23 INVESTMENT INTENT.

(a) La Grange is acquiring the Common Units, Class D Units and Special Units to be acquired by it at the Closing for its own account for investment and not with a view to, or for sale or other disposition in connection with, any public distribution of all or any part thereof.

(b) La Grange, by entering into this Agreement, (i) requests admission as a limited partner of Heritage MLP and agrees to comply with, and be bound by, and hereby executes, the Heritage MLP Partnership Agreement, (ii) represents and warrants that it has all right, power and authority and the capacity necessary to enter into the Heritage MLP Partnership Agreement, (iii) appoints Heritage GP (as general partner of Heritage MLP) and, if a Liquidator shall be appointed, the Liquidator of Heritage MLP as such La Grange's attorney-in-fact to execute, swear to, acknowledge and file any document, including, without limitation, the Heritage MLP Partnership Agreement and any amendment thereto, necessary or appropriate for its admission as an Additional Limited Partner and as a party to the Heritage MLP Partnership Agreement, (iv) gives the power of attorney provided for in the Heritage MLP Partnership Agreement and Heritage OLP Partnership Agreement and (v) makes the waivers and gives the consents and approvals contained in the Heritage MLP Partnership Agreement. Capitalized terms not defined

in this paragraph have the meanings assigned to such terms in the Heritage MLP Partnership Agreement.

4.24 EMPLOYEE MATTERS.

(a) Except as set forth on Schedule 4.24(a) and as contemplated by this Agreement, neither La Grange nor any of the La Grange Entities has violated any federal, state or local law relating to discrimination in the hiring, promotion or pay of employees nor any applicable wage or hour laws, nor any provisions of ERISA or the rules and regulations promulgated thereunder; neither La Grange nor any of the La Grange Entities has engaged in any unfair labor practice, which in each case would have a La Grange Material Adverse Effect; there is (i) no unfair labor practice complaint pending against La Grange or any of the La Grange Entities or, to the best knowledge of La Grange or the La Grange Entities, threatened against any of them, before the National Labor Relations Board or any state or local labor relations board, and no grievance or arbitration proceeding arising out of or under any collective bargaining agreement pending against La Grange or any of the La Grange Entities or, to the best knowledge of La Grange or the La Grange Entities, threatened against any of them, (ii) no significant strike, labor dispute, slowdown or stoppage pending against La Grange or any of the La Grange Entities and (iii) except as described in Schedule 4.24(a), neither La Grange or any of the La Grange Entities has any obligation or liability under union pension plans or collective bargaining agreements related to the La Grange Employees or the La Grange Business that will be an obligation or liability of or binding on La Grange or any of the La Grange Entities after the Closing, except in the cases of clauses (i), (ii) and (iii) such complaints, grievances, arbitration proceedings, strikes, labor disputes, slowdowns, stoppages or liabilities which if determined adversely to La Grange or any of the La Grange Entities, would not individually or in the aggregate result in a La Grange Material Adverse Effect.

(b) As of Closing, except as set forth on Schedule 4.24(b) and as contemplated by this Agreement, there will be no employment agreements in excess of $75,000 per annum in salary not terminable upon convenience and without penalty upon less than 60 days notice and non-compete agreements to which any of the La Grange Entities is a party or by which any of such Persons is bound. Schedule 4.24(c) sets forth a correct and complete list of all of the La Grange Employees, including name, title or position and date of hire.

(c) The La Grange Employees set forth on Schedule 4.24(c) constitute all employees who are reasonably necessary to be employed for the operation of the La Grange Business as currently conducted.

4.25 CONSENTS. Schedule 4.25 sets forth each of the consents, approvals, orders, authorizations and waivers of, and declarations, filings and registrations with, all third parties (including Governmental Authorities) that are necessary or required to permit the transactions contemplated by this Agreement and otherwise to consummate the transactions contemplated hereby (the "Consents"). Schedule 7.2(e) includes all of the Consents that, if not obtained and in full force and effect at the time of the Closing, could reasonably be expected to result in a La Grange Material Adverse Effect on the La Grange Business.

4.26 CONDUCT OF THE LA GRANGE BUSINESS. Except as provided on Schedule 4.26, since June 30, 2003, the La Grange Entities have not taken any actions that would be prohibited by the provisions of Section 5.2 if such actions had been taken after the date of this Agreement.

4.27 DISCLOSURE. Neither this Agreement nor any Schedule or Exhibit hereto nor any other certificate or instrument delivered to the Heritage Entities by or on behalf of La Grange 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 herein not misleading.

4.28 EMPLOYEE BENEFIT PLANS.

(a) Schedule 4.28(a)(i) contains a true and complete list of all employee benefit plans (within the meaning of Section 3(3) of ERISA), and all bonus, stock option, stock purchase, restricted stock, incentive, deferred compensation, retiree medical or life insurance, supplemental retirement, severance or other benefit plans, programs or arrangements, and all employment, termination, severance or other contracts or agreements to which any of the La Grange Entities is a party, with respect to which any of the La Grange Entities has any liability or which are maintained, contributed to or sponsored by any of the La Grange Entities for the benefit of any current or former La Grange Employee, officer or director of any of the La Grange Entities (collectively, referred to herein as the "La Grange Plans"). Except as set forth in Schedule 4.28(a)(ii), none of the La Grange Entities has any express or implied commitment (i) to create, incur liability with respect to or cause to exist any other employee benefit plan, program or arrangement, (ii) to enter into any contract or agreement to provide compensation or benefits to any individual or (iii) to modify, change or terminate any La Grange Plan, other than with respect to a modification, change or termination required by ERISA or the Code.

(b) Except as set forth in Schedule 4.28(b), none of the La Grange Plans is a multiemployer plan, within the meaning of Section 3(37) or 4001(a)(3) of ERISA, or is a single employer pension plan, within the meaning of Section 4001(a)(15) of ERISA, for which any of the La Grange Entities could incur liability under Section 4063 or 4064 of ERISA. Except to the extent set forth in the La Grange Plans listed in Schedule 4.28(a)(i), none of the La Grange Plans (i) provides for the payment of separation, severance, termination or similar-type benefits to any person, (ii) obligates any La Grange Entity to pay separation, severance, termination or other benefits as a result of the transaction or (iii) obligates any La Grange Entity to make any payment or provide any benefit that could be subject to a tax under Section 4999 of the Code. Except as set forth in Schedule 4.28(b), none of the La Grange Plans provides for or promises retiree medical, disability or life insurance benefits to any current or former La Grange Employee, officer or director of any La Grange Entity.

(c) Each La Grange Plan which is intended to be qualified under Section 401 (a) or 401(k) of the Code is and has always been so qualified.

(d) Except as set forth on Schedule 4.28(d), each La Grange Plan is now and always has been operated in all respects in accordance with the requirements of Applicable Law, including, without limitation, ERISA and the Code, and each La Grange Entity has performed all obligations required to be performed by it under such La Grange Plan, is not in any respect in

default under or in violation of, and has no knowledge of any default or violation by any party to, any La Grange Plan. Except as set forth on Schedule 4.28(d), no La Grange Plan is subject to Title IV of ERISA or Section 412 of the Code.

(e) With respect to each La Grange Plan, there are no prohibited transactions or breaches of fiduciary duties that could result in liability (directly or indirectly) for any La Grange Entity.

(f) Except as set forth on Schedule 4.28(f), each La Grange Plan may be unilaterally terminated at any time by a La Grange Entity without material liability, other than for benefits accrued prior to such termination.

(g) Except as set forth in Schedule 4.28(g), all contributions to, and payments from, each La Grange Plan that are required to be made in accordance with the terms of the La Grange Plan and Applicable Law have been timely made.

4.29 FINDER'S FEES. Except as set forth on Schedule 4.29, none of the La Grange Entities, or any of their respective Affiliates, are obligated (directly or indirectly) under any agreement with any Person that would obligate the La Grange Entities, Heritage GP or any of the Heritage Entities to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated herein.

4.30 REGULATION. Except as set forth on Schedule 4.30, none of the La Grange Entities is now, or after the consummation of the transactions contemplated by this Agreement and the Other Transaction Documents and application of the net proceeds thereof will be, (i) an "investment company" or a company "controlled by" an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" thereof, within the meaning of the Public Utility Holding Company Act of 1935, as amended.

4.31 NO VIOLATION. None of the La Grange Entities is in (i) violation of its partnership agreement, certificate or articles of incorporation or bylaws or other organizational documents, or of any law, statute, ordinance, administrative or governmental rule or regulation applicable to it or of any decree of any Governmental Authority having jurisdiction over it or (ii) breach, default (or an event which, with notice or lapse of time or both, would constitute such a default) or violation in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any agreement, indenture, lease or other instrument to which it is a party or by which it or any of its properties may be bound, which breach, default or violation would, if continued, have a La Grange Material Adverse Effect. No third party to any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which any of the La Grange Entities is a party or by which any of them is bound or to which any of their properties are subject, is in default under any such agreement, which breach, default or violation would, if continued, have a La Grange Material Adverse Effect.

4.32 AGREEMENTS OF LA GRANGE AND THE LA GRANGE ENTITIES. Each of the Partnership Agreements of La Grange and the La Grange Partnerships, and the limited liability company agreements of each other La Grange Entity that is a limited liability company have been duly authorized, executed and delivered and is, and will be, a valid and legally binding agreement of such entity, enforceable in accordance with its terms, provided, however, that the enforceability thereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or of law).

ARTICLE 5
AGREEMENTS

La Grange hereby covenants and agrees with each of the Heritage Parties to the effect set forth in Sections 5.1 to 5.3, 5.6 and 5.7. The Heritage Parties hereby covenant and agree with La Grange to the effect set forth in Sections 5.4, and 5.5, 5.6 and 5.7.

5.1 CONDUCT AND PRESERVATION OF THE BUSINESS OF THE LA GRANGE ENTITIES. Except as expressly provided in this Agreement and the Other Transaction Documents, or except as listed in Schedule 5.1, La Grange shall cause the La Grange Entities to (a) conduct the La Grange Business substantially as it is being conducted on the date hereof (provided that this clause (a) shall not be violated to the extent that the La Grange Entities take any action not otherwise prohibited by Section 5.2); (b) use its commercially reasonable best efforts to preserve, maintain and protect the La Grange Business consistent with available resources; and (c) use its commercially reasonable best efforts to preserve intact the business organization of the La Grange Entities and the La Grange Business, consistent with its available resources, to keep available the services of the La Grange Employees and to maintain existing relationships with suppliers, contractors, distributors, customers and others having business relationships with the La Grange Entities or the La Grange Business.

5.2 RESTRICTIONS ON CERTAIN ACTIONS OF THE LA GRANGE ENTITIES. Without limiting the generality of Section 5.2, except as listed in Schedule 5.2 and except as otherwise expressly contemplated by this Agreement and the Other Transaction Documents, from and after the date hereof and until the Closing Date, without the approval of Heritage MLP, none of the La Grange Entities, shall, with respect to the La Grange Entities, the La Grange Assets or the La Grange Business, or shall cause or permit any of the La Grange Entities to:

(a) make any expenditures outside the ordinary course of business consistent with past practice which, individually or in the aggregate, exceed $1,000,000 other than expenditures (i) made in connection with a La Grange Permitted Acquisition or (ii) with respect for which La Grange shall be reimbursed under Section 2.4.

(b) make any material change in the ongoing operations of the La Grange Business except to the extent resulting from any La Grange Permitted Acquisition;

(c) create, incur, guarantee or assume any indebtedness for borrowed money outside the ordinary course of business;

(d) mortgage or pledge any of the La Grange Assets or La Grange Interests or create or suffer to exist any Encumbrance thereupon, other than Permitted Encumbrances;

(e) sell, lease, transfer or otherwise dispose of, directly or indirectly, any of the La Grange Assets, except in the ordinary course of business consistent with past practice, or sell, lease, transfer, or otherwise dispose of any fixed assets, whether or not in the ordinary course of business, which have a value, individually, in excess of $100,000, or in the aggregate, in excess of $1,000,000;

(f) amend, modify or change any existing lease or Contract relating to the La Grange Assets, other than in the ordinary course of the business consistent with past practice;

(g) waive, release, grant or transfer any rights of value relating to the La Grange Assets, La Grange Interests or La Grange Business, other than in the ordinary course of the business consistent with past practice;

(h) except in the ordinary course of business, hire any new employees or recall any laid-off employees;

(i) delay payment of any account payable or other liability relating to the La Grange Business beyond the later of its due date or the date when such liability would have been paid in the ordinary course of business consistent with past practice, unless such delay is due to a good faith dispute as to liability or amount;

(j) permit any current insurance or reinsurance or continuation coverage to lapse if such policy insures risks, contingencies or liabilities (including product liability) related to the La Grange Business;

(k) except as set forth in this Section 5.2, take any action which would make any of the representations or warranties of La Grange untrue as of any time from the date of this Agreement to the date of the Closing, or would result in any of the conditions set forth in this Agreement not being satisfied;

(l) agree in writing or otherwise take, any of the actions described in this Section 5.2;

(m) merge into or with or consolidate with any other corporation or acquire all or substantially all of the business or assets of any corporation or other Person, other than with a La Grange Entity or in connection with any La Grange Permitted Acquisition;

(n) take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization, or other winding up of the Business;

(o) create any employee benefit plans (within the meaning of Section 3(3) of ERISA) or any other employee benefit plan or program not subject to ERISA, except as required by law;

(p) enter into or take any action in connection with hedges, trades or swaps of any commodity or financial instrument, except to the extent consistent with the provisions of the Energy Transfer Risk Management Policy;

(q) declare, set aside or pay any dividend or make any other distribution to their partners, owners or members whether or not upon or in respect of any La Grange Interest except as expressly authorized by this Agreement; or

(r) redeem or otherwise acquire any La Grange Interest or issue any La Grange Interest or any option, warrant or right relating thereto or any securities convertible into or exchangeable for any La Grange Interest, or otherwise authorize for issuance, issue, sell, deliver or agree or commit to issue, sell or deliver (whether through the issuance or granting of options, warrants, commitments, subscriptions, rights to purchase or otherwise) any La Grange Interest or any other securities or equity equivalents or amend any of the terms of any such securities or agreements.

5.3 SERVICES OF LA GRANGE EMPLOYEES. Between the date hereof and the Closing, La Grange shall use its commercially reasonable best efforts to keep available the services of the La Grange Employees, and shall not, except in accordance with past practice and existing business policy, terminate any such La Grange Employees.

5.4 CONDUCT AND PRESERVATION OF THE HERITAGE BUSINESS. Except as expressly provided in this Agreement and the Other Transaction Documents or except as listed in Schedule 5.4, the Heritage Parties shall cause the Heritage Entities to (a) conduct the Heritage Business substantially as it is being conducted on the date hereof (provided that this clause (a) shall not be violated to the extent that the Heritage Entities take any action not otherwise prohibited by Section 5.5); (b) use their commercially reasonable best efforts to preserve, maintain and protect the assets of the Heritage Entities and Heritage Business consistent with available resources; and (c) use their commercially reasonable best efforts to cause the Heritage Entities to preserve intact the business organization of the Heritage Entities and the Heritage Business, consistent with its available resources, to keep available the services of the Heritage Employees and to maintain existing relationships with suppliers, contractors, distributors, customers and others having business relationships with the Heritage Entities or the Heritage Business.

5.5 RESTRICTIONS ON CERTAIN ACTIONS OF THE HERITAGE PARTIES AND HERITAGE GP. Without limiting the generality of Section 5.4, except as listed in Schedule 5.5 and except as otherwise expressly contemplated by this Agreement and the Other Transaction Documents, from and after the date hereof and until the Closing Date, without the approval of La Grange:

(a) Except as set forth on Schedule 5.5, neither of the Heritage Parties nor Heritage GP shall agree to sell, transfer or otherwise dispose, or grant or agree to grant an option to purchase, sell, transfer, or otherwise dispose of any securities of any of the Heritage Entities other than in connection with (i) any Heritage Plan, (ii) any employee benefit plan or other employee arrangement adopted by any of the Heritage Entities prior to the date of this Agreement; (iii) any Heritage Permitted Acquisition, (iv) the issuance of Common Units as

contemplated by this Agreement; and (v) the issuance and/or sale of Common Units under an effective registration statement.

(b) Except as set forth on Schedule 5.5, neither the Heritage Parties nor Heritage GP shall, or shall cause or permit any of the Heritage Entities to:

(i) make any expenditures outside the ordinary course of business consistent with past practice which, individually or in the aggregate, exceed $1,000,000 other than (A) expenditures contemplated by the annual budget adopted by the Heritage Entities for the year ending August 31, 2002 or, if applicable, August 31, 2003, and (B) expenditures made in connection with any Heritage Permitted Acquisition;

(ii) make any material change in the ongoing operations of the Heritage Business except to the extent resulting from any Heritage Permitted Acquisition;

(iii) create, incur, guarantee or assume any indebtedness for borrowed money outside the ordinary course of business other than indebtedness permitted under credit facilities of the Heritage Entities and indebtedness incurred under any new credit facilities entered into by the Heritage Entities to finance the cash portion of the Purchase Price;

(iv) mortgage or pledge any of the securities or assets of any of the Heritage Entities or create or suffer to exist any Encumbrance thereupon, other than (A) Permitted Encumbrances, (B) Encumbrances created pursuant to loan documentation permitted under the existing credit facilities of the Heritage Entities and (C) Encumbrances created pursuant to loan documentation relating to any new credit facilities entered into by the Heritage Parties to finance the cash portion of the Purchase Price;

(v) sell, lease, transfer or otherwise dispose of, directly or indirectly, any assets, except in the ordinary course of business consistent with past practice, or sell, lease, transfer, or otherwise dispose of any fixed assets which have a value, individually, in excess of $50,000 or, in the aggregate, in excess of $1,000,000; provided however, that any of the Heritage Entities may sell excess real property listed on Heritage's surplus property list or real property that does not generate EBITDA;

(vi) amend, modify or change any existing lease or contract, other than in the ordinary course of the business consistent with past practice;

(vii) waive, release, grant or transfer any rights of value relating to the Heritage Assets or the Heritage Business, other than in the ordinary course of business consistent with past practice;

(viii) hire or promote from within any executive employees or, except in the ordinary course of business, hire any new employees or recall any laid off employees;

(ix) delay payment of any account payable or other liability relating to the Heritage Business beyond the later of its due date or the date when such liability would

have been paid in the ordinary course of business consistent with past practice, unless such delay is due to a good faith dispute as to liability or amount;

(x) permit any current insurance or reinsurance or continuation coverage to lapse if such policy insures risks, contingencies or liabilities (including product liability) related to the Heritage Business other than in connection with any advance renewal or replacement of an existing insurance policy;

(xi) except as set forth in this Section 5.5, take any action which would make any of the representations or warranties of any of the Heritage Parties untrue as of any time from the date of this Agreement to the date of the Closing, or would result in any of the conditions set forth in this Agreement not being satisfied;

(xii) agree in writing or otherwise take any of the actions described in this Section 5.5.

(xiii) merge into or with or consolidate with any other corporation or acquire all or substantially all of the business or assets of any corporation or other Person other than in connection with any Heritage Permitted Acquisition;

(xiv) purchase any securities of any corporation or other Person other than in connection with any Heritage Permitted Acquisition;

(xv) take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization, or other winding up of the Business;

(xvi) declare any distribution or dividend of cash, property or securities, other than (A) regular quarterly cash distributions by Heritage MLP of Available Cash at a rate that is not in excess of $0.65 per Common Unit (with a proportionate distribution to Heritage GP in respect of its general partner interests in Heritage MLP and Heritage OLP) and (B) distributions in respect of the Incentive Distribution Rights; or

(xvii) enter into or take any action in connection with hedges, trades or swaps of any commodity, except in accordance with the Heritage Hedging Policy.

5.6 CONSENT TO ELECTIONS. The Parties hereto agree and acknowledge that each of the La Grange Entities entitled to make an election under Section 754 of the Code shall make such election, and each Party shall take such steps as are necessary or required to make such election by each of the La Grange Entities. The Parties also agree that the Heritage MLP (and its subsidiary entities) will elect to use the remedial method under Treasury Reg. Section 1.704-3(d) with respect to all assets contributed to the Heritage MLP by La Grange, including any goodwill.

5.7 TAX REPORTING. The Parties hereto agree, to the extent allowable, to report the contribution to Heritage MLP by La Grange of the La Grange Interests as a non-taxable contribution under Section 721 of the Code.

ARTICLE 6
ADDITIONAL AGREEMENTS

The Parties hereby covenant and agree as follows:

6.1 ACCESS TO INFORMATION, CONFIDENTIALITY.

(a) Between the date hereof and the Closing, La Grange shall cause the La Grange Entities to (i) give each of the Heritage Parties and their respective authorized representatives reasonable access to all La Grange Employees and all facilities and all books and records relating to the La Grange Entities, (ii) permit each of the Heritage Parties and their respective authorized representatives to make such inspections of the La Grange Assets as they may reasonably require to verify the accuracy of any representation or warranty contained in Article 4 and (iii) shall furnish each of the Heritage Parties and their respective authorized representatives with such financial and operating data and other information with respect to the La Grange Entities as any such Party may from time to time reasonably request; provided, however, that La Grange shall have the right to have a representative present at all times of any such inspections or examinations conducted at the offices or other facilities of the La Grange Entities.

(b) Between the date hereof and the Closing, the Heritage Parties shall (i) give La Grange and its respective authorized representatives reasonable access to all Heritage Employees and all facilities and all books and records relating to the Heritage Entities, (ii) permit La Grange and its respective authorized representatives to make such inspections of the Heritage Assets as they may reasonably require to verify the accuracy of any representation or warranty contained in Article 3 and (iii) shall furnish La Grange and its respective authorized representatives with such financial and operating data and other information with respect to the Heritage Entities as La Grange may from time to time reasonably request; provided, however, that the Heritage Parties shall have the right to have a representative present at all times of any such inspections or examinations conducted at the offices or other facilities of the Heritage Entities.

6.2 AUTHORIZATIONS AND CONSENTS.

(a) Each Party hereto shall take all commercially reasonable steps necessary or desirable, and proceed diligently and in good faith and shall use all commercially reasonable best efforts to obtain, as promptly as practicable, (i) all authorizations, consents, orders and approvals of all Governmental Authorities that may be or become necessary for such party's execution and delivery of, and the performance of its obligations pursuant to, this Agreement and the Other Transaction Documents, and (ii) all approvals and consents (including those approvals, consents and authorizations specified in Schedule 3.25 (with respect to the Heritage Parties) and Schedule 4.25) (with respect to La Grange) required under all Contracts to which the La Grange Entities or the Heritage Entities is a party to consummate the transactions contemplated hereby. Each Party will cooperate fully (including by providing all information the other Party reasonably requests) with the other Parties in promptly seeking to obtain all such authorizations, consents, orders and approvals. Each Party hereto agrees to make an appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated hereby as soon as reasonably practicable after the date hereof, but in no event later than five (5) business days following the execution of this Agreement, use their commercially reasonable efforts to cause the

waiting period under the HSR Act to expire as quickly as possible and to supply promptly any additional information and documentary material that may be requested pursuant to the HSR Act. Notwithstanding the foregoing, no Party shall have any obligation to dispose of, hold separate or otherwise restrict its enjoyment of any of their assets or properties.

(b) Each Party hereto shall promptly inform the other Parties of any communication from any Governmental Authority regarding any of the transactions contemplated by this Agreement. If any Party or Affiliate thereof receives a request for additional information or documentary material from any such Governmental Authority with respect to the transactions contemplated hereby, then such Party will endeavor in good faith to make, or cause to be made, as soon as reasonably practicable and after consultation with the other party, an appropriate response in compliance with such request.

6.3 PUBLIC ANNOUNCEMENTS. The Heritage Parties and La Grange will consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other public statement with respect to the transactions contemplated by this Agreement and the Other Transaction Documents, and none of the Parties to this Agreement shall, and La Grange shall cause the La Grange Entities not to, issue any such press release or make any such public statement, in the case of any press release or public statement by any of the Heritage Parties, without the advance approval of La Grange following such consultation (such approval not to be unreasonably withheld or delayed) and, in the case of La Grange or the La Grange Entities, without the advance approval of Heritage MLP following such consultation (such approval not to be unreasonably withheld or delayed), except as may be required by Applicable Law, court process or by the requirements of any securities exchange.

6.4 ACCESS TO RECORDS AFTER CLOSING. For a period of six years from and after the Closing Date, La Grange and its Affiliates and representatives shall have reasonable access to inspect and copy all books and records relating to the La Grange Entities to the extent that such access may reasonably be required in connection with matters relating to or affected by the operation of the La Grange Business prior to the Closing Date. The Heritage Parties shall afford such access upon receipt of reasonable advance notice and during normal business hours. If the Heritage Parties desire to dispose of any of such books and records prior to the expiration of such period, the Heritage Parties shall, prior to such disposition, give La Grange and its representatives a reasonable opportunity, at their expense, to segregate and remove such books and records as they may select. La Grange shall be solely responsible for any costs or expenses incurred by it pursuant to this Section 6.4.

6.5 FEES AND EXPENSES. Except as otherwise expressly provided in this Agreement, La Grange shall pay the fees and expenses of La Grange and the La Grange Entities, and the Heritage Parties shall pay the fees and expenses of the Heritage Entities, incurred in connection with the negotiation, execution and delivery of this Agreement and the transactions contemplated hereby, whether or not the Closing shall have occurred.

6.6 TAXES; OTHER CHARGES. All sales, use, registration, stamp, property transfer, transfer and similar Taxes incurred in connection with the consummation of the transactions contemplated by this Agreement shall be borne by the person upon whom such Tax is imposed

by Applicable Law. Each Party agrees to cooperate in the filing of all necessary documentation and returns with respect to all such Taxes.

6.7 EMPLOYMENT MATTERS.

(a) Heritage Plans. The Heritage Parties shall include the La Grange Entities as "participating Employers" in the Heritage Plans described in Schedule 3.28(a)(i), and all La Grange Employees shall be eligible to participate in the Heritage Plans or similar plans as of the Closing Date, pursuant to the terms of those plans, and (i) with respect to each "welfare plan," as defined in Section 3(1) of ERISA, any waiting period for eligibility shall be waived for each La Grange Employee provided such La Grange Employee was covered under a similar La Grange Plan on the Closing Date; and (ii) with respect to each "pension plan," as defined in Section 3(2)(A) of ERISA, and to the extent allowed by law, La Grange Employees shall receive credit for prior service with the La Grange Entities for purposes of eligibility and vesting, and the plan shall accept eligible rollover distributions and loans pursuant to the terms of the plan from any La Grange "pension plan."

(b) La Grange Plans. All La Grange Plans described in Schedule 4.28(a)(i) shall be terminated preceding the Closing Date, and (i) with respect to each "group health care plan," which must comply with Section 4980B of the code and Sections 601 through 608 of ERISA, the Heritage Plans, as applicable, shall make COBRA continuation coverage available to qualified beneficiaries whose qualifying event occurred before the Closing Date; and (ii) with respect to each "employee pension benefit plan," all contributions (including the La Grange Entities' contributions and Employee salary redirection contributions) shall have been paid or accrued for any period ending on or before the Closing Date, resolutions shall have been adopted before the Closing Date, terminating each "employee pension benefit plan" with a termination date which precedes the Closing Date, all La Grange Employees shall have been 100% vested, and the distribution process, with regard to such La Grange Employees, shall begin pursuant to the terms of such plan.

(c) Other Employment Matters. Except for accrued vacation time, no other La Grange Employee-related liability or La Grange Plan liability, including, without limitation, any liability under COBRA (except as set forth in subsection (b) above), ERISA, or the Code is being assumed by the Heritage Parties.

6.8 AMENDMENT OF SCHEDULES. The Heritage Parties and La Grange will, promptly upon becoming aware of any fact, matter, circumstance or event, which fact, matter, circumstance or event arose either (i) on or prior to the date hereof (a "Pre-Signing Event") or (ii) after the date hereof but prior to the Closing (a "Post-Signing Event"), in any case, requiring supplementation or amendment of the schedules provided by the Heritage Parties or La Grange attached hereto, supplement or amend such schedules to this Agreement to reflect any fact, matter, circumstance or event, which, if existing, occurring or known on the date of this Agreement, would have been required to be set forth or described in such schedules which were or have been rendered inaccurate thereby. All supplements and amendments to the schedules provided by Heritage Parties or La Grange are provided for the information of the Parties only and no such supplement or amendment to the schedules shall (i) amend or supplement the representations and warranties (and corresponding schedules) made as of the date hereof or (ii)

have any effect for the purpose of determining (A) satisfaction of the conditions set forth in Article 6.8 hereof or (B) compliance by the Heritage Parties and La Grange with their respective covenants and agreements set forth herein.

6.9 ACTIONS BY PARTIES. Each Party agrees to use commercially reasonable best efforts to satisfy the conditions to Closing set forth in Article 7 and to use its commercially reasonable best efforts to refrain from taking any action within its control that would cause a breach of a representation, warranty, covenant or agreement set forth in this Agreement.

6.10 VOTE OF COMMON UNITS. Heritage GP shall use Commercially Reasonable Best Efforts to cause its officers and directors to vote all of their respective Common Units at each meeting or other vote of holders of the Common Units of Heritage MLP, with respect thereto, for approval of the conversion of the Class D Units.

6.11 LISTING. Heritage MLP shall use Commercially Reasonable Best Efforts to list the Common Units to be issued to La Grange pursuant to this Agreement on the New York Stock Exchange, prior to the Closing Date, subject to official notice of issuance.

6.12 FINANCIAL STATEMENTS. La Grange will provide to Heritage MLP an unaudited balance sheet dated as of September 30, 2003 of ETC OLP and its subsidiaries within five days of the receipt of such unaudited balance sheet and no later than the Closing. La Grange shall provide such other audited and unaudited financial statements as may be required to be filed by Heritage MLP in accordance with the Exchange Act and the Securities Act, and at such times as may be required by Heritage MLP in order to make timely filings in compliance thereunder.

6.13 ADDITIONAL COOPERATION. The Parties agree to cooperate and assist in the filing of proxy solicitation materials relating to matters contemplated hereby requiring a vote of the holders of the outstanding Common Units of Heritage MLP.

6.14 CONFIDENTIALITY AND TAX SHELTER REGULATIONS. Except as reasonably necessary to comply with applicable securities laws and notwithstanding anything in this Agreement to the contrary (including the confidentiality provisions set forth in Section 6.1) or in any other agreement to which a Party hereto is bound, the Parties hereto (and each employee, representative, or other agent of any of the Parties) are expressly authorized to disclose to any and all persons, without limitation of any kind, the U.S. federal income "tax treatment" and "tax structure" (as those terms are defined in Treas. Reg. Sections 1.6011-4(c)(8) and (9), respectively) of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to such parties relating to such "tax treatment" and "tax structure" of the transactions contemplated by this Agreement. For these purposes, "tax structure" is limited to facts relevant to the U.S. federal income tax treatment of the transaction described herein.

6.15 PERMITTED ACTIONS. Notwithstanding the provisions of Section 5.5 above, the Heritage Parties and the Heritage GP (but only with respect to the Heritage Parties) shall be entitled to take any action otherwise prohibited by Section 5.5 in response to any third party inquiry, contact or proposal received by them if (a) the Special Committee shall have determined, in its good faith judgment, that any such otherwise prohibited action may lead to the

negotiation and consummation of a sale or other transaction involving the assets, business or securities of the Heritage Parties or any other transaction similar to the transactions contemplated by this Agreement (collectively, a "Possible Alternative") that in the opinion of the Special Committee may be more beneficial than the transactions contemplated by this Agreement, taken as a whole, to the holders of the Common Units (a "Superior Transaction") and (b) the Special Committee shall have determined, after consultation with and based on the advice of its legal counsel, that the failure to take such action would be inconsistent with the Heritage GP's Board of Directors' fiduciary duties to holders of the Common Units under applicable law; provided, that none of the Heritage GP (but only with respect to the Heritage Parties) or the Heritage Parties may execute a binding agreement to effect a Superior Transaction unless this Agreement has first been terminated as provided in Section 8.1. The Heritage GP (but only with respect to the Heritage Parties) and the Heritage Parties agree that each of them will notify La Grange immediately if any inquiry, contact or proposal is received by, any such information is requested from, or any such discussions or negotiations are sought to be initiated or continued with, any of their representatives, and thereafter shall keep La Grange informed, on a current basis, on the status of any such inquiry, contact or proposal and the status of any such negotiations or discussions.

ARTICLE 7
CONDITIONS TO OBLIGATIONS OF THE PARTIES

7.1 CONDITIONS TO CLOSING OF LA GRANGE.

The obligations of La Grange to consummate the transactions contemplated by this Agreement at the Closing shall be subject to the fulfillment by each of the Heritage Parties on or prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties True. All the representations and warranties of the Heritage Parties contained in this Agreement, and in any agreement, instrument or document delivered by any of the Heritage Parties pursuant to this Agreement on or prior to the Closing Date shall be true and correct, individually and in the aggregate, in all material respects (other than any representation or warranty that is qualified by materiality or a Heritage Material Adverse Effect, which shall be true and correct in all respects) as of the date of this Agreement and as of the Closing Date.

(b) Covenants and Agreements Performed. Each of the Heritage Parties shall have performed and complied with, in all material respects, all covenants and agreements required by this Agreement to be performed or complied with by it, including, but not limited to, the consummation of the transactions required to be completed pursuant to Section 2.2.

(c) Certificates. La Grange shall have received a certificate from each of the Heritage Parties, in substantially the form set forth in Exhibit 7.1(c), dated the Closing Date, representing and certifying that the conditions set forth in Sections 7.1(a) and 7.1(b) have been fulfilled and a certificate as to the incumbency of the officers executing this Agreement on behalf of the Heritage Parties.

(d) Legal Proceedings. No preliminary or permanent injunction or other order, decree or ruling issued by a Governmental Authority, and no statute, rule, regulation or executive order promulgated or enacted by a Governmental Authority, shall be in effect that restrains, enjoins, prohibits or otherwise makes illegal the consummation of the transactions contemplated hereby. No Proceeding before a Governmental Authority shall be pending (A) seeking to restrain or prohibit the consummation of the transactions contemplated hereby or (B) that could reasonably be expected, if adversely determined, to impose any material limitation on the ability of La Grange to convey the La Grange Assets or to receive full payment therefore.

(e) Consents. All Consents set forth on Schedule 7.1(e) shall have been obtained or made and shall be in full force and effect as to the Heritage Parties at the time of the Closing, and with respect to any such Consent related to any amendment of any credit agreement or similar document, such Consent shall have been given (and any such amendment shall have been made) on terms that are reasonably acceptable to La Grange, which acceptance shall not be unreasonably withheld, conditioned or delayed.

(f) No Heritage Material Adverse Effect. Since the date of this Agreement, there shall not have been any event or condition having a Heritage Material Adverse Effect.

(g) Deliveries. The Heritage Parties shall have delivered the Equity Consideration and shall have delivered to an account designated by La Grange the Cash Consideration and the Capital Expenditures Payment.

(h) Acquisition Agreement; HHI Purchase Agreement. The Acquisition Agreement and the HHI Purchase Agreement shall have been executed and delivered by the parties thereto and all conditions to closing therein (other than the closing of the transactions pursuant to this Agreement) shall have been satisfied or waived.

(i) HSR Waiting Period. If applicable, the waiting period under the HSR Act applicable to the consummation of the transactions contemplated hereby shall have expired or been terminated without any adverse condition attached thereto.

(j) Amendment to Heritage MLP Partnership Agreement. Amendment No. 5 to the MLP Partnership Agreement and Amendment No. 3 to the OLP Partnership Agreement shall have been duly executed and adopted and shall be in full force and effect.

(k) Listing. The Common Units issuable to La Grange pursuant to this Agreement shall have been approved for listing on the New York Stock Exchange subject to official notice of issuance.

(l) Legal Opinion. La Grange shall have received the written opinion from Doerner, Saunders, Daniel & Anderson, L.L.P. in a reasonable and customary form to be agreed to by the Parties.

(m) Equity Financing. Heritage MLP shall have completed, or shall complete contemporaneously with the Closing, a public offering of Common Units with minimum net proceeds to Heritage MLP of $250 million, on terms and conditions mutually agreeable to Heritage MLP and La Grange (the "Equity Financing").

(n) Debt Financing. Heritage MLP shall have completed, or shall complete contemporaneously with the Closing, a public debt offering or private debt placement with minimum net proceeds to Heritage OLP of $300 million, on terms and conditions mutually agreeable to the Heritage Parties and La Grange (the "Debt Financing").

(o) Waiver of Prepayment Premiums. The Heritage Parties shall have obtained waivers or amendments under their existing debt facilities which would serve to avoid the triggering of any debt prepayment premiums for which the Heritage Parties may be obligated to pay as a result of the transactions contemplated by this Agreement or the Acquisition Agreement, on terms and conditions mutually agreeable to the Heritage Parties and La Grange (the "Prepayment Waivers").

7.2 CONDITIONS TO CLOSING OF THE HERITAGE PARTIES.

The obligations of each of the Heritage Parties to consummate the transactions contemplated by this Agreement at the Closing shall be subject to the fulfillment by La Grange on or prior to the Closing Date of each of the following conditions:

(a) Representations and Warranties True. All the representations and warranties of La Grange contained in this Agreement, and in any agreement, instrument or document delivered by La Grange pursuant to this Agreement on or prior to the Closing Date shall be true and correct, individually and in the aggregate, in all material respects (other than any representation or warranty that is qualified by materiality or a La Grange Material Adverse Effect, which shall be true and correct in all respects) as of the date of this Agreement and as of the Closing Date.

(b) Covenants and Agreements Performed. La Grange shall have performed and complied with, in all material respects, all covenants and agreements required by this Agreement to be performed or complied with by them, including, but not limited to, the consummation of the transactions required to be completed pursuant to Section 2.2(b). In addition, La Grange shall have performed and complied with all the covenants set forth in Sections 6.12 and 6.13.

(c) Certificates. The Heritage Parties shall have received a certificate from La Grange, in substantially the form set forth in Exhibit 7.2(c), executed by La Grange, dated the Closing Date, representing and certifying that the conditions set forth in Sections 7.2(a) and 7.2(b) have been fulfilled and a certificate as to the incumbency of any officer executing this Agreement on behalf of La Grange.

(d) Legal Proceedings. No preliminary or permanent injunction or other order, decree or ruling issued by a Governmental Authority, and no statute, rule, regulation or executive order promulgated or enacted by a Governmental Authority, shall be in effect (i) that restrains, enjoins, prohibits or otherwise makes illegal the consummation of the transactions contemplated hereby or (ii) that would impose any material limitation on the ability of Heritage MLP effectively to exercise full rights of ownership of the La Grange Interests and La Grange Assets to be acquired by Heritage MLP under this Agreement. No Proceeding before a Governmental Authority shall be pending (A) seeking to restrain or prohibit the consummation of the transactions contemplated hereby or (B) that could reasonably be expected, if adversely

determined, to impose any material limitation on the ability of Heritage MLP effectively to exercise full rights of ownership of the La Grange Interests and La Grange Assets to be acquired by Heritage MLP under this Agreement.

(e) Consents. All Consents set forth on Schedule 7.2(e) shall have been obtained or made and shall be in full force and effect as to La Grange or the La Grange Entities at the time of the Closing.

(f) No La Grange Material Adverse Effect. Since the date of this Agreement, there shall not have been any event or condition having a La Grange Material Adverse Effect.

(g) Deliveries. La Grange shall have delivered the certificates representing all of the outstanding La Grange Shares, duly endorsed in blank or accompanied by transfer powers[, or if any of such La Grange Interests are uncertificated, such other assigment and conveyance documents as are reasonably acceptable to the Parties].

(h) Acquisition Agreement; HHI Purchase Agreement. The Acquisition Agreement and the HHI Purchase Agreement shall have been executed and delivered by the parties thereto and all conditions to closing therein (other than the closing of the transactions pursuant to this Agreement) shall have been satisfied or waived.

(i) HSR Waiting Period. If applicable, the waiting period under the HSR Act applicable to the consummation of the transactions contemplated hereby shall have expired or been terminated without any adverse condition attached thereto.

(j) Application for Issuance - Common Units. At the Closing, La Grange will deliver the Application for Issuance of Common Units, substantially in the form attached as Exhibit 7.2(j).

(k) Legal Opinion. The Heritage Entities shall have received the written opinion from Thompson & Knight, L.L.P. and such other written opinions of counsel as may be required, each such opinion to be in a reasonable and customary form to be agreed to by the Parties.

(l) Administrative Management Contract. The General and Administrative Services, Reimbursement and Indemnification Agreement among La Grange and ET GP, LLC shall have been terminated or amended to provide that any fees payable under said agreement are not payable or reimbursable by Heritage MLP.

(m) Voting and Transfer Rights Agreement. The Voting and Transfer Rights Agreement dated as of October 1, 2002, among La Grange and the Co-Investors named therein shall have been terminated or amended to provide that Section 7 thereof shall not be applicable to the subsidiaries of La Grange that become subsidiaries of Heritage MLP in connection with the transactions contemplated by this Agreement.

(n) Non-Compete Agreement. The Non-Compete Agreement, in substantially the form attached as Exhibit 1.1, shall have been executed by the Restricted Parties, as defined therein.

ARTICLE 8
TERMINATION, AMENDMENT AND WAIVER

8.1 TERMINATION.

This Agreement may be terminated and the transactions contemplated hereby abandoned by written notice at any time prior to the Closing in any of the following manners:

(a) by any Party concurrently with any permitted termination of the Acquisition Agreement;

(b) by written consent of each of the Parties;

(c) by any Party if the Closing has not occurred on or before February 15, 2004, unless such failure to close resulted from a breach of this Agreement by the Party or its Affiliate seeking to terminate this Agreement pursuant to this Section 8.1(c);

(d) by any Party if (i) there is any statute, rule or regulation that makes consummation of the transactions contemplated hereby or the operation of the La Grange Business or Heritage Business illegal or otherwise prohibited or (ii) a Governmental Authority (A) has issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby, and such order, decree, ruling or other action shall have become final and nonappealable or (B) has made any order, decree, ruling or other action consenting to or approving consummation of the transactions contemplated hereby contingent or conditional in any manner that has a Heritage Material Adverse Effect or a La Grange Material Adverse Effect;

(e) by any Party, if there has been any violation or breach by any other Party (other than an Affiliate or related party of the first party) of any representation, warranty, covenant or agreement contained in this Agreement that has rendered impossible the satisfaction of any condition to the obligations of such other Party set forth in Section 7.1 or Section 7.2 and such violation or breach has neither been cured within 30 days after notice by such first Party to the other Party nor waived by the first Party;

(f) by any Party, if any other event shall occur that shall render the satisfaction of any such condition to the obligations of any other Party (other than an Affiliate or related party of the first party) impossible and such condition has not been waived by the other Parties;

(g) by La Grange, if any material amendment is made by the Heritage Parties in accordance with Section 6.8;

(h) by the Heritage Parties, if any material amendment is made by La Grange in accordance with Section 6.8;

(i) by La Grange, if the Average Market Value is less than $29.50, or by Heritage MLP, if the Average Market Value is greater than $38.50;

(j) by La Grange, if the general partner of La Grange reasonably determines at any time after January 10, 2004 that it is not possible for the Heritage Parties to fulfill any of the conditions described in Sections 7.1(m), 7.1(n) or 7.1(o) on or before the Closing Date on terms and conditions reasonably acceptable to La Grange; and

(k) by the Heritage Parties acting through the Special Committee, if the Special Committee determines that a possible alternative would constitute a Superior Transaction.

8.2 EFFECT OF TERMINATION. In the event of the termination of this Agreement pursuant to Section 8.1 by any Party, written notice thereof shall forthwith be given to the other Parties specifying the provision hereof pursuant to which such termination is made. Except as provided in Section 8.5 of this Agreement, in the event of termination of this Agreement for any reason, this Agreement and the Acquisition Agreement shall become void and have no effect, except that the agreements contained in this Section 8.2 and Section 8.5 and in Section 6.5 and Article 10 shall survive the termination hereof. Nothing contained in this Section 8.2 shall relieve any Party from liability for any willful breach of this Agreement. In the event of termination, each of the Parties shall be responsible for its own expenses and costs.

8.3 AMENDMENT. This Agreement may not be amended except by an instrument in writing signed by each of the Parties.

8.4 WAIVER. Any Party may, on behalf of itself only and not on behalf of any other Party, (a) waive any inaccuracies in the representations and warranties of any other Party (other than an Affiliate or related party of the first party) contained herein or in any document, certificate or writing delivered pursuant hereto, (b) waive compliance by any other Party (other than an Affiliate or related party of the first party) with any of its agreements contained herein and (c) waive fulfillment of any conditions to its obligations contained herein. Any agreement on the part of a Party to any such waiver shall be valid only if set forth in an instrument in writing signed by or on behalf of such Party. No failure or delay by a Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

8.5 PAYMENT UPON CERTAIN TERMINATION. If this Agreement is terminated by the Heritage Parties pursuant to Section 8.1(k), Heritage MLP shall pay to La Grange a termination fee of $30 million in cash (the "Termination Fee"), within one (1) business day after such termination. If Heritage MLP fails to promptly pay to La Grange the Termination Fee, Heritage MLP shall pay the costs and expenses (including reasonably documented legal fees and expenses) in connection with any action, including the filing of any lawsuit or other legal action, taken to collect payment, together with interest on the amount of any unpaid fee at the publicly announced prime rate of Bank of Oklahoma, National Association from the date such fee was required to be paid. Any payment required to be made pursuant to this Section 8.5 shall be made by wire transfer of immediately available funds to an account designated by La Grange in writing to Heritage MLP.

ARTICLE 9
SURVIVAL OF REPRESENTATIONS

9.1 INDEMNIFICATION OBLIGATIONS OF LA GRANGE.

(a) La Grange shall indemnify each of the Heritage Parties and any of their owners, partners, officers, agents and their respective Affiliates and controlling Persons (the "Heritage Indemnified Parties"), as the case may be, and hold such Persons harmless against and in respect of, any and all Losses arising out of, based upon or resulting from:

(i) the breach of any representation or warranty of La Grange contained in or made pursuant to this Agreement (other than breaches and warranties set forth in Section 4.2, Section 4.3, Section 4.7, Section 4.19, and Section 4.23);

(ii) the breach of any representation or warranty of La Grange contained in or made pursuant to Section 4.19 [Environmental Matters], and Section 4.23 [Investment Intent];

(iii) the breach of any representation or warranty of La Grange contained in or made pursuant to Section 4.2 [Capitalization of the La Grange Entities], Section 4.3 [Authority and Binding Agreement], and Section 4.7 [Title to La Grange Assets],; and

(iv) the breach by La Grange or the failure by La Grange to observe or perform in any material respect, any of their covenants or agreements contained in Section 5.6, Section 5.7, Section 6.4, Section 6.5, Section 6.6, Section 6,10, Section 6.12, Section 6.13, Section 6.14 or Article 10 of this Agreement.

(b) Notwithstanding the foregoing, La Grange will not have any obligation to indemnify any of the Heritage Parties or their Affiliates for Losses under Section 9.1(a)(i) or Section 9.1(a)(ii) unless and until the aggregate amount of all such Losses under Section 9.1(a)(i) or Section 9.1(a)(ii) exceeds $500,000 (regardless of whether, in the case of third party actions, suits or proceedings with respect to any of the foregoing, La Grange may have a meritorious defense), at and after which time La Grange shall be liable for all Losses in excess of $500,000 and which do not in the aggregate exceed $10,000,000; provided however, that any liabilities for which accruals have been made by La Grange on the La Grange Financial Statement shall be excluded in determining whether losses exceed $500,000. The rights and remedies of the Heritage Parties based upon, arising out of or otherwise in respect of any clause of this Section 9.1 or any representation, warranty or covenant in this Agreement shall in no way be limited by the fact that the act, omission, occurrence or other state of facts upon which any such claim is based may also be the subject matter of any representation, warranty or covenant in this Agreement that would not give rise to any rights or remedies of the Heritage Parties.

9.2 INDEMNIFICATION OBLIGATIONS OF THE HERITAGE PARTIES.

(a) The Heritage Parties shall, jointly and severally, indemnify La Grange and any of its owners, partners, officers, agents and their respective Affiliates and controlling Persons (the "La Grange Indemnified Parties"), as the case may be, and hold such Persons harmless against and in respect of any and all Losses arising out of, based upon or resulting from:

(i) the breach of any representation or warranty of the Heritage Parties contained in or made pursuant to this Agreement (other than breaches and warranties set forth in Section 3.2, Section 3.3, Section 3.7, and Section 3.19);

(ii) the breach of any representation or warranty of the Heritage Parties contained in or made pursuant to Section 3.19 [Environmental Matters];

(iii) the breach of any representations or warranty of the Heritage Parties contained in or made pursuant to Section 3.2 [Capitalization of the Heritage Entities], Section 3.3 [Authority and Binding Agreement], Section 3.7 [Title to Heritage Assets], and

(iv) the breach by the Heritage Parties or the failure by the Heritage Parties to observe or perform in any material respect, any of its covenants or agreements contained in Section 5.6, Section 5.7, Section 6.4, Section 6.5, Section 6.6, Section 6,10, Section 6.12, Section 6.13, Section 6.14 or Article 10 of this Agreement.

(b) Notwithstanding the foregoing, the Heritage Parties will not have any obligation to indemnify La Grange or its Affiliates for Losses under Section 9.2(a)(i) or Section 9.2(a)(ii) unless and until the aggregate amount of all such Losses under Section 9.2(a)(i) or Section 9.2(a)(ii) exceeds $500,000 (regardless of whether, in the case of third party actions, suits or proceedings with respect to any of the foregoing, the Heritage Parties may have a meritorious defense), at and after which time the Heritage Parties shall be liable for all Losses in excess of $500,000 and which do not in the aggregate exceed $10,000,000; provided however, that any liabilities for which accruals have been made by the Heritage Parties on the Heritage Financial Statements shall be excluded in determining whether losses exceed $500,000. The rights and remedies of La Grange based upon, arising out of or otherwise in respect of any clause of this Section 9.2 or any representation, warranty or covenant in this Agreement shall in no way be limited by the fact that the act, omission, occurrence or other state of facts upon which any such claim is based may also be the subject matter of any representation, warranty or covenant in this Agreement that would not give rise to any rights or remedies of La Grange.

9.3 INDEMNIFICATION PROCEDURES.

(a) Promptly upon receipt by a Party indemnified under this Article 9 (an "Indemnified Party") of notice of the commencement of any action against such Indemnified Party (a "Third Party Action") in respect of which indemnity or reimbursement may be sought against a party required to make indemnification hereunder (an "Indemnifying Party"), such Indemnified Party shall notify the Indemnifying Party in writing of the commencement of such Third Party Action, but the failure so to notify the Indemnifying Party shall not relieve it of any liability which it may have to any Heritage Indemnified Party under Section 9.1 or any La Grange Indemnified Party under Section 9.2, as applicable, unless such failure actually and materially adversely affects the defense of such Third Party Action. In case notice of commencement of any such Third Party Action shall be given to the Indemnifying Party as above provided, the Indemnifying Party shall be entitled to participate in and to assume the defense of such action at its own expense, with counsel chosen by it that is reasonably satisfactory to the Indemnified Party; provided, however, that:

(i) the Indemnified Party shall be entitled to participate in the defense of such Third Party Action and to employ counsel at its own expense to assist in the handling of such Third Party Action (provided that the Indemnified Party shall be entitled to reimbursement for such expenses in accordance with subclauses (A) and (B) below in Section 9.3(b));

(ii) the Indemnifying Party shall obtain the prior written approval of the Indemnified Party, which approval shall not be unreasonably withheld or delayed, before entering into any settlement of such Third Party Action or ceasing to defend against such Third Party Action, if pursuant to or as a result of such settlement or cessation, injunctive or other equitable relief would be imposed against the Indemnified Party or the Indemnified Party would be adversely affected thereby;

(iii) no Indemnifying Party shall consent to the entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by each claimant or plaintiff to each Indemnified Party of a release from all liability in respect of such Third Party Action; and

(iv) the Indemnifying Party shall not be entitled to control the defense of any Third Party Action unless within 15 days after receipt of such written notice from the Indemnified Party, the Indemnifying Party confirms in writing its responsibility to indemnify the Indemnified Party with respect to such Third Party Action and reasonably demonstrates that it will be able to pay the full amount of the reasonably expected Losses in connection with any such Third Party Action.

(b) Except as set forth in the following sentence, after written notice by the Indemnifying Party to the Indemnified Party of its election to assume control of the defense of any such Third Party Action in accordance with the foregoing and compliance by the Indemnifying Party with Section 9.3(d), (i) the Indemnifying Party shall not be liable to the Indemnified Party hereunder for any fees and expenses of counsel subsequently incurred by the Indemnified Party attributable to defending against such Third Party Action, and (ii) as long as the Indemnifying Party is reasonably contesting such Third Party Action in good faith, the Indemnified Party shall not admit any liability with respect to, or settle, compromise or discharge the claim underlying, such Third Party Action without the prior written consent of the Indemnifying Party (which consent shall not be unreasonably withheld or delayed). If (A) the Indemnifying Party does not assume control of the defense of such Third Party Action in accordance with this Section 9.3, or (B) the Indemnified Party has been advised in writing by counsel that representation of such Indemnified Party and the Indemnifying Party by the same counsel would be inappropriate under applicable standards of professional conduct (in which case the Indemnifying Party shall not have the right to assume the defense of such Third Party Action on behalf of the Indemnified Party), in each case the Indemnified Party shall have the right to defend and/or settle such Third Party Action in such manner as it may deem appropriate at the cost and expense of the Indemnifying Party, and the Indemnifying Party shall promptly reimburse the Indemnified Party therefore in accordance with this Article 9. The reimbursement of fees and expenses of counsel required by this Article 9 shall be made by periodic payments during the course of the investigation or defense, as and when bills are received or expenses incurred.

(c) If the Indemnifying Party shall be obligated to indemnify the Indemnified Party pursuant to this Article 9, the Indemnifying Party shall be subrogated to all rights of the Indemnified Party with respect to the claims to which such indemnification relates. If an Indemnified Party becomes entitled to any indemnification from an Indemnifying Party, such indemnification shall be made in cash upon demand.

(d) The right of indemnification pursuant to this Article 9 shall constitute the sole and exclusive remedy of each of the Parties to this Agreement and their respective Affiliates, managers, directors, officers, members, employees and other agents and representatives, other than with respect to fraud or willful breach by a Party. So long as a claim for indemnification pursuant to this Article 9 is being contested in good faith by the Indemnifying Party or such claim shall otherwise remain unliquidated, such claim shall not affect any of the rights of the Indemnifying Party under this Agreement.

9.4 SURVIVAL.

(a) All representations, warranties, covenants and agreements contained in this Agreement other than those set forth in Article 9 hereof, shall expire with and be terminated and extinguished by the Closing, and thereafter no Party nor any of such Party's owners, partners, officers, agents, and Affiliates shall have any liability with respect to such representations, warranties, covenants and agreements conducted by any Party and any information which any Party may receive (other than information identified in the Schedules to this Agreement).

(b) The right to indemnification:

(i) with respect to any breach or violation of any of the representations and warranties contained in Section 3.19 [Environmental Matters] and Section 4.19 [Environmental Matters] shall survive for two years following the Closing;

(ii) with respect to any breach or violation of any of the representations and warranties contained in Section 3.7 [Title to Heritage Assets] and Section 4.7 [Title to La Grange Assets] shall survive for one year following the Closing;

(iii) with respect to any breach or violation of any of the representations and warranties contained in Section 3.2, [Capitalization of the Heritage Entities], Section 3.3, [Authority and Binding Agreement], Section 4.2 [Capitalization of the La Grange Entities], Section 4.3 [Authority and Binding Agreement], and Section 4.23 [Investment Intent], shall survive indefinitely; and

(iv) and with respect to any of the covenants and agreements contained in Section 5.6, Section 5.7, Section 6.4, Section 6.5, Section 6.6, Section 6.10, Section 6.12, Section 6.13, Section 6.14 or Article 10 of this Agreement, shall survive for the applicable statute of limitations.

(c) The expiration of any survival period under this Agreement will not affect the liability of any Party under this Article 9 for any Loss as to which a bona fide claim has been asserted prior to the termination of such survival period.

9.5 NO SPECIAL OR CONSEQUENTIAL DAMAGES. No Party shall be entitled to recover special, consequential, exemplary or punitive damages from the other Parties, and each Party hereby waives any claim or right to special, consequential, exemplary or punitive damages hereunder, even if caused by the active, passive, sole, joint, concurrent or comparative negligence, strict liability, or other fault of any Party, other than fraud or intentional misconduct.

ARTICLE 10
MISCELLANEOUS

10.1 NOTICES. All notices, requests, demands and other communications required or permitted to be given or made hereunder by any Party shall be in writing, and shall be delivered either personally, or by registered or certified mail (postage prepaid and return receipt requested) or by express courier or delivery service, or by telegram, telefax, telex or similar facsimile means, to the Parties, at the addresses (or at such other addresses as shall be specified by the Parties by like notice) set forth below:

(a) If to La Grange:

c/o ETC Holdings, LP
2838 Woodside Street
Dallas, Texas
Attention: Clay Kutch
Facsimile: (214) 981-0701

with a copy to:

Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Attention: Jeffrey A. Zlotky
Facsimile: (214) 969-1751

(b) If to Heritage MLP or Heritage OLP:

H. Michael Krimbill
8801 South Yale, Suite 310
Tulsa, Oklahoma 74137
Facsimile: 918-493-7290

with a copy to:

Robert A. Burk, Esq.
Doerner, Saunders, Daniel & Anderson L.L.P.
320 South Boston Avenue, Suite 500
Tulsa, Oklahoma 74103
Facsimile: 918-591-5360

and

Lawrence T. Chambers, Jr., Esq.
Doerner, Saunders, Daniel & Anderson L.L.P.
320 South Boston Avenue, Suite 500
Tulsa, Oklahoma 74103
Facsimile: 918-591-5360

Notices and other communications shall be deemed given or made (i) when received, if sent by telegram, telefax, telex or similar facsimile means (written confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by telefax, telex or similar facsimile means) and (ii) when delivered and receipted for (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by registered or certified mail or sent by express courier or delivery service, except in the case of facsimile transmissions received after the normal close of business at the receiving location, which shall be deemed given on the next Business Day.

10.2 ENTIRE AGREEMENT. This Agreement and the documents referred to herein, together with the Schedules and Exhibits hereto (where applicable, as executed and delivered), constitute the entire agreement between the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof.

10.3 BINDING EFFECT; ASSIGNMENT; NO THIRD PARTY BENEFIT. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned (whether by operation of law or otherwise) by any Party without the prior written consent of each of the Parties, and any purported assignment without such consent shall be void. Except as provided in Article 9 nothing in this Agreement, express or implied, is intended to or shall confer upon any Person other than the Parties, and their respective successors and permitted assigns, any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

10.4 SEVERABILITY. If any provision of this Agreement is held to be unenforceable, this Agreement shall be considered divisible and such provision shall be deemed inoperative to the extent it is deemed unenforceable, and in all other respects this Agreement shall remain in full force and effect; provided, however, that if any such provision may be made enforceable by limitation thereof, then such provision shall be deemed to be so limited and shall be enforceable to the maximum extent permitted by Applicable Law.

10.5 GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Texas or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Texas.

10.6 JURISDICTION. Any legal action, suit or proceeding in law or equity arising out of or relating to this Agreement or the transactions contemplated by this Agreement may only be instituted in any state or federal court located in the State of Texas, and each Party agrees not to

assert, by way of motion, as a defense or otherwise, in any such action, suit or proceeding, any claim that it is not subject personally to the jurisdiction of such court, that its property is exempt or immune from attachment or execution, that the action, suit or proceeding is brought in an inconvenient forum, that the venue of the action, suit or proceeding is improper or that this Agreement, or the subject matter hereof or thereof may not be enforced in or by such court. Each Party further irrevocably submits to the jurisdiction of any such court in any such action, suit or proceeding. Any and all service of process and any other notice in any such action, suit or proceeding shall be effective against any Party if given by registered or certified mail (return receipt requested) or by any other means which requires a signed receipt in accordance with, and at the address listed in, Section 10.1. Nothing herein contained shall be deemed to affect the right of any Party to serve process in any manner permitted by law.

10.7 FURTHER ASSURANCES. From time to time following the Closing, at the request of any Party and without further consideration, the other Parties shall execute and deliver to such requesting Party such instruments and documents and take such other action as such requesting Party may reasonably request or as may be otherwise necessary to (a) more fully and effectively transfer to, and vest in, the Heritage Parties, the La Grange Interests and the La Grange Assets, (b) enable the Heritage Parties or the La Grange Entities to assume and fully and timely perform in accordance with their terms any or all of the La Grange Contracts, (c) enable the Heritage Parties or the La Grange Entities to continue the La Grange Business, and (d) otherwise consummate more fully and effectively the transactions contemplated by this Agreement and the Other Transaction Documents.

10.8 DESCRIPTIVE HEADINGS. The descriptive headings herein are inserted for convenience of reference only, do not constitute a part of this Agreement and shall not affect in any manner the meaning or interpretation of this Agreement.

10.9 COUNTERPARTS. This Agreement may be executed by the Parties in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

La Grange Energy, L.P.

By:_____

General Partner

By:_____

Its:_____

Heritage Propane Partners, L.P.

By: U.S. Propane, L.P., General Partner

By: U.S. Propane, L.L.C., General Partner

By:_____

Its:_____

U.S. Propane, L.P.

By: U.S. Propane, L.L.C., General Partner

By:_____

Its:_____

EXHIBIT 10.32

==========

STOCK PURCHASE AGREEMENT

BY AND AMONG

AGL ENERGY CORPORATION,
AGL PROPANE SERVICES, INC.,
UNITED CITIES PROPANE GAS, INC.
TECO PROPANE VENTURES, LLC, AND
PIEDMONT PROPANE COMPANY,

AS SELLERS

AND

HERITAGE PROPANE PARTNERS, L.P.

AS BUYER

NOVEMBER 6, 2003

==========

TABLE OF CONTENTS

CLOSING SCHEDULES

EXHIBITS

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this "Agreement"), dated as of November 6, 2003, is entered into by and among the following:

1. U.S. Propane, L.P., a Delaware limited partnership ("US Propane");

2. AGL Energy Corporation, a Delaware corporation ("AGL Sub"), AGL Propane Services, Inc., a Delaware corporation ("AGLINC" and, collectively with AGL Sub, AGL Propane"), United Cities Propane Gas, Inc., a Tennessee corporation ("UC Gas"), TECO Propane Ventures, LLC, a Delaware limited liability company ("TECO Propane"), and Piedmont Propane Company, a North Carolina corporation ("Piedmont Propane", and collectively with AGL Propane, UC Gas and TECO Propane, the "Sellers"); and

3. Heritage Propane Partners, L.P. (the "Buyer"), a Delaware limited partnership of which (i) the general partner interests are owned by US Propane and (ii) the common limited partner interests ("Common Units") of which are listed for trading on the New York Stock Exchange.

RECITALS:

1. Heritage Holdings, Inc., a Delaware corporation ("HHI"), is currently a wholly owned subsidiary of US Propane; and

2. The Sellers are the owners of (a) all of the member interests of U.S. Propane, L.L.C., a Delaware limited liability company that is the general partner of US Propane ("USP GP"), and (b) all of the outstanding limited partner interests of US Propane; and

3. US Propane, USP GP and the Sellers (collectively, the "Seller Related Parties") have entered into that certain Acquisition Agreement ("Acquisition Agreement"), of even date herewith, among the Seller Related Parties and La Grange Energy, L.P., a Texas limited partnership (the "Acquirer"), pursuant to which, among other things, the Sellers have agreed to sell US Propane to the Acquirer and that prior to the closing of the transactions contemplated therein and herein, the Sellers will (i) form a limited partnership ("NewLP") and a limited liability corporation ("NewGP") that will each be owned by the Sellers in the same proportions as US Propane and USP GP are owned, respectively; (ii) following the formation of NewLP and NewGP, the Sellers will (a) cause NewGP and NewLP to take the actions specified in Section 6.10 and (b) cause all of the members interests in USP GP to be transferred to NewGP; (iii) the Sellers and NewGP will then transfer to NewLP, among other things, all of the US Propane general and limited partners interests; and (iv) after completion of the actions referred to in clauses (i) through (iii), NewGP will cause US Propane to distribute to NewGP and NewLP (a) all of the outstanding capital stock of HHI (the "HHI Stock") and (b) all of the 180,028

Common Units of the Buyer that are owned by US Propane (the actions referred to in clause (iv), the "Distribution"); and (vi) NewLP will assume from US Propane all obligations under that certain $11,538,944.36 promissory note from US Propane to HHI (the "Net Worth Note") and HHI will release US Propane from all obligations under the Net Worth Note (the actions described in clauses (i) through (v) are referred to herein collectively as the "Pre-Closing Restructuring");

4. After completion of the Pre-Closing Restructuring and prior to the Closing (as defined in Article 2), HHI shall declare a dividend payable to NewGP and NewLP (its owners of record as of the record date to be established for such dividend) of (i) the Net Worth Note, such dividend to be payable to NewGP and NewLP on the first Business Day immediately after the Closing Day and (ii) the obligation to pay to NewGP and NewLP the amount determined in accordance with Section 6.13(b) (which obligation shall be evidenced by a note (the "Distribution Note"), to be in a form mutually acceptable to the Sellers and Buyer, such dividend to be paid prior to Closing; and

5. Subject to the terms and conditions set forth herein, each of the Sellers has agreed to sell, and following NewLP's formation to cause NewLP to sell, to the Buyer, and the Buyer has agreed to purchase from each of the Sellers, the HHI Stock that such Seller receives in the Distribution, such purchase and sale to be effected in accordance with, and subject to the terms and conditions set forth in, this Agreement.

AGREEMENT

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

ARTICLE 1
DEFINITIONS

1.1 CERTAIN DEFINED TERMS. As used in this Agreement, each capitalized term has the meaning given to it in Exhibit 1.1.

1.2 CERTAIN ADDITIONAL DEFINED TERMS. In addition to such terms as are defined in Section 1.1, the following terms are used in this Agreement as defined in the Articles or Sections set forth opposite such terms:

Defined Term	Article or Section Reference
Acquirer	Recitals
Acquisition Agreement	Recitals
AGLINC	Preamble
AGL Propane	Preamble

Defined Term	Article or Section Reference
AGL Sub	Preamble
Agreement	Preamble
Base Statement	2.1
Buyer	Preamble
Buyer Material Adverse Effect	4.4
Buyer Indemnified Parties	9.2
Cash Purchase Price	2.2(a)(I)
Closing	Article 2
Closing Consideration	2.2(a)
Closing Date	Article 2
Closing Statement	2.1(c)
commercially reasonable best efforts	6.2
Common Units	Preamble
CPA Firm	2.1(d)
Distribution	Recitals
Distribution Note	Recitals
Current Liabilities of HHI	2.1(a)
Final Closing Statement	2.1(d)
HHI	Recitals
HHI Assets	3.16
HHI Cash	2.1(a)
HHI Stock	Recitals
Indemnified Party	9.3(a)
indemnifying Party	9.3(a)
MLP Agreement Amendment	6.11
Net Worth Note	Recitals
NewGP	Recitals
NewLP	Recitals
NewLP Release	2.2(a)
Objection	2.1(d)
Per Day Rate	2.2(a)(III)
Piedmont Propane	Preamble
Pledge Agreement	2.2(a)(II)
Pre-Closing Restructuring	Recitals
Pro Rated Distribution Payment	2.2(b)
Promissory Note	2.2(a)(II)
Review Period	2.1(d)
Seller Indemnified Parties	9.1
Seller Related Parties	Recitals
Sellers	Preamble
TECO Propane	Preamble
Third Party Action	9.3(a)
UC Gas	Preamble

1.3 CONSTRUCTION. Unless the context requires otherwise: (a) the gender (or lack of gender) of all words used in this Agreement includes the masculine, feminine, and neuter; (b) the term "include" or "includes" means "includes, without limitation," and "including" means "including, without limitation"; (c) references to Articles and Sections refer to Articles and Sections of this Agreement; (d) references to Exhibits and Schedules refer to the Exhibits and Schedules attached to this Agreement, which are made a part hereof for all purposes; (e) references to Laws refer to such Laws as they may be amended from time to time, and references to particular provisions of a Law include any corresponding provisions of any succeeding Law; and (f) references to money refer to legal currency of the United States of America.

ARTICLE 2
CLOSING

Subject to the terms and conditions hereof, the Closing of the transactions contemplated by this Article 2 (the "Closing") will take place at the time and place provided for in the Contribution Agreement, on the third Business Day following the date on which the last of the conditions to Closing set forth in Section 7.1 and 7.2 have been satisfied or waived by the party or parties entitled to waive the same, provided that the Closing shall be deemed to be effective after the closings of the transactions contemplated by the Acquisition Agreement and the Contribution Agreement (the "Closing Date"). Except for purposes of Sections 2.1, 2.2 and 2.3, all Closing transactions will be deemed to have occurred simultaneously.

2.1 AGREED HHI CASH AMOUNT.

(a) Not later than the close of business on the fourth trading day preceding the Closing, US Propane shall deliver to the Buyer a statement ("Base Statement") of the cash and cash equivalents held and expected to be held in the accounts of HHI immediately prior to the Closing, if and to the extent such cash and cash equivalents exceed the Current Liabilities of HHI expected to be outstanding immediately prior to the Closing (the amount of such excess cash and cash equivalents, the "HHI Cash"); provided, however, that neither the cash and cash equivalents set aside for the payment of any current liabilities relating to estimated tax payments due or payable by HHI or payments due under the Net Worth Note, nor the current liabilities attributable to such estimated tax payments, shall be taken into account for the purposes of determining HHI Cash. As used herein, the term "Current Liabilities of HHI" shall be calculated in accordance with Schedule 2.1(a), and shall exclude, without limitation, any deferred Tax obligation of HHI, any Taxes to the extent subject to an indemnity obligation of Sellers in Section 6.7 (other than accrued and unpaid income taxes payable for any cash distributions received by HHI on its Common Units prior to the Closing), any intercompany accounts to the extent eliminated in accordance with Section 6.12, any current maturities of long-term debt of HHI, the obligations of HHI under the Distribution Note and the obligation of HHI to pay the dividend of the Net Worth Note in accordance with Section 6.13.

(b) During the period that commences upon the Distribution and ends immediately prior to the Closing, the Sellers will cause HHI to declare and pay a dividend equal in aggregate amount to the HHI Cash, such dividend to be declared and paid in cash prior to the Closing to

NewLP or the Sellers, in their respective capacities as the stockholder(s) of HHI (as the case may be), pro rata in accordance with their respective ownership interests.

(c) Within 45 days following the Closing Date, Buyer shall prepare and deliver to Sellers a statement (the "Closing Statement"), which shall set forth in reasonable detail (A) the HHI Cash amount immediately prior to the Closing based upon a detailed balance sheet prepared consistent with the balance sheet used to prepare the Base Statement and (B) a calculation of the additional amount payable to, or payable by, Sellers based upon the difference between the HHI Cash reflected in the Base Statement and the HHI Cash reflected in the Closing Statement. The Sellers agree, at no cost to Buyer, to give Buyer and its authorized representatives reasonable access (provided that in their sole discretion Sellers or their representatives may accompany Buyer and its representatives) to such employees, officers and other facilities and such books and records of Sellers as are reasonably necessary to allow Buyer and its authorized representatives to prepare the Closing Statement. The Base Statement shall be prepared in accordance with GAAP (as defined in Exhibit 1.1) and on a basis consistent with the Financial Statements using the same accounting methods, policies, practices, procedures and adjustments as were used in the preparation of the Financial Statements. The Closing Statement shall be prepared in accordance with GAAP and on a basis consistent with the Financial Statements, using the same accounting methods, policies, practices, procedures and adjustments as were used in the preparation of the Base Statement.

(d) Following its receipt from Buyer of the Closing Statement, the Sellers shall have 30 days to review the Closing Statement and to inform Buyer in writing of any disagreement which they may have with the Closing Statement, which objection (i) shall specify in reasonable detail the Sellers' disagreement with the Closing Statement and (ii) shall include a detailed adjusted balance sheet prepared as of the Closing Date reflecting the adjustments and changes requested by Seller (the "Objection"). Buyer agrees, at no cost to the Sellers, to give the Sellers and their authorized representatives reasonable access to such employees, officers and other facilities and such books and records of HHI as are reasonably necessary to allow Sellers and their authorized representatives to review and confirm the Closing Statement prepared by Buyer. If Buyer does not receive the Objection within such 30-day period, the amount of HHI Cash set forth on the Closing Statement delivered pursuant to Section 2.1(a) shall be deemed to have been accepted by Sellers and shall become binding upon Sellers. If Sellers do timely deliver an Objection to Buyer, Buyer shall then have 10 Business Days from the date of receipt of such Objection (the "Review Period") to review and respond to the Objection. Buyer and Sellers shall attempt in good faith to resolve any disagreements with respect to the determination of HHI Cash immediately prior to the Closing. If they are unable to resolve all of their disagreements with respect to the determination of such HHI Cash within 10 Business Days following the expiration of Buyer's Review Period, they may refer, at the option of either Buyer or Sellers, their differences to KPMG or if KPMG declines to accept such engagement, a nationally recognized firm of independent public accountants selected jointly by Buyer and Sellers, who shall determine only with respect to the differences so submitted, whether and to what extent, if any, the amount of HHI Cash immediately prior to the Closing set forth in the Closing Statement requires adjustment. If Buyer and Sellers are unable to so select the independent public accountants within five Business Days of KPMG declining to accept such engagement, either Buyer or Sellers may thereafter request that the CPR Institute for Dispute Resolution make such selection (as applicable, KPMG, the firm selected by Buyer and Sellers or the firm selected by

the CPR Institute for Dispute Resolution is referred to as the "CPA Firm"). Buyer and Sellers shall direct the CPA Firm to use its reasonable best efforts to render its determination within 30 days after the issue is first submitted to the CPA Firm. The CPA Firm's determination shall be conclusive and binding upon Buyer and Sellers. The fees and disbursements of the CPA Firm shall be shared equally by Buyer and Sellers. Buyer and Sellers shall make readily available to the CPA Firm all relevant books and records relating to the Closing Statement and all other items reasonably requested by the CPA Firm. The Closing Statement as agreed to by Buyer and Sellers or as determined by the CPA Firm shall be referred to as the "Final Closing Statement."

(e) If the HHI Cash on the Final Closing Statement exceeds the HHI Cash reflected in the Base Statement, then Buyer shall pay to Sellers in cash the amount of such excess. If the HHI Cash reflected in the Base Statement exceeds the HHI Cash on the Final Closing Statement, then Sellers shall pay to Buyer in cash the amount of such excess. All amounts payable under this Section 2.1(e) shall be paid within three Business Days of the determination of the Final Closing Statement by wire transfer of immediately available funds to a bank account in the United States of America designated in writing by the recipient not less than one Business Day before such payment.

2.2 PAYMENT OF PURCHASE PRICE.

(a) At the Closing in exchange for the HHI Stock, the Buyer will pay to NewLP, in accordance with clauses (i) and (ii) below, a total of $100,000,000.00 the "Closing Consideration"). The Closing Consideration shall be paid as follows:

(i) Buyer will pay to NewLP by wire transfer of immediately available funds (to an account designated by NewLP to Buyer not later than three Business Days before Closing by NewLP to Buyer) a total of $50,000,000.00 (the "Cash Purchase Price"); and

(ii) Buyer will deliver to NewLP a fully executed promissory note of Buyer payable to the order of NewLP or its successors and assigns in the original principal amount of $50,000,000.00, such promissory note to be in the form attached as Annex I hereto (the "Promissory Note"), and the payment of which shall be secured by a pledge from Buyer of the HHI Stock purchased by Buyer, such pledge to be in the form attached as Annex II hereto (the "Pledge Agreement").

(b) In consideration for the payment by the Buyer to NewLP of the Closing Consideration as provided in Section 2.2(a) above, NewLP or Sellers will deliver to the Buyer stock certificates, duly endorsed in blank and accompanied by a stock power, evidencing all of the HHI Stock, such shares of HHI Stock to be delivered free and clear of any Encumbrance other than any Encumbrance arising under the Pledge Agreement.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF US PROPANE AND THE SELLERS

For the purposes of this Agreement, each of the Sellers, severally but not jointly, and US Propane represent and warrant as set forth in this Article 3.

3.1 ORGANIZATION OF HHI. HHI has been duly incorporated and is validly existing in good standing as a corporation under the laws of the State of Delaware with full corporate power and authority to own or lease its properties and to conduct its business, in each case in all material respects as conducted on the date hereof. HHI is duly registered or qualified as a foreign corporation for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not have an HHI Material Adverse Effect.

3.2 CAPITALIZATION OF HHI.

(a) On the date of this Agreement there are, and immediately after giving effect to the transactions contemplated by this Agreement there will be, 534,787.841 shares of HHI Stock issued and outstanding, all of which are validly issued, fully paid and nonassessable and are owned beneficially and of record on the date of this Agreement by US Propane free and clear of any Encumbrance, other than Encumbrances arising under this Agreement. US Propane will continue to own the HHI Stock until such time as US Propane effects the Distribution of the HHI Stock to NewLP, at which time such share of HHI Stock will be owned by NewLP free and clear of any Encumbrances, other than Encumbrances arising under this Agreement. Except as set forth on Schedule 3.2(a) and except for the obligations contained in this Agreement (including the Distribution Note to be issued prior to Closing), there are no outstanding securities of HHI other than the HHI Stock and no subscriptions, options, convertible securities, warrants, calls or rights of any kind (issued or granted by, or binding upon, HHI, US Propane or any of the Sellers) to purchase or otherwise acquire any security of or equity interest in HHI.

(b) Except for the obligations in respect of the Net Worth Note or as described on Schedule 3.2(b) there is no existing or outstanding indebtedness or other obligation of US Propane or any of the Sellers owing to HHI.

3.3 AUTHORITY AND CAPACITY. US Propane and each of the Sellers have all right, power, authority and capacity necessary to enter into this Agreement and the other Operative Agreements. Subject to the declaration of the Distribution by USP GP, US Propane has all right, power, authority and capacity necessary to effect the Distribution. Upon receipt of the shares of HHI Stock in the Distribution, NewLP will have all right, power, authority and capacity necessary to sell, convey, transfer and deliver in accordance with this Agreement the shares of HHI Stock to be received by NewLP in the Distribution. Except for the approvals required to complete the Pre-Closing Transactions, no consent or approval of any Person (other than the termination or lapse of the applicable waiting period that may be applicable under the HSR Act) is necessary for US Propane or any of the Sellers to approve this Agreement, or to consummate the transactions contemplated hereby or by the other Operative Agreements. This Agreement and the Operative Agreements to be executed at the Closing will be effective at the Closing to

transfer to Buyer all of the Sellers' interests in, right to, and ownership of the shares of HHI Stock, free and clear of any Encumbrance, without the approval or execution of any other Person.

3.4 BINDING AGREEMENT. This Agreement has been, and each of the Operative Agreements to be executed by any of the Sellers or US Propane will be, duly executed and delivered by each of the Sellers and US Propane, and constitutes the valid and legally binding agreement of each of the Sellers and US Propane, enforceable against each of the Sellers and US Propane in accordance with its terms; provided that the enforceability hereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and except as rights to indemnity and contribution hereunder may be limited by federal or state securities laws.

3.5 NO BREACH OR VIOLATION. None of the execution, delivery and performance by the Sellers or US Propane of (a) this Agreement or (b) the Operative Agreements to which any of the Sellers or US Propane is a party (i) conflicts or will conflict with or constitutes or will constitute a violation of the certificate or articles of incorporation or bylaws or other organizational documents of any of the Sellers or US Propane, (ii) constitutes or will constitute a breach or violation of, or a default under (or an event which, with notice or lapse of time or both, would constitute such an event), any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which any of the Sellers or US Propane is a party or by which any of them or any of their respective properties may be bound, other than as set forth on Schedule 3.5, (iii) violates or will violate any statute, law or regulation or any order, judgment, decree or injunction of any arbitrator or Governmental Authority directed to HHI or any of the Sellers or US Propane or any of their properties in a proceeding to which any of them or their property is a party except as have been or will be obtained prior to Closing under the HSR Act or (iv) will result in the creation or imposition of any Encumbrance upon any property or assets of HHI (other than an Encumbrance arising under the Pledge Agreement), which conflicts, breaches, violations or defaults, in the case of clauses (ii) or (iii), would have an HHI Material Adverse Effect.

3.6 NO CONSENTS. Except as may be obtained under the HSR Act, no permit, consent, approval, authorization, order, registration, filing or qualification of or with any Governmental Authority is required (a) in connection with the execution and delivery by any of the Sellers or US Propane of this Agreement or the other Operative Agreements to which any of them is party, or (b) the consummation by any of the Sellers or US Propane of the transactions contemplated by, this Agreement or the other Operative Agreements.

3.7 NO VIOLATION. None of HHI, the Sellers or US Propane is in (i) violation of its certificate or articles of incorporation or bylaws or other organizational documents, (ii) violation of any law, statute, ordinance, administrative or governmental rule or regulation applicable to it or of any decree of any Governmental Authority having jurisdiction over it or (iii) breach, default (or an event which, with notice or lapse of time or both, would constitute such a default) or violation in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any agreement, indenture, lease or other instrument to which it is a party or by which it or any of its properties may be bound,

which breach, default or violation in the case of clause (ii) or (iii) would, if continued, have an HHI Material Adverse Effect.

3.8 NO PROCEEDINGS. There is (i) no Proceeding before or by any Governmental Authority or arbitrator or official, domestic or foreign, now pending or, to the knowledge of the Sellers or US Propane, threatened, to which any of the Sellers or US Propane or any of its assets is or may be a party or to which the business or property of any of HHI or any of its assets is or may be subject, (ii) no statute, rule, regulation or order that has been enacted, adopted or issued by any Governmental Authority or that has been proposed by any Governmental Authority, (iii) no injunction, restraining order or order of any nature issued by a federal or state court or foreign court of competent jurisdiction to which HHI or any of its assets is or may be subject, and (iv) no Proceeding, injunction, restraining order or order of any nature before or by any Governmental Authority or arbitrator that affects any of HHI, the Sellers or US Propane in connection with the transactions contemplated by the Contribution Agreement, this Agreement or the Acquisition Agreement, that, in the case of clauses (i), (ii), (iii) and (iv) above, is reasonably expected to (A) individually or in the aggregate have an HHI Material Adverse Effect, (B) prevent or result in the suspension of the sale of the HHI Stock to the Buyer as contemplated herein or (C) draw into question in any manner the validity of this Agreement or any of the other Operative Agreements.

3.9 LISTING. The HHI Stock is not listed for trading on any stock exchange.

3.10 FINDER'S FEES. None of HHI, the Sellers or US Propane is obligated (directly or indirectly) under any agreement with any Person that would obligate the Buyer, HHI or any of their respective Affiliates to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated herein.

3.11 BUSINESS PERMITS. HHI has, or at the Closing Date will have, such Permits as are necessary to own its properties and to conduct its business as currently conducted, except for such Permits which, if not obtained, would not have, individually or in the aggregate, an HHI Material Adverse Effect; HHI has, or at the Closing Date will have, fulfilled and performed all its material obligations with respect to such Permits, and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any impairment of the rights of the holder of any such Permit, except for such revocations, terminations and impairments that would not have an HHI Material Adverse Effect; and none of such Permits contains any restriction that is materially burdensome to HHI.

3.12 BOOKS AND RECORDS. To the knowledge of the Sellers and US Propane, HHI (i) makes and keeps books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets and (ii) maintains systems of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

3.13 TAXES.

(a) Except as set forth on Schedule 3.13(a), HHI has filed all material Tax Returns required to be filed with the IRS and any other applicable taxing authority through the date hereof, which returns are complete and correct in all material respects, and has timely paid or has provided an accrual on the Financial Statements for all Taxes due pursuant to such returns, other than those (i) which, if not paid, would not have an HHI Material Adverse Effect or (ii) which are being contested in good faith and disclosed in Schedule 3.13(a). Except as set forth on Schedule 3.13(a), HHI is not currently the beneficiary of any extension of time within which to file any Tax Returns.

(b) Schedule 3.13(b) lists all federal, state, local and foreign income Tax Returns filed with respect to HHI and any affiliated, consolidated, combined, unitary or similar group of which HHI is or was a member for the two taxable years prior to the date hereof and indicates those Tax Returns that are the subject of an audit as of the date hereof. Except as set forth on Schedule 3.13(b), there are no audits or investigations by any taxing authority in progress nor have Sellers or HHI received any notice from any taxing authority that it intends to conduct such an audit or investigation. Except as set forth on Schedule 3.13(b), no claim has been made by a taxing authority in a jurisdiction where HHI does not file Tax Returns such that it is or may be subject to taxation by that jurisdiction. HHI has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(c) There are no liens for Taxes upon any of the assets of HHI other than liens for Taxes not yet due and payable.

(d) HHI has no liability for Taxes other than those incurred in the ordinary course of business and in respect of which adequate reserves are being maintained on the Financial Statements in accordance with GAAP.

(e) HHI has not made any material payments, is not obligated to make any material payments and is not a party to any agreement that under certain circumstances could obligate it to make any material payments that will not be deductible under Code Section 280G.

(f) HHI has not been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(l)(A)(ii).

(g) Except as disclosed in Schedule 3.13(g), since August 10, 2000, HHI (i) has not been a member of an affiliated group filing a consolidated federal income Tax Return and (ii) does not have any liability for Taxes of any Person (other than US Propane or a Heritage Entity) under Treas. Reg. Section 1. 1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor, by contract, or otherwise, excluding liability for Taxes to the extent set forth on Schedule 3.13(g) for stock acquisitions for which HHI obtained commercially reasonable indemnification and which liability was assumed by Buyer upon transfer of the assets of the acquired entity to Buyer.

3.14 INTELLECTUAL PROPERTY. Except as set forth on Schedule 3.14, HHI owns or possesses or has the right to use, or at the Closing Date will own or possess or have the right to use, in the localities where they are currently used by HHI, all patents, trademarks, trademark

registrations, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights necessary for the conduct of its business, other than those which if not so owned or possessed would not have an HHI Material Adverse Effect, and HHI is not aware of any claim to the contrary or any challenge by any other Person to the rights of HHI with respect to the foregoing.

3.15 REGULATION. HHI is not (i) an "investment company" or a company "controlled by" an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" thereof, within the meaning of the Public Utility Holding Company Act of 1935, as amended.

3.16 HHI ASSETS. The material assets of HHI consist of (a) 4,426,916.00 Common Units and (b) the Net Worth Note (collectively, the "HHI Assets"), provided that the term HHI Assets shall exclude the HHI Cash.

3.17 TITLE TO HHI ASSETS. HHI is, and as of the Closing will be, the record and beneficial owner of the Common Units, free and clear of all Encumbrances (other than Encumbrances arising under the Pledge Agreement). As of the Closing, HHI will have good and marketable title to all of the other HHI Assets, free and clear of all Encumbrances (other than Encumbrances arising under the Pledge Agreement).

3.18 FINANCIAL STATEMENTS; ABSENCE OF LIABILITIES. Attached hereto as Schedule 3.18(a) are copies of the unaudited balance sheets as of August 31, 2002 and the related statement of income, cash flows and owners' equity for the fiscal year then ended (including in all cases the notes, if any, thereto) of HHI and the unaudited balance sheet as of August 31, 2003 (the "Financial Statement Date") and the related statement of income, cash flows and owners' equity for the fiscal quarter then ended of HHI (collectively, the "Financial Statements"). The Financial Statements have been prepared in accordance with GAAP except for the absence of footnotes and, in the case of the unaudited statements as of the Financial Statement Date, for normal year-end adjustments and fairly present the financial position of HHI as of the date set forth therein.

(b) Except as reserved against in the Financial Statements or as otherwise disclosed on Schedule 3.18(b), there are no liabilities of, relating to or affecting HHI, other than deferred tax liabilities, liabilities incurred in the ordinary course of business consistent with past practice since the Financial Statement Date and Tax liabilities to be paid or reimbursed by Sellers as provided in Section 6.7.

3.19 ABSENCE OF CERTAIN CHANGES. Since the Financial Statement Date, except for, or as contemplated by, the execution, delivery and performance of this Agreement and the other Operative Agreements, (a) there has been no event (except for changes resulting from changes in the market value of the Common Units owned by HHI) that would have a Material Adverse Effect; (b) HHI's business has been conducted only in the ordinary course consistent with past practice; (c) HHI has not incurred any material liability, engaged in any material transaction or entered into any material agreements outside the ordinary course of business consistent with past practice that individually or in the aggregate would have a Material Adverse Effect; (d) HHI has

not suffered any material loss, damage, destruction or other casualty to any of the HHI Assets (whether or not covered by insurance) that individually or in the aggregate would have a Material Adverse Effect; and (e) HHI has not taken any of the actions set forth in Section 5.2, except as permitted thereunder.

3.20 COMPLIANCE WITH LAWS. Subject to the specific representations and warranties in this Agreement, which representations and warranties shall govern the subject matter thereof, since August 10, 2000 HHI has complied in all material respects with all Applicable Laws relating to the ownership or operation of the HHI Assets and the conduct of its business. HHI is not charged or, to the Knowledge of the Sellers, threatened with, or under investigation with respect to, any violation of any Applicable Law relating to any aspect of the ownership or operation of HHI or its business.

3.21 BENEFIT PLANS. HHI does not maintain or contribute to any Benefit Plan.

3.22 OPERATIONS OF HHI. Since August 10, 2000 HHI's only activities have been to serve as the general partner of Buyer and its subsidiary limited partnership, to own the Common Units and to conduct activities and operations related thereto. HHI ceased to be the general partner of Buyer and its subsidiary limited partnership on February 4, 2002.

3.23 OPINION OF FINANCIAL ADVISOR. The Special Committee has received the opinion of Merrill Lynch to the effect that, as of the date of such opinion, the consideration to be paid by Heritage MLP in connection with the transactions contemplated by this Agreement is fair, from a financial point of view, to the Common Unitholders of Heritage MLP.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE BUYER

For purposes of this Agreement, the Buyer hereby represents and warrants to each of the Sellers and US Propane as set forth in this Article 4.

4.1 ORGANIZATION AND EXISTENCE. The Buyer is duly formed, validly existing and in good standing as a limited partnership under the Delaware LP Act with full partnership power and authority to own or lease its properties and to conduct its business as currently conducted.

4.2 AUTHORITY. The Buyer has all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, in accordance with and upon the terms and conditions set forth herein. All partnership action required to be taken by the Buyer or any of its partners for the authorization of this Agreement and the other Operative Agreements to which Buyer will be a party have been validly taken.

4.3 BINDING AGREEMENT. The execution and delivery of, and the performance by the Buyer of its obligations under, this Agreement and the other Operative Agreements to which Buyer will be a party has been duly and validly authorized by the Buyer, and (a) this Agreement has been, and (b) the other Operative Agreements to which Buyer will be a party will be, duly executed and delivered by the Buyer and constitutes or when executed will constitute the valid

and legally binding agreement of the Buyer, enforceable against the Buyer in accordance with its terms; provided that the enforceability hereof and thereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and except as rights to indemnity and contribution hereunder may be limited by federal or state securities laws.

4.4 NO BREACH OR DEFAULT. None of the execution, delivery and performance of this Agreement by the Buyer or the other Operative Agreements to which Buyer will be party (i) conflicts or will conflict with or constitutes or will constitute a violation of the certificate or agreement of limited partnership of the Buyer, (ii) constitutes or will constitute a breach or violation of, or a default under (or an event which, with notice or lapse of time or both, would constitute such an event), any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which the Buyer or any of its subsidiaries is a party or by which the Buyer or any of its subsidiaries or any of their respective properties may be bound, (iii) assuming compliance with Section 4.5, violates or will violate any statute, law or regulation or any order, judgment, decree or injunction of any Governmental Authority directed to the Buyer or any of its subsidiaries or any of their respective properties in a Proceeding to which any of them or their property is a party or (iv) other than the imposition of an Encumbrance under the Pledge Agreement, will result in the creation or imposition of any Encumbrance upon any property or assets of its subsidiaries, which conflicts, breaches, violations or defaults, in the case of clauses (ii), (iii) or (iv), would have a material adverse effect upon the condition (financial or other), business, prospects, properties, net worth or results of operations of the Buyer and its subsidiaries, taken as a whole (a "Buyer Material Adverse Effect").

4.5 CONSENTS. No permit, consent, approval, authorization, order, registration, filing or qualification of or with any Governmental Authority is required in connection with the execution and delivery of, or the consummation by the Seller of the transactions contemplated by, this Agreement or the other Operative Agreements to which Buyer will be a party, except as may be obtained under the HSR Act.

4.6 ADEQUATE FUNDING. Buyer has cash on hand as undrawn amounts under committed credit facilities to pay in full in immediately available funds that portion of the Cash Purchase Price required to be paid in cash at the Closing.

4.7 FINDER'S FEES. The Buyer is not obligated (directly or indirectly) under any agreement with any Person that would obligate any of the Sellers or US Propane to pay any commission, brokerage or "finder's fee" in connection with the transactions contemplated herein.

4.8 INVESTMENT INTENT. The HHI Stock to be acquired by Buyer will be acquired for the account of the Buyer for investment only and not for the benefit of any other Person or with a view toward resale or redistribution in a manner that could require registration under the Securities Act of 1933, as amended, and the Buyer does not now have any reason to anticipate any change in the Buyer's circumstances or other particular occasion or event that would cause the Buyer to sell such HHI Stock.

ARTICLE 5
AGREEMENTS

Each of the Sellers, severally but not jointly, and US Propane hereby covenant and agree with the Buyer as set forth in this Article 5.

5.1 CONDUCT AND PRESERVATION OF THE BUSINESS OF HHI. Except as expressly provided in this Agreement, the Sellers and US Propane shall (a) cause HHI to conduct its business substantially as it is being conducted on the date hereof; (b) use their commercially reasonable best efforts to cause HHI to preserve, maintain and protect its assets and business consistent with available resources; and (c) use their commercially reasonable best efforts to cause HHI to preserve intact the business organization of HHI, consistent with its available resources, to keep available the services of the employees of HHI and to maintain existing relationships with suppliers, contractors, distributors, customers and others having business relationships with HHI. Notwithstanding the immediately preceding sentence, the Sellers and US Propane shall cause the Pre-Closing Restructuring to be completed prior to Closing.

5.2 RESTRICTIONS ON CERTAIN ACTIONS. Without limiting the generality of Section 5.1, except as otherwise expressly contemplated by this Agreement, from and after the date hereof and until the Closing Date, without the approval of the Buyer, with respect to the business of HHI:

(a) None of the Sellers or US Propane shall agree, or shall permit HHI, to sell, transfer or otherwise dispose, or grant or agree to grant an option to purchase, sell, transfer, or otherwise dispose of any HHI Stock or any other shares of capital stock or any securities convertible or exercisable for shares of capital stock of HHI, except as provided in Section 2.1.

(b) Except for the Pre-Closing Restructuring, for the actions contemplated in Section 6.10 and Section 6.13 or as set forth on Schedule 5.2(b), neither US Propane nor any of the Sellers shall, or shall cause or permit HHI to:

(i) make any expenditures outside the ordinary course of business consistent with past practice which, individually or in the aggregate, exceed $5,000;

(ii) make any material change in the ongoing operations of HHI's business;

(iii) create, incur, guarantee or assume any indebtedness for borrowed money;

(iv) mortgage or pledge any of the HHI Stock or create or suffer to exist any Encumbrance thereon;

(v) sell, lease, transfer or otherwise dispose of, directly or indirectly, any assets, except in the ordinary course of business consistent with past practice (provided that, notwithstanding this Section 5.2(b)(v), prior to Closing HHI may distribute the HHI Cash to its stockholder(s) as contemplated in Sections 2.1 and

5.3 hereof), or sell, lease, transfer, or otherwise dispose of any fixed assets, whether or not in the ordinary course of business, which have a value, individually or in the aggregate, in excess of $5,000;

(vi) enter into any lease, contract, agreement, commitment, arrangement or transaction relating to its assets;

(vii) amend, modify or change any existing lease or contract;

(viii) waive, release, grant or transfer any rights of value relating to HHI's business;

(ix) hire or promote from within any executive employees or hire any new employees or recall any laid-off employees;

(x) delay payment of any account payable or other liability relating to HHI's business beyond the later of its due date or the date when such liability would have been paid in the ordinary course of business consistent with past practice, unless such delay is due to a good faith dispute as to liability or amount;

(xi) permit any current insurance or reinsurance or continuation coverage to lapse if such policy insures risks, contingencies or liabilities (including product liability) related to HHI's business;

(xii) except as set forth in this Section 5.2, take any action that would make any of the representations or warranties of the Sellers or US Propane untrue as of any time from the date of this Agreement to the date of the Closing, or would result in any of the conditions set forth in this Agreement not being satisfied;

(xiii) authorize or propose, or agree in writing or otherwise take, any of the actions described in this Section 5.2;

(xiv) merge into or with or consolidate with any other corporation or acquire all or substantially all of the business or assets of any corporation or other Person;

(xv) purchase any securities of any corporation or other Person;

(xvi) take any action or enter into any commitment with respect to or in contemplation of any liquidation, dissolution, recapitalization, reorganization, or other winding up of HHI's business;

(xvii) create any employee benefit plans (within the meaning of Section 3(3) of ERISA) or any other employee benefit plan or program not subject to ERISA, except as required by law;

(xviii) declare any distribution or dividend or issue any securities, other than the declaration and payment by US Propane of the Distribution and the declaration and payment by HHI from time to time prior to Closing of a dividend(s) cash and cash equivalents in accordance with Sections 2.1 or 5.3 hereof; or

(xix) distribute or alter any of the HHI Assets.

5.3 DECLARATION AND PAYMENT OF DIVIDENDS BY HHI. Notwithstanding anything in this Agreement to the contrary, (a) at any time and from time to time prior to the Closing the Board of Directors of HHI may declare and pay cash dividends to its stockholder(s) in an amount of up to the HHI Cash, as determined in Section 2.1, provided that the HHI Assets shall not be dividended and (b) after completing the Pre-Closing Restructuring and prior to the Closing HHI shall declare the dividends specified in Section 6.13, which dividends shall be paid as specified in such Section 6.13.

5.4 CONFIDENTIALITY AND TAX SHELTER REGULATIONS. Except as reasonably necessary to comply with applicable securities laws and notwithstanding anything in this Agreement to the contrary or in any other agreement to which a party hereto is bound, the parties hereto (and each employee, representative, or other agent of any of the parties) are expressly authorized to disclose to any and all persons, without limitation of any kind, the U.S. federal income "tax treatment" and "tax structure" (as those terms are defined in Treas. Reg. Sections 1.6011-4(c)(8) and (9), respectively) of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to such parties relating to such "tax treatment" and "tax structure" of the transactions contemplated by this Agreement. For these purposes, "tax structure" is limited to facts relevant to the U.S. federal income tax treatment of the transaction described herein.

ARTICLE 6
ADDITIONAL AGREEMENTS

Each of the Sellers, severally but not jointly, and US Propane hereby covenant and agree with the Buyer as set forth in this Article 6.

6.1 ACCESS TO INFORMATION, CONFIDENTIALITY. Between the date hereof and the Closing, US Propane and the Sellers shall cause HHI (i) to give the Buyer and its Affiliates and authorized representatives reasonable access to all employees of HHI and all facilities and all books and records relating to HHI's business, (ii) to permit the Buyer and its Affiliates and authorized representatives to make such inspections of HHI's business and assets as they may reasonably require to verify the accuracy of any representation or warranty contained in Article 3 and (iii) to furnish the Buyer and its Affiliates and authorized representatives with such financial and operating data and other information with respect to HHI's business and assets as any such Party may from time to time reasonably request and as is available to US Propane or the Sellers without undue effort or expense; provided, however, that the Sellers shall have the right to have a representative present at all times of any such inspections or examinations conducted at the offices or other facilities of HHI.

6.2 THIRD PARTY CONSENTS. Between the date hereof and the Closing, Buyer, US Propane and the Sellers shall use their commercially reasonable best efforts to obtain all consents from third parties required for Buyer, US Propane and the Sellers to perform their obligations hereunder. If the parties hereto agree that a filing under the HSR Act is necessary or appropriate in respect of this Agreement and the Other Operative Agreements and the transactions contemplated hereby and thereby, each party hereto agrees to make an appropriate filing of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated hereby within five Business Days after the date of this Agreement, use their commercially reasonable best efforts to cause the waiting period under the HSR Act to expire as quickly as possible and to supply promptly any additional information and documentary material that may be requested pursuant to the HSR Act. Notwithstanding the foregoing, no party hereto shall have any obligation to dispose of, hold separate or otherwise restrict its enjoyment of any of their assets or properties in order to obtain requisite approvals pursuant to the HSR Act. "Commercially reasonable best efforts" or any phrase of similar tenor as used in this Agreement or any other Operative Agreement shall mean such good faith efforts as are commercially reasonable, comparing the cost and expense of the efforts to the benefit to be gained (without regard to the identity of the beneficiary).

6.3 RELEASE OF LIENS. Between the date hereof and the Closing, US Propane and the Sellers shall obtain full releases of any Encumbrances on the HHI Stock.

6.4 PUBLIC ANNOUNCEMENTS. Between the date hereof and the Closing, except as may be required by Applicable Law or stock exchange rule, none of the Parties or any of their respective Affiliates or representatives shall issue any press release or otherwise make any public statement with respect to this Agreement or the transactions contemplated hereby without the prior written consent of each of the other Parties. Any press release or other public statement with respect to this Agreement or the transactions contemplated hereby shall be mutually agreed upon by the Buyer, the Sellers and US Propane.

6.5 ACCESS TO RECORDS AFTER CLOSING. For a period of six years from and after the Closing Date, each of the Sellers and their representatives shall have reasonable access to inspect and copy all books and records relating to HHI's business to the extent that such access may reasonably be required in connection with matters relating to or affected by the operation of HHI's business prior to the Closing, provided, however, that the Buyer shall have the right to have a representative present at all times of any such inspection conducted by Sellers. The Buyer shall afford such access upon receipt of reasonable advance notice and during normal business hours. If the Buyer shall desire to dispose of any of such books and records prior to the expiration of such period, the Buyer shall, prior to such disposition, give the Sellers a reasonable opportunity, at their expense, to segregate and remove such books and records as they may select. Each Party shall be solely responsible for any costs or expenses incurred by it pursuant to this Section 6.5.

6.6 FEES AND EXPENSES. Except as otherwise expressly provided in this Agreement, each of the Sellers, US Propane and the Buyer shall pay its own fees and expenses (including (a) its individual or internal company expenses, as the case may be, including all salaries and expenses of its employees performing legal or accounting duties and (b) the fees and expenses of counsel, financial advisors, accountants and others engaged by such Party) incurred in connection with

the negotiation, execution and delivery of this Agreement, the other Operative Agreements and the transactions contemplated hereby and thereby, whether or not the Closing shall have occurred. It is specifically agreed that any fees and expenses of the Special Committee of the Board of US Propane, its counsel, and its investment advisors will be an expense of Buyer.

6.7 TAXES; OTHER CHARGES.

(a) Tax Periods Ending on or Before the Closing Date. The Buyer shall prepare or cause to be prepared and timely file or cause to be timely filed all Tax Returns for HHI for all tax periods ending prior to the Book Close which are filed after the Book Close (a "Pre-Closing Period"). For purposes of this Section 6.7, Book Close shall mean December 1, 2003, unless the Closing Date is prior to December 1, 2003, in which event Book Close shall mean the Closing Date. Subject to Section 6.7(b), Sellers shall timely pay all Taxes due and payable with respect to a Pre-Closing Period Tax Return. Buyer shall prepare or cause to be prepared and timely file and cause to be timely filed all other Tax Returns of HHI. Subject to Section 6.7(b), Buyer shall pay or cause HHI to pay all Taxes shown to be due and payable thereon. Not less than twenty (20) Business Days prior to the due date for filing any Tax Return, taking into account any applicable extensions, Buyer shall deliver a copy of such Tax Return to Sellers. Sellers shall pay directly to HHI their portion of the Taxes shown to be due on such Tax Return (determined under Section 6.7(b) hereof) within ten (10) Business Days prior to the due date for the filing of such Tax Return. The Buyer agrees that it will not, prior to the Closing Date or following its purchase of the HHI Stock, make any transfer or take any action that would require HHI to file a single day tax return for any of the 2003 calendar year.

(b) Liability for Taxes. From and after the Book Close, Sellers shall indemnify Buyer and its affiliates (including HHI), and hold them harmless from and against, any losses imposed on or incurred by Buyer or its affiliates (including HHI), directly or indirectly, by reason of or resulting from any and all Taxes imposed upon HHI with respect to or pursuant to (i) any Pre-Closing Period and (ii) any taxable period beginning on or before the Book Close and ending after the Book Close (a "Straddle Period"), but only with respect to the portion of such Straddle Period ending the day before the Book Close (such portion, a "Pre-Closing Straddle Period"), and not for any losses or Taxes of HHI or any Affiliate of Buyer resulting from the consummation of any transaction contemplated by this Agreement. If there is a net refund received by HHI that is reflected on a Tax Return for a Pre-Closing Period or a Pre-Closing Straddle Period, the Buyer shall promptly pay, or cause HHI to pay, the amount of such net refund to the Sellers. From and after the Book Close, Buyer shall indemnify Sellers and hold Sellers harmless from and against all losses imposed on or incurred by Sellers, directly or indirectly, by reason of or resulting from any and all Taxes imposed on HHI (i) with respect to or pursuant to any taxable period commencing on the Book Close, (ii) the portion of any Straddle Period commencing on the Book Close and (iii) any Taxes arising or imposed on HHI resulting from any transaction contemplated by this Agreement. For purposes of this Section 6.7, in the case of any Taxes that are imposed on a periodic basis and are payable for the Straddle Period, the portion of such Tax which relates to the Pre-Closing Straddle Period shall (i) in the case of any Taxes other than Taxes based upon or related to income or receipts, be deemed to be the amount of such Tax for the entire taxable period multiplied by a fraction the numerator of which is the number of days in the taxable period ending on the day before the Book Close and the denominator of which is the number of days in the entire taxable period, and (ii) in the case of

any Tax based upon or related to income or receipts be deemed equal to the amount which would be payable if the relevant taxable period, including the taxable year of Heritage MLP, ended on the day before the Book Close.

(c) Cooperation on Tax Matters.

(A) The Buyer, US Propane and the Sellers shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to this Section and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party's request) the provision of records and information which are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Buyer, US Propane and the Sellers agree (A) to retain all books and records with respect to Tax matters pertinent to HHI relating to any taxable period beginning before the Book Close until the expiration of the statute of limitations (and, to the extent notified by Buyer, any extensions thereof) of the respective taxable periods, and to abide by all record retention agreements entered into with any taxing authority, and (B) to give the other party reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other party so requests, shall allow the other party to take possession of such books and records.

(B) The Buyer, US Propane and the Sellers further agree, upon request, to use their best efforts to obtain any certificate or other document from any Governmental Authority or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, but not limited to, with respect to the transactions contemplated hereby).

(C) The Buyer agrees that it will not liquidate HHI on the Book Close or Closing Date.

(d) Certain Taxes. All transfer, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest) incurred in connection with this Agreement or the other Operative Agreements (including any transfer tax imposed in any state or subdivision), shall be paid by the Buyer when due. From time to time upon the reasonable request of Buyer, the Sellers and US Propane shall cooperate in good faith with the Buyer to obtain available exemptions from such Taxes. The Buyer will, at its own expense, file all necessary Tax Returns and other documentation with respect to all such transfer, documentary, sales, use, stamp, registration and other Taxes and fees, and, if required by applicable law, US Propane and the Sellers will join in the execution of any such Tax Returns and other documentation.

6.8 AMENDMENT OF SCHEDULES. US Propane and the Sellers shall have the continuing obligation until the Closing to amend or supplement promptly their Schedules with respect to any matter hereafter arising or discovered that, if existing or known at the date of this Agreement, would have been required to be set forth or described in their Schedules. For purposes of

determining whether the conditions set forth in Section 7.1(a) have been fulfilled, the Schedules will not give effect to any amendment or supplement thereof. If the Closing shall occur, then all matters disclosed pursuant to any such supplement or amendment at or prior to the Closing shall be waived, and the Schedules as so supplemented or amended at the time of Closing shall thereafter constitute the Schedules for purposes of this Agreement.

6.9 ACTIONS BY PARTIES. Each Party agrees to use its commercially reasonable best efforts to satisfy the conditions to Closing set forth in Article 7 and to use its commercially reasonable best efforts to refrain from taking any action within its control that would cause a breach of a representation, warranty, covenant or agreement set forth in this Agreement.

6.10 ADDITION OF NEWLP. The Sellers covenant and agree that upon completion of the formation and organization of NewLP the Sellers will take such actions as are necessary or appropriate to add NewLP as a party to this Agreement. From and after such time as NewLP is so made a party, the Parties agree that NewLP shall constitute a Seller to the same extent as if NewLP were originally identified as a Seller herein.

6.11 AMENDMENT OF BUYER'S PARTNERSHIP AGREEMENT. The Sellers covenant and agree that prior to Closing the Sellers shall cause USP GP to take such actions as may be necessary or appropriate to amend the Buyer Partnership Agreement to clarify that, notwithstanding the terms of Section 7.12 of the Buyer Partnership Agreement, immediately after the closings of the transactions contemplated in this Agreement and the Acquisition Agreement, the Common Units held by HHI as of the date hereof and to be converted into Class E Units upon the Closing which will represent the Pledged Units under the Pledge Agreement, will continue to be treated as issued and outstanding limited partner interests, such amendment to be in such form as shall be mutually acceptable to Sellers and Acquirer (such form of amendment to the Buyer Partnership Agreement, the "MLP Agreement Amendment").

6.12 ELIMINATION OF INTERCOMPANY ACCOUNTS. Prior to the Closing the Sellers shall take such actions, and shall cause USP GP, US Propane and HHI to take such actions as may be necessary or appropriate to eliminate from HHI the affiliated payables and receivables listed in Schedule 6.12.

6.13 PRE-CLOSING DIVIDENDS OF NET WORTH NOTE AND DISTRIBUTION NOTE.

(a) After the Pre-Closing Restructuring is completed and prior to the Closing, the Sellers shall cause HHI to declare a dividend of the Net Worth Note, such dividend to be payable to NewGP and NewLP as the owners of record of HHI on the record date established for payment of such dividend, and the payment date of such dividend shall be the first Business Day after the Closing Date.

(b) After the Pre-Closing Restructuring is completed and prior to the Closing and if the Closing occurs at any time before the receipt by HHI on the Common Units held by HHI of the payment by the Buyer of the quarterly cash distribution for the Buyer's quarterly period ending November 30, 2003, the Sellers shall cause HHI to declare and pay to NewGP and NewLP, as the then holders of record, the Distribution Note, the payment of the dividend of such Distribution Note to be made immediately prior to the Closing. If the Closing occurs at any time

after the receipt by HHI on the Common Units held by HHI of the payment by the Buyer of the quarterly cash distribution for the Buyer's quarterly period ending November 30, 2003, Sellers shall not cause HHI to pay a dividend of the Distribution Note. The Distribution Note shall obligate HHI to pay to NewGP and NewLP an aggregate amount (the "Pro Rated Distribution Payment") to be calculated and paid by HHI as follows:

An amount equal to the excess of (i) (A) the Per Day Rate (as defined below) times the (ii) (B) number of calendar days in the period that commenced on, and includes, September 1, 2003 and ends on, but excludes December 1, 2003 (or, if the Closing occurs before December 1, 2003, such date on which the Closing occurs) over (ii) the amount of accrued and unpaid income taxes payable, if any, by HHI in respect of the amount calculated in clause (i). As used herein, the term "Per Day Rate" means a fraction, of which (i) the numerator is equal to the product of (A) the quarterly cash distribution per Common Unit paid by Buyer to the holders of its Common Units for the quarterly period ending November 30, 2003 and (B) of which the denominator is 91. The Parties hereto agree that the foregoing calculation is intended to provide that the Distribution Note, if any, shall not include any amounts that relate to the quarterly cash distribution with respect to the quarterly period beginning on December 1, 2003. Buyer shall pay the Pro Rated Distribution Payment to the holder(s) of the Distribution Note within one Business Day following the payment date established by Buyer for such cash distribution.

ARTICLE 7
CONDITIONS TO OBLIGATIONS OF THE PARTIES

7.1 CONDITIONS TO CLOSING OF THE BUYER. The obligations of the Buyer to consummate the transactions contemplated by this Agreement at the Closing shall be subject to the fulfillment by each of the Sellers and US Propane, jointly and severally, on or prior to the Closing Date of each of the following conditions (all of which may be waived in whole or in part by Buyer in its sole discretion):

(a) Representations and Warranties True. All the representations and warranties of the Sellers and US Propane contained in this Agreement, and in any agreement, instrument or document delivered by the Sellers and US Propane pursuant to this Agreement on or prior to the Closing Date shall be true and correct, individually and in the aggregate, in all material respects (other than those representations and warranties of the Sellers and US Propane that are qualified by materiality or an HHI Material Adverse Effect, which shall be true and correct in all respects as so qualified) as of the date of this Agreement and as of the Closing Date, and any representations and warranties of the Sellers and US Propane made as of a specified date earlier than the Closing Date shall have been true and correct in all material respects on and as of such earlier date (other than those representations and warranties of the Sellers and US Propane that are qualified by materiality or an HHI Material Adverse Effect, which representations and warranties shall have been true and correct in all respects as so qualified.).

(b) Covenants and Agreements Performed. Each of the Sellers and US Propane shall have performed and complied with, in all material respects, all covenants and agreements required by this Agreement to be performed or complied with by them (including, without limitation, completion of the Pre-Closing Restructuring).

(c) Certificates. The Buyer shall have received a certificate from the Sellers and US Propane, in substantially the form set forth in Exhibit 7.1(c), dated the Closing Date, representing and certifying that the conditions set forth in Sections 7.1(a) and 7.1(b) have been fulfilled.

(d) Legal Proceedings. No preliminary or permanent injunction or other order, decree or ruling issued by a Governmental Authority, and no statute, rule, regulation or executive order promulgated or enacted by a Governmental Authority, shall be in effect (i) that restrains, enjoins, prohibits or otherwise makes illegal the consummation of the transactions contemplated hereby or (ii) that would impose any material limitation on the ability of the Buyer effectively to receive the benefits and to exercise full rights of ownership of the HHI Stock under this Agreement. No Proceeding before a Governmental Authority shall be pending (A) seeking to restrain or prohibit the consummation of the transactions contemplated hereby or (B) that could reasonably be expected, if adversely determined, to impose any material limitation on the ability of the Buyer effectively to receive the benefits and to exercise full rights of ownership of the HHI Stock to be acquired by the Buyer under this Agreement.

(e) Consents. All Consents set forth on Exhibit 7.1(e) shall have been obtained or made and shall be in full force and effect as to the Sellers and US Propane at the time of the Closing.

(f) No HHI Material Adverse Effect. Since the date of this Agreement, there shall not have been any event or condition having an HHI Material Adverse Effect.

(g) Deliveries of Stock Certificates. The Sellers shall deliver the stock certificate(s) representing the HHI Stock, duly endorsed in blank or accompanied by duly executed assignment documents.

(h) Certain Operative Agreements. Each of the other Operative Agreements shall have been executed and delivered by each of the Sellers and US Propane that are party thereto, and such Operative Agreements shall be in full force and effect subject only to the Closing.

(i) Resignation of Directors. HHI shall have received the resignation of each of its directors constituting HHI Board of Directors immediately prior to Closing, such resignations to be effective upon Closing.

(j) Contribution Agreement and Acquisition Agreement. All of the conditions to the closings of the Contribution Agreement and Acquisition Agreement (other than the closing of the transactions pursuant to this Agreement) shall have been satisfied or waived.

(k) The MLP Agreement Amendment shall have been executed by the parties thereto and shall be in full force and effect, subject to the Closing of the transactions contemplated by the Acquisition Agreement and the Closing.

(l) HSR Waiting Period. If applicable, the waiting period under the HSR Act applicable to the consummation of the transaction contemplated hereby shall have expired or been terminated without any adverse condition attached thereto.

7.2 CONDITIONS TO CLOSING OF THE SELLERS. The obligations of US Propane and each of the Sellers to consummate the transactions contemplated by this Agreement at the Closing shall be subject to the fulfillment by the Buyer, on or prior to the Closing Date of each of the following conditions (all of which may be waived in whole or in part by Seller in their sole discretion):

(a) Representations and Warranties True. All the representations and warranties of the Buyer contained in this Agreement, and in any agreement, instrument or document delivered by the Buyer pursuant to this Agreement on or prior to the Closing Date shall be true and correct, individually and in the aggregate, in all material respects (other than the representations and warranties of the Buyer that are qualified by materiality or a Buyer Material Adverse Effect, which shall be true and correct in all respects as so qualified) as of the date of this Agreement and as of the Closing Date, and any representations and warranties of the Buyer made as of a specified date earlier than the Closing Date shall have been true and correct in all material respects on and as of such earlier date (other than the representations and warranties of the Buyer that are qualified by materiality or a Buyer Material Adverse Effect, which representations and warranties shall have been true and correct in all respects as so qualified).

(b) Covenants and Agreements Performed. The Buyer shall have performed and complied with, in all material respects, all covenants and agreements required by this Agreement and the other Operative Agreements to be performed or complied with by it (including, without limitation, completion of the Pre-Closing Restructuring).

(c) Certificates. US Propane and the Sellers shall have received a certificate from the Buyer, in substantially the form set forth in Exhibit 7.2(c), executed by the Buyer, dated the Closing Date, representing and certifying that the conditions set forth in Section 7.2(a) and Section 7.2(b) have been fulfilled and a certificate as to the incumbency of the officers executing this Agreement on behalf of the Buyer.

(d) Legal Proceedings. No preliminary or permanent injunction or other order, decree or ruling issued by a Governmental Authority, and no statute, rule, regulation or executive order promulgated or enacted by a Governmental Authority, shall be in effect that restrains, enjoins, prohibits or otherwise makes illegal the consummation of the transactions contemplated hereby. No Proceeding before a Governmental Authority shall be pending (A) seeking to restrain or prohibit the consummation of the transactions contemplated hereby or (B) that could reasonably be expected, if adversely determined, to impose any material limitation on the ability of the Sellers to receive the Purchase Price.

(e) Consents. All Consents set forth on Exhibit 7.2(e) shall have been obtained or made and shall be in full force and effect as to the LP at the time of the Closing.

(f) No Buyer Material Adverse Effect. Since the date of this Agreement, there shall not have been any event or condition having a Buyer Material Adverse Effect.

(g) Purchase Price. The Buyer shall have paid the Closing Consideration for the HHI Stock as provided in Section 2.2.

(h) Contribution Agreement and Acquisition Agreement. All of the conditions to the closings of the Contribution Agreement and the Acquisition Agreement (other than the closing of the transactions pursuant to this Agreement) shall have been satisfied or waived.

(i) NewLP Release. Buyer shall have executed and delivered the NewLP Release, which shall be in full force and effect subject to the Closing.

(j) HSR Waiting Period. If applicable, the waiting period under the HSR Act applicable to the consummation of the transactions contemplated hereby shall have expired or been terminated without any adverse condition attached thereto.

(k) Conversion of Class E Units. The New York Stock Exchange shall have confirmed that the Class E Units pledged under the Pledge Agreement shall be convertible in the event of foreclosure of the Promissory Note automatically and without further action.

ARTICLE 8
TERMINATION, AMENDMENT AND WAIVER

8.1 TERMINATION. This Agreement may be terminated and the transactions contemplated hereby abandoned by written notice at any time prior to the Closing in any of the following manners:

(a) concurrently with any permitted termination of the Contribution Agreement or the Acquisition Agreement;

(b) by written consent of each of the Parties;

(c) by any Party if the Closing has not occurred on or before February 15, 2004, unless such failure to close resulted from a breach of this Agreement by the Party or its Affiliate seeking to terminate this Agreement pursuant to this Section 8.1(c);

(d) by any Party if (i) there is any statute, rule or regulation that makes consummation of the transactions contemplated hereby or the operation of HHI's business illegal or otherwise prohibited or (ii) a Governmental Authority (A) has issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the consummation of the transactions contemplated hereby, and such order, decree, ruling or other action shall have become final and nonappealable or (B) has made any order, decree, ruling or other action consenting to or approving consummation of the transactions contemplated hereby contingent or conditional in any manner that has a material adverse effect on HHI's business;

(e) by any Party, if there has been any violation or breach by any other Party (other than an Affiliate or related party of the first party) of any representation, warranty, covenant or agreement contained in this Agreement that has rendered impossible the satisfaction of any condition to the obligations of such other Party set forth in Section 7.1 or Section 7.2 and such violation or breach has neither been cured within 30 days after notice by such first Party to the other Party nor waived by the first Party; or

(f) by any Party, if any other event shall occur that shall render the satisfaction of any such condition to the obligations of any other Party (other than an Affiliate or related party of the first party) impossible and such condition has not been waived by the other Parties.

8.2 EFFECT OF TERMINATION. In the event of the termination of this Agreement pursuant to Section 8.1 by any Party, written notice thereof shall forthwith be given to the other Parties specifying the provision hereof pursuant to which such termination is made. If this Agreement is terminated for any reason, this Agreement, the Contribution Agreement and the Acquisition Agreement shall become void and have no effect, except that the agreements contained in this Section 8.2 and in Section 6.6 and Article 10 shall survive the termination hereof. Nothing contained in this Section 8.2 shall relieve any Party from liability for fraud or any willful breach of this Agreement.

8.3 AMENDMENT. This Agreement may not be amended except by an instrument in writing signed by each of the Parties.

8.4 WAIVER. Any Party may, on behalf of itself only and not on behalf of any other Party, (a) waive any inaccuracies in the representations and warranties of any other Party (other than an Affiliate or related party of the first Party) contained herein or in any document, certificate or writing delivered pursuant hereto, (b) waive compliance by any other Party (other than an Affiliate or related party of the first Party) with any of its agreements contained herein and (c) waive fulfillment of any conditions to its obligations contained herein. Any agreement on the part of a Party to any such waiver shall be valid only if set forth in an instrument in writing signed by or on behalf of such Party. No failure or delay by a Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

ARTICLE 9
INDEMNIFICATION; SURVIVAL OF REPRESENTATIONS

9.1 INDEMNIFICATION OBLIGATIONS OF THE BUYER. From and after the Closing Date, the Buyer shall indemnify each of the Sellers and their respective members, partners, Affiliates and controlling Persons (the "Seller Indemnified Parties"), and hold the Sellers harmless from and against and in respect of any and all Losses arising out of, based upon or resulting from:

(a) the breach of any representation or warranty of the Buyer contained in or made pursuant to Article 4 of this Agreement;

(b) the breach by the Buyer or failure of the Buyer to observe or perform in any material respect, any of its covenants or agreements contained in this Agreement; and

(c) any Taxes of HHI to the extent payable by Buyer as specified in Section 6.7.

Notwithstanding the foregoing, the Buyer will not have any obligation to indemnify the Seller Indemnified Parties for Losses under Section 9.1(a) unless and until the aggregate amount of all such Losses under Section 9.1(a) exceeds $100,000 (regardless of whether, in the case of third

party actions, suits or proceedings with respect to any of the foregoing, the Buyer may have a meritorious defense), at and after which time the Buyer shall be liable, jointly and severally, for all Losses in excess of $100,000. The immediately preceding sentence shall not apply to any obligation of Buyer under Section 6.7. The rights and remedies of the Buyer based upon, arising out of or otherwise in respect of any clause of this Section 9.1 or any representation, warranty or covenant in this Agreement shall in no way be limited by the fact that the act, omission, occurrence or other state of facts upon which any such claim is based may also be the subject matter of any representation, warranty or covenant in this Agreement that would not give rise to any rights or remedies of the Sellers.

9.2 INDEMNIFICATION OBLIGATIONS OF THE SELLERS. From and after the Closing Date, the Sellers, jointly and severally, shall indemnify the Buyer and its partners, Affiliates and controlling Persons (the "Buyer Indemnified Parties"), as the case may be, and hold such Persons harmless from and against and in respect of any and all Losses arising out of, based upon or resulting from:

(a) the breach of any representation or warranty of the Sellers and US Propane contained in or made pursuant to Article 3 of this Agreement.

(b) the breach by any of the Sellers or US Propane or failure of any of the Sellers or US Propane or any of their Affiliates to observe or perform in any material respect, any of their covenants or agreements contained in this Agreement; and

(c) any Taxes of any of HHI to the extent payable by Sellers as specified in Section 6.7;

Notwithstanding the foregoing, none of the Sellers or US Propane will have any obligation to indemnify any of the Buyer Indemnified Parties for Losses under Section 9.2(a) unless and until the aggregate amount of all such Losses under Section 9.2(a) exceeds $100,000 (regardless of whether, in the case of third party actions, suits or proceedings with respect to any of the foregoing, any of the Sellers or US Propane may have a meritorious defense), at and after which time the Sellers shall be liable, jointly and severally, for all Losses in excess of $100,000. The immediately preceding sentence shall not apply to any obligation of the Sellers or US Propane under Section 6.7. The rights and remedies of the Buyer Indemnified Parties, based upon, arising out of or otherwise in respect of any clause of this Section 9.2 or any representation, warranty or covenant in this Agreement shall in no way be limited by the fact that the act, omission, occurrence or other state of facts upon which any such claim is based may also be the subject matter of any representation, warranty or covenant in this Agreement that would not give rise to any rights or remedies of the Buyer Indemnified Parties.

9.3 INDEMNIFICATION PROCEDURES.

(a) Promptly after receipt by any Person entitled to indemnification under Section 9.1 or Section 9.2 (an "indemnified Party") of notice of the commencement of any Proceeding by a Person not a Party to this Agreement in respect of which the indemnified Party will seek indemnification hereunder (a "Third Party Action"), the indemnified Party shall notify the Person that is obligated to provide such indemnification (an "indemnifying Party") thereof in writing, but any failure to so notify the indemnifying Party shall not relieve it from any liability that it may have to the indemnified Party under Section 9.1 or Section 9.2, except to the extent that the indemnifying Party is actually and materially prejudiced by the failure to give such notice. The indemnifying Party shall be entitled to participate in the defense of such Third Party Action and to assume control of such defense with counsel reasonably satisfactory to such indemnified Party; provided, however, that:

(A) the indemnified Party shall be entitled to participate in the defense of such Third Party Action and to employ counsel at its own expense to assist in the handling of such Third Party Action;

(B) the indemnifying Party shall obtain the prior written approval of the indemnified Party, which approval shall not be unreasonably withheld or delayed, before entering into any settlement of such Third Party Action or ceasing to defend against such Third Party Action, if pursuant to or as a result of such settlement or cessation, injunctive or other equitable relief would be imposed against the indemnified Party or the indemnified Party would be adversely affected thereby;

(C) no indemnifying Party shall consent to the entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by each claimant or plaintiff to each indemnified Party of a release from all liability in respect of such Third Party Action; and

(D) the indemnifying Party shall not be entitled to control the defense of any Third Party Action unless within 15 days after receipt of such written notice from the indemnified Party the indemnifying Party confirms in writing its responsibility to indemnify the indemnified Party with respect to such Third Party Action and reasonably demonstrates that it will be able to pay the full amount of the reasonably expected Losses in connection with any such Third Party Action.

Except as set forth in the following sentence, after written notice by the indemnifying Party to the indemnified Party of its election to assume control of the defense of any such Third Party Action in accordance with the foregoing and compliance by the indemnifying Party with Section 9.3(a)(iv), (A) the indemnifying Party shall not be liable to such indemnified Party hereunder for any Legal Expenses subsequently incurred by such indemnified Party attributable to defending against such Third Party Action, and (B) as long as the indemnifying Party is reasonably contesting such Third Party Action in good faith, the indemnified Party shall not admit any liability with respect to, or settle, compromise or discharge the claim underlying, such Third Party Action without the indemnifying Party's prior written consent. If (A) the indemnifying Party does not assume control of the defense of such Third Party Action in

accordance with this Section 9.3 or (B) the indemnified Party has been advised in writing by counsel that representation of such indemnified Party and the indemnifying Party by the same counsel would be inappropriate under applicable standards of professional conduct (in which case the indemnifying Party shall not have the right to assume control of the defense of such Third Party Action on behalf of the indemnified Party, in each case the indemnified Party shall have the right to defend and/or settle such Third Party Action in such manner as it may deem appropriate at the cost and expense of the indemnifying Party, provided that (i) the indemnifying Party shall be obligated to reimburse the indemnified Parties for the costs and expenses of only a single counsel for such Third Party Action and any matters related thereto, and (ii) the indemnified Party shall not settle or resolve such Third Party Action without the prior written consent of the indemnifying Party (which consent will not be unreasonably withheld, conditioned or delayed), and the indemnifying Party will promptly reimburse the indemnified Party therefor in accordance with this Article 9. The reimbursement of fees, costs and expenses required by this Article 9 shall be made by periodic payments during the course of the investigation or defense, as and when bills are received or expenses incurred.

(b) If the indemnifying Party shall be obligated to indemnify the indemnified Party pursuant to this Article 9, the indemnifying Party shall be subrogated to all rights of the indemnified Party with respect to the claims to which such indemnification relates. If an indemnified Party becomes entitled to any indemnification from an indemnifying Party, such indemnification shall be made in cash upon demand.

(c) The right of indemnification pursuant to this Article 9 shall constitute the sole and exclusive remedy of each of the Parties to this Agreement, other than with respect to fraud or willful breach by a Party. So long as a claim for indemnification pursuant to this Article 9 is being contested in good faith by the indemnifying Party or such claim shall otherwise remain unliquidated, such claim shall not affect any of the rights of the indemnifying Party under the LP Agreement, including any right to current distributions by the LP.

9.4 SURVIVAL. Except as provided in this Section 9.4, and except for fraud and intentional misconduct, all representations, warranties, covenants and agreements contained in this Agreement shall terminate as specified below.

(a) The right to indemnification:

(A) with respect to the representations and warranties contained in Articles 3 or 4 (other than the representations and warranties in Sections 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.10, 3.13, 3.17, 4.1, 4.2, 4.3, 4.4, 4.5, 4.7 and 4.8) shall survive for 180 days after the Closing;

(B) with respect to the representations and warranties contained in Sections 3.5, 3.6, 3.7, 3.13, 4.4, 4.5 and 4.8 shall survive until the expiration of the applicable statute of limitations;

(C) with respect to the representations and warranties contained in Sections 3.1, 3.2, 3.3, 3.4, 3.10, 3.17, 4.1, 4.2, 4.3, and 4.7 shall survive without any time limit; and

(D) with respect to the covenants and agreements contained in this Agreement (including those covenants and agreements set forth in Section 6.7), shall survive for the applicable statute of limitations.

The expiration of any survival period under this Agreement will not affect the liability of any Party under this Article 9 for any Loss as to which a bona fide claim has been asserted prior to the termination of such survival period.

9.5 NO SPECIAL OR CONSEQUENTIAL DAMAGES. No Party shall be entitled to recover special, consequential, exemplary or punitive damages from the other Parties, and each Party hereby waives any claim or right to special, consequential, exemplary or punitive damages hereunder, even if caused by the active, passive, sole, joint, concurrent or comparative negligence, strict liability, or other fault of any Party, other than fraud and intentional misconduct.

ARTICLE 10
MISCELLANEOUS

10.1 NOTICES. All notices, requests, demands and other communications required or permitted to be given or made hereunder by any Party shall be in writing, and shall be delivered either personally, or by registered or certified mail (postage prepaid and return receipt requested) or by express courier or delivery service, or by telegram, telefax, telex or similar facsimile means, to the Parties, at the addresses (or at such other addresses as shall be specified by the Parties by like notice) set forth below:

(a) If to the Sellers or US Propane:

(A) AGL Energy Corporation

AGL Propane Services, Inc.
P.O. Box 4569
Atlanta, GA 30302
Attention: General Counsel
(404) 584-4000
(404) 584-3419 (facsimile)

(B) United Cities Propane Gas, Inc.

c/o Atmos Energy Corporation
5430 LBJ Freeway
1800 Three Lincoln Centre
Dallas, TX 75240
Attention: J. Patrick Reddy
(972) 855-3723
(972) 855-3793 (facsimile)

(C) TECO Propane Ventures, LLC

c/o TECO Energy, Inc.
702 N. Franklin St.
Tampa, FL 33602
Attention: General Counsel
(813) 228-4111
(913) 228-4811(facsimile)

(D) Piedmont Propane Company

1915 Rexford Road
Charlotte, NC 28211
Attention: David Dzuricky
Kevin M. O'Hara
(704) 364-3120
(704) 365-8515 (facsimile)

(E) Andrews & Kurth L.L.P.

600 Travis
Houston, Texas 77002
Attention: G. Michael O'Leary
(713) 220-4360
(713) 220-4285 (facsimile)

(b) If to the Buyer:

Heritage Propane Partners, L.P.
8801 S. Yale
Suite 300
Tulsa, OK 74137
(918) 493-7290 (facsimile)

with a copy to:

Thompson & Knight L.L.P.
1700 Pacific Avenue, Suite 3000
Dallas, TX 75201
Attention: Jeffrey A. Zlotky
(214) 969-1751 (facsimile)

and

Doerner, Saunders, Daniel & Anderson, L.L.P.
320 South Boston Avenue
Suite 500
Tulsa, OK 74103-3725
Attention: Robert A. Burk
(918) 591-5360 (facsimile)

Notices and other communications shall be deemed given or made (i) when received, if sent by telegram, facsimile, telex or similar electronic transmission means (written confirmation of such receipt by confirmed facsimile transmission being deemed receipt of communications sent by facsimile, telex or similar electronic transmission means) and (ii) when delivered and receipted for (or upon the date of attempted delivery where delivery is refused), if hand-delivered, sent by registered or certified mail or sent by express courier or delivery service, except in the case of facsimile transmissions received after the normal close of business at the receiving location, which shall be deemed given on the next Business Day.

10.2 ENTIRE AGREEMENT. This Agreement and the other Operative Agreements, together with the Schedules and Exhibits hereto (where applicable, as executed and delivered), constitute the entire agreement between the Parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof.

10.3 BINDING EFFECT; ASSIGNMENT; NO THIRD PARTY BENEFIT. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned (whether by operation of law or otherwise) by any Party without the prior written consent of each of the Parties, and any purported assignment without such consent shall be void, provided, however, that Buyer may assign its rights, interests and obligations under the Agreement to _____ without the prior written consent of the Sellers but no such assignment shall relieve the Buyer of its obligations hereunder. Except as provided in Article 9, nothing in this Agreement, express or implied, is intended to or shall confer upon any Person other than the Parties, and their respective successors and permitted assigns, any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

10.4 SEVERABILITY. If any provision of this Agreement is held to be unenforceable, this Agreement shall be considered divisible and such provision shall be deemed inoperative to the extent it is deemed unenforceable, and in all other respects this Agreement shall remain in full force and effect; provided, however, that if any such provision may be made enforceable by limitation thereof, then such provision shall be deemed to be so limited and shall be enforceable to the maximum extent permitted by Applicable Law.

10.5 GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Texas or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Texas.

10.6 JURISDICTION. Any legal action, suit or proceeding in law or equity arising out of or relating to this Agreement or the transactions contemplated by this Agreement may only be instituted in any state or federal court located in the State of Texas, and each Party agrees not to assert, by way of motion, as a defense or otherwise, in any such action, suit or proceeding, any claim that is not subject personally to the jurisdiction of such court, that its property is exempt or immune from attachment or execution, that the action, suit or proceeding is brought in an inconvenient forum, that the venue of the action, suit or proceeding is improper or that this Agreement, or the subject matter hereof or thereof may not be enforced in or by such court. Each Party further irrevocably submits to the jurisdiction of any such court in any such action, suit or proceeding. Any and all service of process and any other notice in any such action, suit or proceeding shall be effective against any Party if given by registered or certified mail (return receipt requested) or by any other means which requires a signed receipt in accordance with, and at the address listed in, Section 10.1. Nothing herein contained shall be deemed to affect the right of any Party to serve process in any manner permitted by law.

10.7 FURTHER ASSURANCES. From time to time following the Closing, at the request of any Party and without further consideration, the other Parties shall execute and deliver to such requesting Party such instruments and documents and take such other action as such requesting Party may reasonably request or as may be otherwise necessary to (a) more fully and effectively transfer the HHI Stock to, and vest the HHI Stock in, the Buyer, (b) enable the Buyer to assume and fully and timely perform in accordance with their terms any or all of the obligations of HHI, (c) enable the Buyer or their Affiliates to receive the benefits of the ownership of the HHI Stock, and (d) otherwise consummate more fully and effectively the transactions contemplated by this Agreement and the other Operative Agreements.

10.8 DESCRIPTIVE HEADINGS. The descriptive headings herein are inserted for convenience of reference only, do not constitute a part of this Agreement and shall not affect in any manner the meaning or interpretation of this Agreement.

10.9 COUNTERPARTS. This Agreement may be executed by the Parties in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same agreement.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed as of the day and year first above written.

US PROPANE:

U.S. PROPANE, L.P.,
a Delaware limited partnership

By: U.S. Propane, L.L.C.,
its General Partner

By: _____
Name:_____
Title:_____

THE SELLERS:

AGL ENERGY CORPORATION,
a Delaware corporation

By: _____
Name:_____
Title:_____

AGL PROPANE SERVICES, INC.,
a Delaware corporation

By: _____
Name:_____
Title:_____

UNITED CITIES PROPANE GAS, INC.,
a Tennessee corporation

By: _____

Name:_____

Title:_____

TECO PROPANE VENTURES, LLC,
a Delaware limited liability company

By: _____

Name:_____

Title:_____

PIEDMONT PROPANE COMPANY,
a North Carolina corporation

By: _____

Name:_____

Title:_____

THE BUYER:

HERITAGE PROPANE PARTNERS, L.P.,
a Delaware limited partnership

By: US Propane, L.P.

By: US Propane, L.L.C.
its General Partner

By: _____

Name:_____

Title:_____

STOCK PURCHASE AGREEMENT

SUMMARY of SCHEDULES AND EXHIBITS

SCHEDULES

Schedule 2.1(a)	Method For Determining Current Liabilities Of HHI
Schedule 3.2(a)	Other Securities of HHI
Schedule 3.2(b)	Indebtedness of US Propane or Sellers Owing to HHI
Schedule 3.5	Default or Violation
Schedule 3.13(a)	Tax Returns (Exceptions)
Schedule 3.13(b)	List of Tax Returns
Schedule 3.13(g)	Taxes in Stock Acquisitions
Schedule 3.14	Intellectual Property
Schedule 3.18(a)	HHI Unaudited Financial Statements
Schedule 3.18(b)	Other Liabilities
Schedule 5.2(b)	Certain Actions
Schedule 6.12	HHI Payables and Receivables to be Eliminated

EXHIBITS

Exhibit 1.1	Definitions
Exhibit 7.1(c)	Form of Officers' Certificate of Sellers and US Propane
Exhibit 7.1(e)	Consents
Exhibit 7.2(c)	Form of Officers' Certificate of the Buyer
Exhibit 7.2(e)	Consents

Annex I	Promissory Note
Annex II	Pledge Agreement

EXHIBIT 1.1

DEFINITIONS

"Affiliate" means, with respect to a Person, (a) any other Person more than 50 percent of whose outstanding voting securities are directly or indirectly owned, controlled or held with the power to vote by such Person or (b) any other Person directly or indirectly controlling, controlled by or under common control with such Person. The term "controls" (and the variants thereof) as used in this definition means the possession of the power, acting alone, to direct or cause the direction of the management and policies of a Person by virtue of ownership of voting securities or otherwise.

"Applicable Law" means any Law to which a specified Person or property is subject.

"Business Day" means a day other than Saturday, Sunday or any day on which banks located in the State of Texas or Oklahoma are authorized or obligated to close.

"Buyer Partnership Agreement" means the Amended and Restated Agreement of Limited Partnership of Buyer, dated as of June 27, 1996, as amended or supplemented and in effect as of the date of this Agreement.

"Code" means the Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to a corresponding provision of any successor law.

"Contract" means any agreement, contract, obligation, promise, or undertaking (whether written or oral and whether express or implied) that is legally binding.

"Contribution Agreement" means that certain Contribution Agreement, of even date herewith, among Acquirer, Buyer and US Propane, as same may be amended or supplemented during the term hereof.

"Control" means the possession, directly or indirectly, through one or more intermediaries, of any of the following:

(d) (i) in the case of a corporation, more than 50 percent of the outstanding voting securities thereof; (ii) in the case of a limited liability company, partnership, limited partnership or joint venture, equity securities of such entity that entitle the owner/holder thereof to the right to receive more than 50 percent of the distributions from such entity; (iii) in the case of a trust or estate, including a business trust, more than 50 percent of the beneficial interests therein; and (iv) in the case of any other entity, equity securities or ownership interests in such entity that entitle the owner/holder thereof to more than 50 percent of the economic or beneficial interests therein; or

(e) in the case of any entity, the possession of the power, acting alone or as a member of a group (as defined in Rule 13d-5 under the Exchange Act), to direct or cause the direction of the management and policies of the entity by virtue of ownership of voting securities or otherwise.

"Delaware LP Act" means the Delaware Revised Uniform Limited Partnership Act, as amended and in effect from time to time.

"Encumbrance" means any security interest, lien, pledge, claim, charge, escrow, encumbrance, option, right of first offer, right of first refusal, preemptive right, mortgage, indenture, security agreement or other similar agreement, arrangement, contract, commitment, understanding or obligation, whether written or oral and whether or not relating in any way to credit or the borrowing of money.

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

"GAAP" means generally accepted accounting principles as in effect in the United States of America on the applicable date.

"Governmental Authority" (or "Governmental") means a federal, state, local or foreign governmental authority; a state, province, commonwealth, territory or district thereof; a county or parish; a city, town, township, village or other municipality; a district, ward or other subdivision of any of the foregoing; any executive, legislative or other governing body of any of the foregoing; any agency, authority, board, department, system, service, office, commission, committee, council or other administrative body of any of the foregoing; any court or other judicial body; and any officer, official or other representative of any of the foregoing.

"HHI Material Adverse Effect" means the occurrence or existence of any event or circumstance that (a) would have a material adverse effect on the condition (financial or other), business, properties, net worth or results of operations of HHI, or (b) would subject HHI to any material liability or disability, or (c) would impede in any material respect the ability of HHI, Sellers, US Propane or Buyer to consummate the transactions contemplated by the Contribution Agreement, this Agreement or the Acquisition Agreement.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"IRS" means the Internal Revenue Service.

"Knowledge" has the meaning assigned to such term in the Acquisition Agreement.

"Law" means any applicable constitutional provision, statute, act, code (including the Code), law, regulation, rule, ordinance, order, decree, ruling, proclamation, resolution, judgment, decision, declaration, or interpretative or advisory opinion or letter of a Governmental Authority having valid jurisdiction.

"Legal Expenses" means the reasonable out-of-pocket fees, costs and expenses of any kind incurred by any Person entitled to indemnification pursuant to Article 9 in investigating, preparing for, defending against or providing evidence, producing documents or taking other action with respect to any claim as to which such person is entitled to indemnification pursuant to Article 9.

"Losses" means losses, damages, liabilities, claims, costs and expenses (including, without limitation, related Legal Expenses), but excluding losses, damages, liabilities, claims, costs and expenses incurred in connection with or relating to lost profits or special, consequential, exemplary or punitive damages.

"Operative Agreements" means this Agreement, the Promissory Note, the Pledge Agreement, the MLP Agreement Amendment, the Noncompetition Agreement and the NewLP Release.

"Parties" means, collectively, each of the parties named in the Preamble.

"Permits" means licenses, permits, franchises, consents, approvals, variances, exemptions and other authorizations of or from Governmental Authorities.

"Person" means any individual, corporation, firm, partnership, limited partnership, limited liability company, joint venture, association, joint-stock company, trust, enterprise, other entity, unincorporated association or Governmental Authority.

"Proceedings" means all proceedings, actions, claims, suits, investigations and inquiries by or before any arbitrator or Governmental Authority.

"Special Committee" means the Special Committee of the Board of Directors of the general partner of US Propane, consisting of Stephen L. Cropper, J. Charles Sawyer and Bill W. Byrne.

"Subsidiary" means as to any Person, (a) any corporation more than 50 percent of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (excluding stock of any class or classes of such corporation that might have voting power by reason of the happening of any contingency) is at the time owned by such Person and/or one or more Subsidiaries of such Person and (b) any partnership, limited partnership, limited liability company, joint venture, association, joint-stock company, trust, enterprise, other entity or unincorporated association in which such Person and/or one or more Subsidiaries of such Person has more than a 50 percent equity interest at the time.

"Tax Return" means any return or report, including any related or supporting information, with respect to Taxes.

"Taxes" means any income taxes or similar assessments or any sales, gross receipts, excise, occupation, use, ad valorem, property, production, severance, transportation, employment, payroll, franchise or other tax imposed by any United States federal, state or local (or any foreign or provincial) taxing authority, including any interest, penalties or additions attributable thereto.

EXHIBIT 21.1

SUBSIDIARIES

1. Heritage Operating L.P., a Delaware limited partnership, which does business under the following names:

- Adams LP Gas of Lake City
- Archibald Propane
- Balgas
- Big Sky Petroleum
- Blue Flame Gas
- Blue Flame Gas of Charleston
- Blue Flame Gas of Mt. Pleasant
- Blue Flame Gas of Richmond
- C & D Propane
- Carolane Propane Gas
- Clarendon Gas Co.
- Covington Propane
- Cumberland LP Gas
- Duncan Propane
- Eaves Propane & Oil
- Efird Gas Company
- Fallsburg Gas Service
- Foster's Gas
- Foster's Propane
- Foust Fuels
- Franconia Gas
- Gas Service Co.
- Gas to Go
- Gibson Homegas
- Gibson Propane
- Greer Gas Co.
- Grenier Gas Company
- Harris Propane Gas
- Heritage Propane
- Holton's L.P. Gas
- Horizon Gas
- Horizon Gas of Palm Bay
- Houston County Propane
- Hydratane of Athens
- Ikard & Newsom
- J & J Propane Gas
- Jerry's Propane Service
- John E. Foster & Son

- Johnson Gas
- Kingston Propane
- Kirby's Propane Gas
- Lake County Gas
- Lewis Gas Co.
- Liberty Propane
- Love Propane
- Lyons Gas
- Modern Propane Gas
- Moore LP Gas
- Mountain Gas
- Mt. Pleasant Propane
- Myers Propane Service
- New Mexico Propane
- Northern Energy
- Northwestern Propane
- Paradee Gas Company
- Pioneer LPG
- Pioneer Propane
- ProFlame
- Propane Gas Inc.
- Quality Gas
- Rural Gas and Appliance
- San Juan Propane
- Sandwich Gas Service
- Sawyer Gas
- ServiGas
- ServiGas/Ikard & Newsom
- Spring Lake Super Flame
- TriGas Propane Company
- Tri-Gas of Benzie
- Truett's Propane Service
- V-1 Propane
- Wakulla L.P.G.
- Waynesville Gas Service
- Wurtsboro Propane Gas
- Young's Propane

2. Heritage-Bi State, L.L.C., a Delaware limited liability company, holding a partnership interest in the following:

- Bi-State Propane (Bi-State Propane also transacts business under the name Turner Propane)

3. Heritage Service Corp., a Delaware corporation, holding a direct or indirect interest in the following:

- Heritage Energy Resources, L.L.C., an Oklahoma limited liability company
- M-P Oils Ltd., an Alberta, Canada corporation, holding a partnership interest in the following:
  - M-P Energy Partnership
- EarthAmerica, L.L.C., a Delaware limited liability company, holding a direct or indirect interest in the following:
  - EarthAmerica of Texas, L.P., a Texas limited partnership

4. EarthAmerica GP, L.L.C., a Delaware limited liability company, holding a direct or indirect interest in the following:

- EarthAmerica of Texas, L.P., a Texas limited partnership

EXHIBIT 23.3

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated October 24, 2003 (except for Note 12, as to which the date is November 6, 2003), accompanying the consolidated financial statements of Heritage Propane Partners, L.P. as of August 31, 2003 and 2002, and for each of the three years in the period ending August 31, 2003, and our reports dated October 24, 2003 (except for Note 11, as to which the date is November 6, 2003) on the consolidated balance sheet of U.S. Propane L.P. as of August 31, 2003, and on the consolidated balance sheet of U.S. Propane L.L.C. as of August 31, 2003. We have also issued our report dated October 25, 2002, accompanying the financial statements of Bi-State Propane as of August 31, 2002, and for the year then ended. These financial statements are included in the Annual Report of Heritage Propane Partners, L.P. on Form 10-K for the year ended August 31, 2003. We hereby consent to the incorporation by reference of the aforementioned reports in the Registration Statements of Heritage Propane Partners, L.P. on Form S-4 (File No. 333-40407, effective 11/19/97) and S-3 (File No. 333-86057, effective 9/13/99).

Tulsa, Oklahoma
November 26, 2003

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, H. Michael Krimbill, certify that:

1. I have reviewed this amended annual report on Form 10-K of Heritage Propane Partners, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 26, 2003

/s/ H. Michael Krimbill

H. Michael Krimbill
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael L. Greenwood, certify that:

1. I have reviewed this amended annual report on Form 10-K of Heritage Propane Partners, L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 26, 2003

/s/ Michael L. Greenwood

Michael L. Greenwood
Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Heritage Propane Partners, L.P. (the "Partnership") on Form 10-K for the year ended August 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Michael Krimbill, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: November 26, 2003

/s/ H. Michael Krimbill

H. Michael Krimbill
President and Chief Executive Officer

*A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to and will be retained by Heritage Propane Partners, L.P.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Heritage Propane Partners, L.P. (the "Partnership") on Form 10-K for the year ended August 31, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael L. Greenwood, Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date: November 26, 2003

/s/ Michael L. Greenwood

Michael L. Greenwood
Vice President and Chief Financial Officer

*A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to and will be retained by Heritage Propane Partners, L.P.

EXHIBIT 99.1

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Partners
U.S. Propane, L.P.

We have audited the accompanying consolidated balance sheet of U.S. Propane, L.P. (a Delaware limited partnership) and subsidiaries as of August 31, 2003. This financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of U.S. Propane, L.P. and subsidiaries as of August 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Tulsa, Oklahoma
October 24, 2003 (except for note 11, as to which the date is November 6, 2003)

U.S. PROPANE, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in thousands)

August 31, 2003
ASSETS
CURRENT ASSETS:
Cash and cash equivalents	$ 8,140
Marketable securities	3,055
Accounts receivable, net of allowance for doubtful accounts	35,879
Inventories	45,274
Assets from liquids marketing	83
Prepaid expenses and other	4,485
Deferred taxes	1,881
Total current assets	98,797
PROPERTY, PLANT AND EQUIPMENT, net	426,588
ASSETS HELD IN TRUST	724
INVESTMENT IN AFFILIATES	8,694
GOODWILL, net of amortization prior to adoption of SFAS No. 142	218,918
INTANGIBLES AND OTHER ASSETS, net	52,824
Total assets	$ 806,545
LIABILITIES AND PARTNERS' CAPITAL
CURRENT LIABILITIES:
Working capital facility	$ 26,700
Accounts payable	43,832
Accounts payable to related company	1,471
Accrued and other current liabilities	42,975
Liabilities from liquids

marketing	80
Current maturities of long-term debt	38,563
Total current liabilities	153,621
LONG-TERM DEBT, less current maturities	361,327
MINORITY INTERESTS	75,377
DEFERRED TAXES	103,845
	694,170
COMMITMENTS AND CONTINGENCIES	
PARTNERS' CAPITAL:	
General partner's capital (2)	
Limited partners' capital	112,525
Accumulated other comprehensive loss, net of tax	(148)
Total partners' capital	112,375
Total liabilities and partners' capital	$ 806,545

The accompanying notes are an integral part of this consolidated balance sheet.

U.S. PROPANE, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET
AUGUST 31, 2003
(Dollars in thousands)

1. OPERATIONS AND ORGANIZATION:

U.S. Propane, L.P. ("U.S. Propane") was formed in August 2000 as a Delaware limited partnership to acquire, directly and indirectly through Heritage Holdings, Inc. ("Heritage Holdings"), a controlling interest in Heritage Propane Partners, L.P. ("Heritage"). U.S. Propane is the General Partner of Heritage. U.S. Propane, L.L.C. is the General Partner of U.S. Propane with a 0.01% general partner interest. The members of U.S. Propane, L.L.C. and their respective membership interests are as follows:

TECO Propane Ventures, L.L.C.	37.98%
AGL Energy Corporation	22.36%
Piedmont Propane Company	20.69%
United Cities Propane Gas, Inc.	18.97%
Total	100.00%

The members of U.S. Propane, L.L.C. or their affiliates also own, in the same percentages, the limited partner interests in U.S. Propane.

In order to simplify Heritage's obligation under the laws of several jurisdictions in which Heritage conducts business, Heritage's activities are conducted through a subsidiary operating partnership Heritage Operating, L.P. (the "Operating Partnership"). The Operating Partnership sells propane and propane-related products to more than 650,000 active residential, commercial, industrial and agricultural customers in 29 states. Heritage is also a wholesale propane supplier in the southwestern and southeastern United States and in Canada, the latter through participation in MP Energy Partnership. Heritage owns a 60% interest in MP Energy Partnership, a Canadian partnership engaged in supplying the Partnership's northern U.S. locations and in lower-margin wholesale distribution. U.S. Propane owns a 1% general partner interest in Heritage and the associated Incentive Distribution Rights, a 1.0101% general partner interest in the Operating Partnership, and approximately 4.6 million Common Units of Heritage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated balance sheet includes the accounts of U.S. Propane and its subsidiaries ("the Partnership"), including its wholly-owned subsidiary, Heritage Holdings, and its partially-owned subsidiaries over which it exercises control including Heritage Propane Partners, L.P., Heritage Operating, L.P. ("the Operating Partnership"), Heritage Energy Resources, L.L.C. ("Resources"), Guilford Gas Service, Inc. and MP Energy Partnership. On May 31, 2003, Guilford Gas Service, Inc. was merged into the Operating Partnership. A minority interest liability and minority interest expense is recorded for all partially owned subsidiaries. The Partnership accounts for its 50% partnership interest in Bi-State Propane, another propane retailer, under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash on hand, demand deposits and investments with original maturities of three months or less. The Partnership considers cash equivalents to include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

ACCOUNTS RECEIVABLE

The Partnership grants credit to its customers for the purchase of propane and propane-related products. Accounts receivable are recorded at amounts billed to customers less an allowance for doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the realizability of customer accounts. Management's assessment is based on the payment history of the Partnership's customers and any specific disputes. Accounts receivable consisted of the following at August 31, 2003:

Accounts receivable	$ 39,383
Less - allowance for doubtful accounts	3,504
Total, net	$ 35,879

INVENTORIES

Inventories are valued at the lower of cost or market. The cost of fuel inventories is determined using weighted-average cost of fuel delivered to the retail districts and includes storage fees and inbound freight costs, while the cost of appliances, parts and fittings is determined by the first-in, first-out method. Inventories consisted of the following at August 31, 2003:

Fuel	$ 34,544
Appliances, parts and fittings	10,730
Total inventories	$ 45,274

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred. Expenditures to refurbish tanks that either extend the useful lives of the tanks or prevent environmental contamination are capitalized and depreciated over the remaining useful life of the tanks. Additionally, the Partnership capitalizes certain costs directly related to the installation of company-owned tanks, including internal labor costs. Components and useful lives of property, plant and equipment were as follows at August 31, 2003:

Land and improvements	$ 21,937
Buildings and improvements (10 to 30 years)	30,843
Bulk storage, equipment and facilities (3 to 30 years)	43,340
Tanks and other equipment (5 to 30 years)	327,193
Vehicles (5 to 10 years)	76,239
Furniture and fixtures (3 to 10 years)	11,164
Other (5 to 10 years)	3,578
	514,294
Less - Accumulated depreciation	(99,563)
	414,731
Plus - Construction work-in-process	11,857
Property, plant and equipment, net	$ 426,588

INTANGIBLES AND OTHER ASSETS

Intangibles and other assets are stated at cost, net of amortization computed using the straight-line method. The Partnership eliminates from its balance sheet any fully amortized intangibles and the related accumulated amortization. Components and useful lives of intangibles and other assets were as follows at August 31, 2003:

	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Noncompete agreements (5 to 15 years)	$ 42,742	$ (15,893)
Customer lists (15 years)	28,378	(6,356)
Financing costs (3 to 15 years)	4,225	(1,995)
Consulting agreements (2 to 7 years)	517	(367)
Total	75,862	(24,611)
Unamortized intangible assets:		
Trademarks	1,309	--
Other assets	264	--
Total intangibles and other assets	$ 77,435	$ (24,611)

LONG-LIVED ASSETS

The Partnership reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, the Partnership reduces the carrying amount of such assets to fair value. No impairment of long-lived assets has been recorded as of August 31, 2003.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following at August 31, 2003:

Interest payable	$ 4,517
Wages and payroll taxes	11,886
Deferred tank rent	4,080
Advanced budget payments and unearned revenue	15,417
Customer deposits	2,137
Taxes other than income	2,405
Income taxes payable	500
Other	2,033

Accrued and other current liabilities	$ 42,975

INCOME TAXES

U.S. Propane is a limited partnership. As a result, U.S. Propane's earnings or losses for income tax purposes are included in the tax returns of the individual partners.

Heritage Holdings is a taxable corporation and follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). Under SFAS 109, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets are received and liabilities settled.

STOCK BASED COMPENSATION PLANS

During the fourth quarter of 2003, the Partnership adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (SFAS 123) effective as of September 1, 2002. The Partnership adopted the fair value recognition provisions following the modified prospective method of adoption described in Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS 148).

USE OF ESTIMATES

The preparation of the consolidated balance sheet in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the balance sheet. Some of the more significant estimates made by management include, but are not limited to, allowances for doubtful accounts, liquids marketing assets and liabilities, purchase accounting allocations, and subsequent realizability of intangible assets, and general business and medical self-insurance reserves. Actual results could differ from those estimates.

FAIR VALUE

The carrying amounts of accounts receivable and accounts payable approximate their fair value. Based on the estimated borrowing rates currently available to the Partnership for long-term loans with similar terms and average maturities, the aggregate fair value and carrying amount of long-term debt at August 31, 2003 was $422,398 and $399,890, respectively.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Partnership applies FASB Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142). Accordingly, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test.

Management has determined that a detailed evaluation of the Partnership's operating segments as of August 31, 2003 is not necessary based on the fact that there has not been a significant change in the components of the Partnership's operating segments since the last evaluation, the previous fair value of the Partnership's operating segments substantially exceeded the carrying value, and the likelihood that the Partnership's operating segments' current carrying value exceeds its current fair value is remote based on an analysis of events and circumstances since the Partnership's most recent evaluation. Accordingly, no impairment of the Partnership's goodwill was recorded as of ended August 31, 2003.

Goodwill is associated with acquisitions made for the Partnership's domestic retail segment; therefore, all goodwill is recorded in this segment. Of the $218,918 balance in goodwill, $23,923 is expected to be tax deductible. Goodwill is tested for impairment at the end of each fiscal year end in accordance with SFAS 142.

MARKETABLE SECURITIES

The Partnership's marketable securities are classified as available-for-sale securities and are reflected as current assets on the consolidated balance sheet at their fair value.

LIQUIDS MARKETING ACTIVITIES

Heritage buys and sells derivative financial instruments, which are within the scope of SFAS 133 and that are not designated as accounting hedges. Heritage also enters into energy trading contracts, which are not derivatives, and therefore are not within the scope of SFAS 133. EITF Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 98-10), applied to energy trading contracts not within the scope of SFAS 133 that were entered into prior to October 25, 2002. The types of contracts Heritage utilizes in its liquids marketing segment include energy commodity forward contracts, options, and swaps traded on the over-the-counter financial markets. In accordance with the provisions of SFAS 133, derivative financial instruments utilized in connection with the Heritage's liquids marketing activity are

accounted for using the mark-to-market method. Additionally, all energy trading contracts entered into prior to October 25, 2002 were accounted for using the mark-to-market method in accordance with the provisions of EITF 98-10. Under the mark-to-market method of accounting, forwards, swaps, options, and storage contracts are reflected at fair value, and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. As of August 31, 2002, the Partnership adopted the applicable provisions of EITF Issue No. 02-3, Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3), which requires that gains and losses on derivative instruments be shown net in the statement of operations if the derivative instruments are held for trading purposes. Net realized and unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the statement of operations as liquids marketing revenue. Changes in the assets and liabilities from the liquids marketing activities result primarily from changes in the market prices, newly originated transactions, and the timing and settlement of contracts. EITF 02-3 also rescinds EITF 98-10 for all energy trading contracts entered into after October 25, 2002, and specifies certain disclosure requirements. Consequently, Heritage does not apply mark-to-market accounting for any contracts entered into after October 25, 2002, that are not within the scope of SFAS 133. Heritage attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on management's assessment of anticipated market movements.

The notional amounts and terms of these financial instruments as of August 31, 2003 include fixed price payor for 45 barrels of propane, and fixed price receiver of 195 barrels of propane. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure the Partnership's exposure to market or credit risks.

Estimates related to Resources' liquids marketing activities are sensitive to uncertainty and volatility inherent in the energy commodities markets and actual results could differ from these estimates. A theoretical change of 10% in the underlying commodity value of the liquids marketing contracts would result in an approximate $345 change in the market value of the contracts as there were approximately 6.3 million gallons of net unbalanced positions at August 31, 2003.

Inherent in the resulting contractual portfolio are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counterparties to a contract. The Partnership and Resources take active roles in managing and controlling market and credit risk and have established control procedures, which are reviewed on an ongoing basis. The Partnership monitors market risk through a variety of techniques, including routine reporting to senior management. The Partnership attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures.

The following table summarizes the fair value of Resources' contracts, aggregated by method of estimating fair value of the contracts as of August 31, 2003 where settlement had not yet occurred. Resources' contracts all have a maturity of less than 1 year. The market prices used to value these transactions reflect management's best estimate considering various factors including closing average spot prices for the current and outer months plus a differential to consider time value and storage costs.

Source of Fair Value	Prices actively quoted $ 80	Prices based on other valuation methods 3
Assets from liquids marketing		$ 83
Liabilities from liquids marketing		

	$ 80
Unrealized gains (losses)	$ 3

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The Partnership adopted the provisions of SFAS 146 effective for exit or disposal activities that are initiated after December 31, 2002. The adoption did not have a material impact on the Partnership's consolidated financial position.

In November 2002, the FASB issued Financial Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 expands the existing disclosure requirements for guarantees and requires that companies recognize a liability for guarantees issued after December 31, 2002. The implementation of FIN 45 did not have a significant impact on the Partnership's financial position.

In January 2003, the FASB issued Financial Interpretation No. 46 Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51 (FIN 46). FIN 46 clarifies Accounting Research Bulletin No. 51, Consolidated Financial Statements. If certain conditions are met, this interpretation requires the primary beneficiary to consolidate certain variable interest entities in which equity investors lack the characteristics of a controlling interest or do not have sufficient equity investment at risk to permit the variable interest entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for variable interest entities created or obtained after January 31, 2003. For variable interest entities acquired before February 1, 2003, the interpretation is effective for the first fiscal year or interim period beginning after June 15, 2003. Management does not believe FIN 46 will have a significant impact on the Partnership's financial position.

In April 2003, the FASB issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Partnership adopted SFAS 149 as of July 1, 2003. The adoption of SFAS 149 did not have a material impact on the Partnership's consolidated financial position.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Partnership adopted the provisions of SFAS 150 as of September 1, 2003. The adoption did not have a material impact on the Partnership's consolidated financial position.

3. ASSETS HELD IN TRUST:

In connection with the initial public offering ("IPO") of Heritage in June 1996, Heritage Holdings retained proceeds, which were placed in various trusts to be paid to the noteholders of noncompete agreements entered into prior to the IPO. The proceeds are disbursed monthly from the trust in accordance with the noncompete agreements. The Partnership retains all earnings from the trust assets.

4. ACQUISITIONS:

On January 2, 2003, the Partnership purchased the propane assets of V-1 Oil Co. ("V-1") of Idaho Falls, Idaho for total consideration of $35.4 million after post-closing adjustments. The acquisition price was payable $20.0 million in cash, with $17.3 million of that amount financed by the acquisition facility, and by the issuance of 551,456 Common Units of Heritage valued at $15.0 million, and assumed $0.4 million in liabilities. V-1's propane distribution network included 35 customer service locations in Colorado, Idaho, Montana, Oregon, Utah, Washington, and Wyoming. The Partnership was able to expand its market presence in the Northwest and achieve a greater geographical balance through the transaction with V-1. This acquisition enhanced the

Partnership's current operations and reduced costs through synergies with existing operations in locations in which the Partnership was already conducting business.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed of V-1 as of the date of acquisition:

Current assets	$ 4,952
Property, plant, & equipment	29,324
Goodwill	20
Customer lists (15 years)	740
Trademarks	370
Total assets acquired	$ 35,406
Total liabilities assumed	(423)
Net assets acquired	$ 34,983

During the year ended August 31, 2003, the Partnership also acquired substantially all of the assets of four other companies, which included V-1 Oil Company of Spokane, Washington, Stegall Petroleum located in North Carolina, 1st Propane of Boise Idaho, and Love Propane Gas located in South Carolina. The Partnership also purchased the stock of Tri-Cities Gas Company, Inc. located in Alabama. The aggregate purchase price for these acquisitions totaled $6.4 million, which included liabilities assumed and non-compete agreements of $1.4 million for periods ranging from five to ten years. These acquisitions were financed primarily with the acquisition facility and were accounted for by the purchase method under SFAS 141. The Partnership recorded the following intangible assets in conjunction with these acquisitions as of August 31, 2003:

Customer lists (15 years)	$ 1,166
Non-compete agreements (5 to 10 years)	769
Total amortized intangible assets	1,935
Trademarks and tradenames	381
Goodwill	860
Total intangible assets acquired	$ 3,176

Goodwill was warranted because these acquisitions enhance the Partnership's current operations and certain acquisitions are expected to reduce costs through synergies with existing operations. The Partnership assigned all of the goodwill acquired to its retail operating segment.

5. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following at August 31, 2003:

1996 8.55% Senior Secured Notes	$ 96,000
1997 Medium Term Note Program:	
7.17% Series A Senior Secured Notes	12,000
7.26% Series B Senior Secured Notes	20,000
6.50% Series C Senior Secured Notes	2,143
2000 and 2001 Senior Secured Promissory Notes:	
8.47% Series A Senior Secured Notes	16,000
8.55% Series B Senior Secured Notes	32,000
8.59% Series C Senior Secured Notes	27,000
8.67% Series D Senior Secured Notes	58,000
8.75% Series E Senior Secured Notes	7,000

8.87% Series F Senior Secured Notes	40,000
7.21% Series G Senior Secured Notes	19,000
7.89% Series H Senior Secured Notes	8,000
7.99% Series I Senior Secured Notes	16,000
Senior Revolving Acquisition Facility	24,700
Notes Payable on noncompete agreements with interest imputed at rates averaging 7.38%, due in installments through 2010, collateralized by a first security lien on certain assets of the Partnership	20,110
Other	1,937
Current maturities of long-term debt	(38,563)
	$ 361,327

Maturities of the Senior Secured Notes, the Medium Term Note Program and the Senior Secured Promissory Notes are as follows:

1996 8.55% Senior Secured Notes:

mature at the rate of $12,000 on June 30 in each of the years 2002 to and including 2011. Interest is paid semi-annually.

1997 Medium Term Note Program:

Series A Notes: mature at the rate of $2,400 on November 19 in each of the years 2005 to and including 2009. Interest is paid semi-annually.

Series B Notes: mature at the rate of $2,000 on November 19 in each of the years 2003 to and including 2012. Interest is paid semi-annually.

Series C Notes: mature at the rate of $714 on March 13 in each of the years 2000 to and including 2003, $357 on March 13, 2004, $1,073 on March 13, 2005, and $357 in each of the years 2006 and 2007. Interest is paid semi-annually.

2000 and 2001 Senior Secured Promissory Notes:

Series A Notes: mature at the rate of $3,200 on August 15 in each of the years 2003 to and including 2007. Interest is paid quarterly.

Series B Notes: mature at the rate of $4,571 on August 15 in each of the years 2004 to and including 2010. Interest is paid quarterly.

Series C Notes: mature at the rate of $5,750 on August 15 in each of the years 2006 to and including 2007, $4,000 on August 15, 2008 and $5,750 on August 15, 2009 to and including 2010. Interest is paid quarterly.

Series D Notes: mature at the rate of $12,450 on August 15 in each of the years 2008 and 2009, $7,700 on August 15, 2010, $12,450 on August 15, 2011 and $12,950 on August 15, 2012. Interest is paid quarterly.

Series E Notes: mature at the rate of $1,000 on August 15 in each of the years 2009 to and including 2015. Interest is paid quarterly.

Series F Notes: mature at the rate of $3,636 on August 15 in each of the years 2010 to and including 2020. Interest is paid quarterly.

Series G Notes: mature at the rate of $3,800 on May 15 in each of the years 2004 to and including 2008. Interest is paid

quarterly. $7.5 million of these notes were retired during the fiscal year ended August 31, 2003.

Series H Notes:	mature at the rate of $727 on May 15 in each of the years 2006 to and including 2016. Interest is paid quarterly. $19.5 million of these notes were retired during the fiscal year ended August 31, 2003.
Series I Notes:	mature in one payment of $16,000 on May 15, 2013. Interest is paid quarterly.

The Senior Secured Notes, the Medium Term Note Program, and the Senior Secured Promissory Notes contain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of the Partnership, additional indebtedness, and require the maintenance of certain financial ratios. At August 31, 2003, Heritage was in compliance with these covenants, or had no continuing defaults. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of the Heritage's subsidiaries secure the notes.

The Note Agreements for each of the Senior Secured Notes, Medium Term Note Program and Senior Secured Promissory Notes, and the Bank Credit Facility contain customary restrictive covenants applicable to the Operating Partnership, including limitations on the level of additional indebtedness, creation of liens, and sale of assets. These covenants require the Operating Partnership to maintain ratios of Consolidated Funded Indebtedness to Consolidated EBITDA (as these terms are similarly defined in the Bank Credit Facility and the Note Agreements) of not more than 5.00 to 1 for the Bank Credit Facility and not more than 5.25 to 1 for the Note Agreements and Consolidated EBITDA to Consolidated Interest Expense (as these terms are similarly defined in the Bank Credit Facility and the Note Agreements) of not less than 2.25 to 1. The Consolidated EBITDA used to determine these ratios is calculated in accordance with these debt agreements. For purposes of calculating the ratios under the Bank Credit Facility and the Note Agreements, Consolidated EBITDA is based upon Heritage's EBITDA, as adjusted for the most recent four quarterly periods, and modified to give pro forma effect for acquisitions and divestitures made during the test period and is compared to Consolidated Funded Indebtedness as of the test date and the Consolidated Interest Expense for the most recent twelve months. These debt agreements also provide that the Operating Partnership may declare, make, or incur a liability to make, a restricted payment during each fiscal quarter, if: (a) the amount of such restricted payment, together with all other restricted payments during such quarter, do not exceed Available Cash with respect to the immediately preceding quarter; and (b) no default or event of default exists before such restricted payment and after giving effect thereto. The debt agreements further provide that Available Cash is required to reflect a reserve equal to 50% of the interest to be paid on the notes. In addition, in the third, second and first quarters preceding a quarter in which a scheduled principal payment is to be made on the notes, Available Cash is required to reflect a reserve equal to 25%, 50%, and 75%, respectively, of the principal amount to be repaid on such payment dates.

Failure to comply with the various restrictive and affirmative covenants of the Operating Partnership's Bank Credit Facility and the Note Agreements could negatively impact the Operating Partnership's ability to incur additional debt and/or Heritage's ability to pay distributions. The Operating Partnership is required to measure these financial tests and covenants quarterly and was in compliance or had no continuing defaults with all requirements, tests, limitations, and covenants related to the Senior Secured Notes, Medium Term Note Program and Senior Secured Promissory Notes, and the Bank Credit Facility at August 31, 2003.

Effective July 16, 2001, the Operating Partnership entered into the Fifth Amendment to the First Amended and Restated Credit Agreement (Bank Credit Facility). The terms of the Bank Credit Facility as amended are as follows:

A $65,000 Senior Revolving Working Capital Facility, expiring June 30, 2004 with $26,700 outstanding at August 31, 2003. The interest rate and interest payment dates vary depending on the terms the Partnership agrees to when the money is borrowed. The Partnership must be free of all working capital borrowings for 30 consecutive days each fiscal year. The weighted average interest rate was 2.49125% for the amount outstanding at August 31, 2003. The maximum commitment fee payable on the unused portion of the facility is 0.50%. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of Heritage's subsidiaries secure the Senior Revolving Working Capital Facility.

A $50,000 Senior Revolving Acquisition Facility is available through December 31, 2003, at which time the outstanding amount must be paid in ten equal quarterly installments beginning

March 31, 2004, with $24,700 outstanding as of August 31, 2003. The interest rate and interest payment dates vary depending on the terms the Partnership agrees to when the money is borrowed. The weighted average interest rate was 2.49125% for the amount outstanding at August 31, 2003. The maximum commitment fee payable on the unused portion of the facility is 0.50%. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of Heritage's subsidiaries secure the Senior Revolving Acquisition Facility.

Future maturities of long-term debt for each of the next five fiscal years and thereafter are $38,563 in 2004; $40,565 in 2005; $48,501 in 2006; $38,543 in 2007; $45,255 in 2008, and $188,463 thereafter.

6. INCOME TAXES:

The components of deferred income taxes were as follows at August 31, 2003:

Deferred Tax Assets-	
Alternative minimum tax carryforwards	$ 1,945
Accruals, reserves and deferred revenue	1,696
Unrealized loss on available-for-sale securities	337
	$ 3,978
Deferred Tax Liabilities-	
Property, plant and equipment	(41,656)
Intangibles	(64,134)
Other	(152)
	$ (105,942)

7. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases, which require fixed monthly rental payments and expire at various dates through 2020. Certain of these leases contain renewal options and also contain escalation clauses, which are accounted for on a straight-line basis over the minimum lease term. Fiscal year future minimum lease commitments for such leases are $2,916 in 2004; $1,906 in 2005; $1,325 in 2006; $929 in 2007; $934 in 2008 and $846 thereafter.

The Partnership has employment agreements with seven employees. The employment agreements provide for total annual base salary of $1,545. The employment agreements provide for the Executives to participate in bonus and incentive plans.

The employment agreements provide that in the event of a change of control of the ownership of the General Partner or in the event an executive (i) is involuntarily terminated (other than for "misconduct" or "disability") or (ii) voluntarily terminates employment for "good reason" (as defined in the agreements), such executive will be entitled to continue receiving his base salary and to participate in all group health insurance plans and programs that may be offered to executives of the General Partner for the remainder of the term of the employment agreement or, if earlier, the executive's death, and the executive will vest immediately in the minimum award of the number of common units to which the executive is entitled under the Long-Term Incentive Plan to the extent not previously awarded, and if the executive is terminated as a result of the foregoing, all restrictions on the transferability of the units purchased by such executive under the subscription agreement dated as of June 15, 2000, shall automatically lapse in full on such date. If such change were to have occurred on August 31, 2003, the General Partner would be required to pay the remaining portion of $1,545 in base salary for the executives and a maximum of 174,993 common units or approximately $5,477 based on a per unit price of $31.30 would be awarded under the Long-Term Incentive Plan, of which $3,165 has been expensed as of August 31, 2003. Each employment agreement also provides that if any payment received by an executive is subject to the 20% federal excise tax under Section 4999(a) of the Code of the Internal Revenue Service, the payment will be grossed up to permit the executive to retain a net amount on an after-tax basis equal to what he would have received had the excise tax and all other federal and state taxes on such additional

amount not been payable. In addition, each employment agreement contains non-competition and confidentiality provisions.

The Partnership is a party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Partnership. In the opinion of management, all such matters are either covered by insurance, are without merit or involve amounts, which, if resolved unfavorably, would not have a significant effect on the financial position of the Partnership. Once management determines that information pertaining to a legal proceeding indicates that it is probable that a liability has been incurred, an accrual is established equal to management's estimate of the likely exposure. For matters that are covered by insurance, the Partnership accrues the related deductible. As of August 31, 2003 an accrual of $941 was recorded as accrued and other current liabilities on the Partnership's consolidated balance sheet.

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to six sites, on which the Partnership presently has, or formerly had, operations. These sites were evaluated at the time of their acquisition. In all cases, remediation operations have been or will be undertaken by others, and in all six cases, the Partnership obtained indemnification for expenses associated with any remediation from the former owners or related entities. The Partnership has not been named as a potentially responsible party at any of these sites, nor has the Partnership's operations contributed to the environmental issues at these sites. Accordingly, no amounts have been recorded in the Partnership's August 31, 2003 consolidated balance sheet. Based on information currently available to the Partnership, such projects are not expected to have a material adverse effect on the Partnership's financial condition.

In July 2001, the Partnership acquired a company that had previously received a request for information from the U.S. Environmental Protection Agency (the "EPA") regarding potential contribution to a widespread groundwater contamination problem in San Bernardino, California, known as the Newmark Groundwater Contamination. Although the EPA has indicated that the groundwater contamination may be attributable to releases of solvents from a former military base located within the subject area that occurred long before the facility acquired by the Partnership was constructed, it is possible that the EPA may seek to recover all or a portion of groundwater remediation costs from private parties under the Comprehensive Environmental Response, Compensation, and Liability Act (commonly called "Superfund"). Based upon information currently available to the Partnership, it is not believed that the Partnership's liability if such action were to be taken by the EPA would have a material adverse effect on the Partnership's financial condition.

The Partnership has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2004.

8. PARTNERS' CAPITAL:

The partnership agreement of Heritage requires that Heritage will distribute all of its "Available Cash" to its Unitholders and its General Partner within 45 days following the end of each fiscal quarter, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. The term "Available Cash" generally means, with respect to any fiscal quarter of Heritage, all cash on hand at the end of such quarter, plus working capital borrowings after the end of the quarter, less reserves established by the General Partner in its sole discretion to provide for the proper conduct of Heritage's business, to comply with applicable laws or any Heritage debt instrument or other agreement, or to provide funds for future distributions to partners with respect to any one or more of the next four quarters.

Distributions by Heritage in an amount equal to 100% of Available Cash will generally be made 98% to the Common Unitholders and 2% to U.S. Propane, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved.

Heritage currently distributes Available Cash, excluding any Available Cash to be distributed to the Class C Unitholders as follows:

- First, 98% to all Unitholders, pro rata, and 2% to U.S. Propane, until all Unitholders have received $0.50 per unit for such quarter and any prior quarter;

- Second, 98% to all Unitholders, pro rata, and 2% to U.S. Propane, until all Unitholders have received $0.55 per unit for such quarter;

- Third, 85% to all Unitholders, pro rata, 13% to the holders of Incentive Distribution Right, pro rata, and 2% to U.S. Propane, until all Common Unitholders have received at least $0.635 per unit for such quarter;

- Fourth, 75% to all Unitholders, pro rata, 23% to the holders of Incentive Distribution Right, pro rata and 2% to U.S. Propane, until all Common Unitholders have received at least $0.825 per unit for such quarter;

- Fifth, thereafter 50% to all Unitholders, pro rata, 48% to the holders of Incentive Distribution Right, pro rata, and 2% to U.S. Propane.

The total amount of distributions for the 2003 fiscal year on Common Units, the general partner interests and the Incentive Distribution Rights totaled $43.7 million, $0.9 million and $1.0 million, respectively. All such distributions were made from Available Cash from Operating Surplus.

RESTRICTED UNIT PLAN

U.S. Propane has adopted the Amended and Restated Restricted Unit Plan dated August 10, 2000, amended February 4, 2002 as the Second Amended and Restated Restricted Unit Plan (the "Restricted Unit Plan"), for certain directors and key employees of the General Partner and its affiliates. The Restricted Unit Plan covers rights to acquire 146,000 of Heritage's Common Units. The right to acquire the Common Units under the Restricted Unit Plan, including any forfeiture or lapse of rights is available for grant to key employees on such terms and conditions (including vesting conditions) as the Compensation Committee of the General Partner shall determine. Each director shall automatically receive a Director's grant with respect to 500 Common Units on each September 1 that such person continues as a director. Newly elected directors are also entitled to receive a grant with respect to 2,000 Common Units upon election or appointment to the Board. Directors who are employees of U.S. Propane, TECO, Atmos Energy, Piedmont Natural Gas or AGL Resources or their affiliates are not entitled to receive a Director's grant of Common Units. Generally, the rights to acquire the Common Units will vest upon the later to occur of (i) the three-year anniversary of the grant date, or (ii) on such terms as the Compensation Committee may establish, which may include the achievement of performance objectives. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire Common Units pursuant to the Restricted Unit Plan will immediately vest.

The issuance of the Common Units pursuant to the Restricted Unit Plan is intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation in respect of the Common Units. Therefore, no consideration will be payable by the plan participants upon vesting and issuance of the Common Units. As of August 31, 2003, 39,400 restricted units are outstanding and 15,800 are available for grants to non-employee directors and key employees. Subsequent to August 31, 2003, 14,800 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued.

During the fiscal year ended August 31, 2003, 15,000 units were granted under the Restricted Unit Plan. The units had a weighted-average fair value of $20.24 per unit at the grant date. During fiscal year 2003, 2,500 Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued.

LONG-TERM INCENTIVE PLAN

Effective September 1, 2000, the Partnership adopted a long-term incentive plan whereby Heritage Common Units will be awarded based on Heritage achieving certain targeted levels of Distributed Cash (as defined in the Long-Term Incentive Plan) per unit. Awards under the program will be made starting in 2003 based upon the average of the prior three years' Distributed Cash per unit. A minimum of 250,000 Common Units and if certain targeted levels are achieved, a maximum of 500,000 Common Units will be awarded. During the fiscal year ended August 31, 2003, 66,118 units vested pursuant to the vesting rights of the Long-Term Incentive Plan and Common Units were issued, and 8,889 units were forfeited.

9. SIGNIFICANT INVESTEE:

The Partnership holds a 50% interest in Bi-State Propane, which is accounted for under the equity method. The Partnership's investment in Bi-State Propane totaled $8,242 at August 31, 2003. The Operating Partnership guarantees $5 million of debt of Bi-State Propane to a financial institution. Based on the current financial condition of Bi-State Propane, management considers the likelihood of the Partnership incurring a liability resulting from the guarantee to be remote. The Partnership has not recorded a liability on the consolidated balance sheet as of August 31, 2003 for this guarantee because the guarantee was in effect prior to the issuance of FIN 45, and there have been no amendments to the original guarantee.

Bi-State Propane's financial position is summarized below as of August 31, 2003:

Current assets	$ 3,393
Noncurrent assets	23,187
	$ 26,580
Current liabilities	$ 3,701
Long-term debt	7,750
Partners' capital:	
Heritage	8,242
Other partner	6,887
	$ 26,580

10. SUPPLEMENTAL INFORMATION:

The following balance sheet of the Partnership includes its investment in Heritage and Heritage Holdings on an equity basis. Such presentation is included to provide additional information with respect to the Partnership's financial position on a stand-alone basis as of August 31, 2003:

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 52
Receivable from affiliate	5,432
Prepaid expenses and other	324
Total current assets	5,808
ASSETS HELD IN TRUST	724
INVESTMENT IN HERITAGE	45,808
INVESTMENT IN HERITAGE HOLDINGS	79,428
Total assets	$ 131,768

LIABILITIES AND PARTNERS' CAPITAL	
CURRENT LIABILITIES:	
Accounts payable and accrued liabilities	$ 7,035
Current maturities of long-term debt	254
Total current liabilities	7,289
LONG-TERM DEBT, less current maturities	565
NOTE PAYABLE TO HERITAGE HOLDINGS	11,539
	19,393
PARTNERS' CAPITAL:	
General Partner's capital	(2)
Limited Partners' capital	112,525
Accumulated other comprehensive loss	(148)
Total partners' capital	112,375
Total liabilities and partners' capital	$ 131,768

11. SUBSEQUENT EVENT:

On November 6, 2003, the Partnership signed a definitive agreement with Energy Transfer Company to purchase substantially all of its assets in exchange for approximately $300 million in cash, repayment of outstanding indebtedness, and a combination of Partnership Common Units, Class D Units and Special Units. The transaction is valued at approximately $980 million. The Partnership will also acquire the stock of Heritage Holdings, Inc., which owns approximately 4.4 million common units of Heritage for $100 million. Energy Transfer Company will also purchase U.S. Propane, L.P., the General Partner of Heritage, and U.S. Propane, L.L.C. from subsidiaries of AGL Resources, Atmos Energy Corporation, TECO Energy, Inc. and Piedmont Natural Gas Company, Inc.

.
.
.

EXHIBIT 99.2

INDEX TO FINANCIAL STATEMENTS

BI-STATE PROPANE

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Partners
Bi-State Propane

We have audited the accompanying balance sheet of Bi-State Propane (a California general partnership) as of August 31, 2002 and the related statements of operations, partners' capital and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bi-State Propane as of August 31, 2002 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 2 to the consolidated financial statements, effective September 1, 2001, the Partnership changed its method of accounting for goodwill and other intangible assets to adopt the requirements of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ Grant Thornton LLP

Tulsa, Oklahoma
October 25, 2002

BI-STATE PROPANE

BALANCE SHEETS
(in thousands)

August 31, 2003	August 31, 2002
ASSETS	
(unaudited)	
CURRENT ASSETS:	
Cash	$ 156	$ 134
Accounts receivable, net of allowance for doubtful accounts	948	740
Accounts receivable from affiliates	1,472	1,691
Inventories	763	675
Prepaid expenses and other	54	81
Total current assets	3,393	3,321
PROPERTY, PLANT AND EQUIPMENT, net	14,603	14,088
GOODWILL, net of amortization prior to adoption of SFAS No. 142	5,116	5,116
INTANGIBLES AND OTHER ASSETS, net	3,468	3,901
Total assets	$ 26,580	$ 26,426
LIABILITIES AND PARTNERS' CAPITAL		
CURRENT LIABILITIES:		
Accounts payable	1,309	1,200
Accrued and other current liabilities	692	444
Current maturities of long-term debt	1,700	1,700
Total current liabilities	3,701	3,344
LONG-TERM DEBT, less		

current maturities 7,750 9,450

11,451 12,794
COMMITMENTS AND CONTINGENCIES
PARTNERS' CAPITAL:
Heritage Bi-State, L.L.C 8,242 7,485
Allied Propane Service, Inc. 6,887 6,147
Total partners' capital 15,129 13,632
Total liabilities and partners' capital $ 26,580 $ 26,426

The accompanying notes are an integral part of these financial statements.

BI-STATE PROPANE

STATEMENTS OF OPERATIONS
(in thousands)

For the Year Ended August 31,	2003	2002	2001
	(Unaudited)	(Unaudited)	
REVENUES:			
Retail fuel	$ 20,611	$ 15,075	$ 17,716
Other	1,925	1,740	1,468
Total revenues	22,536	16,815	19,184
COSTS AND EXPENSES:			
Cost of products sold	12,030	7,881	11,129
Operating expenses	5,950	4,768	3,992
Depreciation and amortization	1,425	1,152	1,052
Selling, general and administrative	169	130	107
Total costs and expenses	19,574	13,931	16,280
OPERATING INCOME	2,962	2,884	2,904
OTHER INCOME (EXPENSE):			
Interest expense	(371)	(324)	(405)
Interest income from affiliate	40	62	45
Other income	(7)	--	--
Loss on disposal of assets	(57)	(19)	(5)
NET INCOME	$ 2,567	$ 2,603	$ 2,539

The accompanying notes are an integral part of these financial statements.

BI-STATE PROPANE

STATEMENTS OF PARTNERS' CAPITAL
(in thousands)

	Heritage Bi-State, L.L.C.	Allied Propane Service, Inc.	Total
BALANCE, AUGUST 31, 2000 (UNAUDITED)	$ 5,550	$ 3,990	$ 9,540
Distributions to Partners (Unaudited)	(125)	(125)	(250)
Net income (Unaudited)	1,186	1,353	2,539
BALANCE, AUGUST 31, 2001 (UNAUDITED)	6,611	5,218	11,829
Distributions to Partners	(400)	(400)	(800)
Net income	1,274	1,329	2,603
BALANCE, AUGUST 31, 2002	7,485	6,147	13,632
Distributions to Partners (Unaudited)	(535)	(535)	(1,070)
Net income (Unaudited)	1,292	1,275	2,567
BALANCE, AUGUST 31, 2003 (UNAUDITED)	$ 8,242	$ 6,887	$ 15,129

The accompanying notes are an integral part of these financial statements.

BI-STATE PROPANE

STATEMENTS OF CASH FLOWS
(in thousands)

For the Years Ended August 31,	2003	2002	2001
	(Unaudited)	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 2,567	$ 2,603	$ 2,539
Reconciliation of net income to net cash provided by operating activities-			
Depreciation and amortization	1,425	1,152	1,052
Provision for loss on accounts receivable	11	21	22
Loss on disposal of assets	57	19	5
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(219)	299	(118)
Accounts receivable from affiliates	(316)	(1,084)	(580)
Inventories	(88)	232	41
Prepaid expenses and other	27	40	(49)
Accounts payable	109	431	295
Accrued and other current liabilites	249	(248)	106
Net cash provided by operating activities	3,822	3,465	3,313
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for acquisition, net of cash acquired	--		

(9,739) -- Capital expenditures (1,665) (755) (1,018) Proceeds from the sale of assets 100 269 24 ---------- ---------- ---------- Net cash used in investing activities (1,565) (10,225) (994) ---------- ---------- ---------- CASH FLOWS FROM FINANCING ACTIVITIES: Proceeds from borrowings -- 12,000 -- Principal payments on debt (1,700) (4,825) (2,150) Debt issuance costs -- (42) -- Distribution to Partner (535) (400) (125) ---------- ---------- ---------- Net cash provided by (used in) financing activities (2,235) 6,733 (2,275) ---------- ---------- ---------- - INCREASE (DECREASE) IN CASH 22 (27) 44 CASH, beginning of period 134 161 117 ---------- ---------- ---------- - CASH, end of period $ 156 $ 134 $ 161 ========== ========== ========== NONCASH FINANCING ACTIVITY: Distribution to Partner $ 535 $ 400 $ 125 ========== ========== ========== NONCASH INVESTING ACTIVITY: Working capital payment, net of cash received on acquisition $ -- $ 640 $ -- ========== ========== ========== SUPPLEMENTAL DISCLOSURE OF CASH FLOW

INFORMATION:			
Cash paid during the period for interest	$ 317	$ 362	$ 377

The accompanying notes are an integral part of these financial statements

BI-STATE PROPANE

NOTES TO FINANCIAL STATEMENTS
(Dollar amounts in thousands)
(Unaudited as to 2003 and 2001 information)

1. OPERATIONS AND ORGANIZATION:

Bi-State Propane ("Bi-State") is a California general partnership that owns and operates propane businesses in California and Nevada. Bi-State is owned equally by Allied Propane Service, Inc., ("Allied") and Heritage Bi-State, L.L.C., ("Heritage Bi-State") (together referred to as the "Partners"). Heritage Bi-State is wholly owned by Heritage Operating L.P., the Operating Partnership of Heritage Propane Partners, L.P. Profits and losses of Bi-State are shared equally by the Partners, with the exception of amortization and depreciation differences due to the basis of the Partners' initial contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

REVENUE RECOGNITION

Sales of propane, propane appliances, parts and fittings are recognized at the later of the time of delivery of the product to the customer or the time of sale or installation. Revenue from service labor is recognized upon completion of the service, and tank rent is recognized ratably over the period it is earned. Shipping and handling revenues are included in the price of propane charged to customers, and thus are classified as revenues.

COSTS AND EXPENSES

Costs of products sold include actual cost of fuel sold, storage fees and inbound freight, and the cost of appliances, parts, and fittings. Operating expenses include all costs incurred to provide products to customers, including compensation for operations personnel, insurance costs, vehicle maintenance, advertising costs, shipping and handling costs, purchasing costs, and plant operations. Selling, general and administrative expenses includes the negotiated administrative fee as described in the Administrative Agreement with Heritage Bi-State and Bi-State (see Note 8) for the administrative functions performed by Heritage Bi-State including, but not limited to, accounting, insurance, cash management, training, and employee benefits.

ACCOUNTS RECEIVABLE

Bi-State grants credit to its customers for the purchase of propane and propane-related products. Accounts receivable are recorded at amounts billed to customers less an allowance for doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the realizability of customer accounts. Management's assessment is based on the overall creditworthiness of the Partnership's customers and any specific disputes. Bi-State recorded bad debt expense net of recoveries of $11, $21 and $22 during the years ended August 31, 2003, 2002 and 2001 respectively. Accounts receivable consisted of the following:

August 31, 2003	August 31, 2002
Accounts receivable	$ 976	$ 768
Less - allowance for doubtful accounts	28	28
Total, net	$ 948	$ 740

The following summarizes the activity in the allowance for doubtful accounts for the following years ended:

	August 31, 2003	August 31, 2002
Allowance for doubtful accounts:		
Balance, beginning of the year	$ 28	$ 28
Provision for loss on accounts receivable	11	21
Accounts receivable written off, net of recoveries	(11)	(21)
Balance, end of period	$ 28	$ 28

INVENTORIES

Inventories are valued at the lower of cost or market. The cost of fuel inventories is determined using weighted-average cost delivered to the retail locations and includes storage fees and inbound freight costs, while the cost of appliances, parts and fittings is determined by the first-in, first-out method. Inventories consisted of the following:

	August 31, 2003	August 31, 2002
Fuel	$ 549	$ 436
Appliances, parts and fittings	214	239
	$ 763	$ 675

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred. Expenditures to refurbish tanks that either extend the useful lives of the tanks or prevent environmental contamination are capitalized and depreciated over the remaining useful life of the tanks. Additionally, Bi-State capitalizes certain costs directly related to the installation of company-owned tanks, including internal labor costs. Components and useful lives of property, plant and equipment were as follows:

	August 31, 2003	August 31, 2002
Land and improvements	$ 1,346	$

1,396		
Buildings and improvements (10 to 30 years)	1,239	1,148
Bulk storage, equipment and facilities (3 to 30 years)	3,827	3,554
Tanks and other equipment (5 to 30 years)	8,345	8,314
Vehicles (5 to 10 years)	3,578	3,211
Furniture and fixtures (5 to 10 years)	233	230
Other	153	149
	18,721	18,002
Less - Accumulated depreciation	(4,758)	(3,978)
	13,963	14,024
Plus - Construction work-in-process	640	64
Property, plant and equipment, net	$ 14,603	$ 14,088

INTANGIBLES AND OTHER ASSETS

Intangibles and other assets are stated at cost, net of amortization computed on the straight-line method. Bi-State eliminates from its balance sheet any fully amortized intangibles and the related accumulated amortization. Components and useful lives of intangibles and other assets were as follows:

August 31, 2003	Gross Carrying Amount	Accumulated Amortization	August 31, 2002	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets					
Customer lists (15 years)	$ 3,402	$ (1,200)		$ 3,402	$ (973)
Noncompetes (5 to 10 years)	1,857	(631)		1,857	(431)
Financing costs (5 years)	42	(8)		42	(3)
Total	5,301	(1,839)		5,301	(1,407)
Unamortized intangible assets					
Other assets	6	--		7	--
Total intangibles and other	$ 5,307	$ (1,839)		$ 5,308	$ (1,407)

Aggregate amortization expense of intangible assets was $432, $327, and $378 for the years ended August 31, 2003, 2002 and 2001, respectively. The estimated aggregate amortization expense for the next five fiscal years based on the balances at August 31, 2003 is $427 for 2004; $422 for 2005; $372 for 2006; $372 for 2007 and $372 for 2008.

GOODWILL

Goodwill is associated with acquisitions made for Bi-State's domestic retail

operations, which is the only operating segment of Bi-State. Goodwill is tested for impairment at the end of each fiscal year in accordance with SFAS 142. The changes in the carrying amount of goodwill for the years ended August 31, 2002 and 2003 are as follows:

Balance as of August 31, 2001	$ 1,810
Goodwill acquired during the year	3,306
Impairment losses	--
Goodwill written off to sale of business	--
Balance as of August 31, 2002	5,116
Goodwill acquired during the year	--
Impairment losses	--
Goodwill written off to sale of business	--
Balance as of August 31, 2003	$ 5,116

LONG-LIVED ASSETS

Bi-State reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, Bi-State reduces the carrying amount of such assets to fair value. No impairment of long-lived assets was recorded during the years ended August 31, 2003 and 2002.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following:

August 31, 2003	August 31, 2002
Interest payable	$ 55	$ --
Wages and payroll taxes	259	130
Deferred tank rent	97	97
Customer deposits	173	156
Taxes other than income	32	25
Other	76	36
Accrued and other current liabilities	$ 692	$ 444

INCOME TAXES

As a result of Bi-State's status as a partnership, earnings or losses for federal and state income tax purposes are included in the tax returns of the individual Partners. Accordingly, no recognition has been given to income taxes in the accompanying financial statements of Bi-State for the years ended August 31, 2003, 2002, and 2001.

USE OF ESTIMATES

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

FAIR VALUE

The carrying amounts of trade accounts receivable and trade accounts payable approximate their fair value. An interest bearing receivable/payable account is maintained to monitor the net cash due between Heritage Bi-State and Bi-State. The interest is based on the amount equal to the rate Heritage Operating L.P. pays on its working capital line of credit (2.49125% at August 31, 2003). Based on the estimated borrowing rates currently available to Bi-State for long-term loans with similar terms and average maturities, the aggregate fair value and carrying amount of long-term debt at August 31, 2003 was $9,744 and $9,450, respectively. The fair value and carrying amount of long-term debt at August 31, 2002 was approximately $11,344 and $11,150, respectively.

SFAS 142 GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142). Under SFAS 142, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test. Additionally, any acquired intangible assets should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the acquirer's intent to do so. Those assets will be amortized over their useful lives, other than assets that have an indefinite life.

Bi-State adopted SFAS 142 on September 1, 2001 and accordingly has discontinued the amortization of goodwill existing at the time of adoption. Under the provisions of SFAS 142, Bi-State was required to perform a transitional goodwill impairment appraisal within six months from the time of adoption. Management performed an assessment of the fair value of Bi-State's sole operating segment,

which was compared with the carrying value of the segment to

determine whether any impairment existed on the date of adoption. Bi-State has completed the transitional goodwill impairment appraisal and has determined that based on the fair value of Bi-State's operating segment, Bi-State's goodwill was not impaired as of September 1, 2001. Bi-State has determined that a detailed evaluation of Bi-State's operating segment as of August 31, 2003 is not necessary based on the fact that there has not been a significant change in the components of Bi-State's operating segment since the last evaluation, the previous fair value of Bi-State's operating segment substantially exceeded the carrying value, and the likelihood that Bi-State's operating segment current carrying value exceeds its current fair value is remote based on an analysis of events and circumstances since Bi-State's most recent evaluation. Accordingly, no impairment of Bi-State's goodwill was recorded for the year ended August 31, 2003. Bi-State will continue to test goodwill for impairment as of the end of each fiscal year. The adoption of SFAS 142 eliminated goodwill amortization that would have totaled approximately $133 for the years ended August 31, 2003 and 2002, based on the balances of August 31, 2001. Goodwill amortization totaled approximately $133 for the year ended August 31, 2001.

The following table reflects the effect of the adoption of SFAS 142 on net income as if SFAS 142 had been in effect for all of the periods presented:

Year Ended August 31, 2003	Year Ended August 31, 2002	Year Ended August 31, 2001
Net income as reported	$ 2,567	$ 2,603	$ 2,539
Add back: goodwill amortization	--	--	133
Adjusted net income	$ 2,567	$ 2,603	$ 2,672

Recently Issued Accounting Standards

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. Bi-State adopted the provisions of SFAS 146 effective for exit or disposal activities that are initiated after December 31, 2002. The adoption did not have a material impact on the Bi-State's consolidated financial position or results of operations.

In November 2002, the FASB issued Financial Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 expands the existing disclosure requirements for guarantees and requires that companies recognize a liability for guarantees issued after December 31, 2002. The implementation of FIN 45 did not have a significant impact on Bi-State's financial position or results of operations.

In April 2003, the FASB issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. Bi-State adopted SFAS 149 as of July 1, 2003. The adoption of SFAS 149 did not have a material impact on Bi-State's consolidated financial position or results of operations.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope

of SFAS 150 as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Bi-State adopted the provisions of SFAS 150 as of September 1, 2003. The adoption did not have a material impact on the Bi-State's consolidated financial position or results of operations.

3. ACQUISITIONS:

On March 1, 2002, Bi-State purchased certain assets of the ProFlame acquisition completed by Heritage Propane Partners, L.P. in July 2001. The aggregate purchase price was approximately $9,730 plus working capital. This purchase was made pursuant to the provision in the Bi-State Propane Partnership Agreement that requires each Partner to offer to sell any newly acquired businesses within Bi-State's area of operations to Bi-State. This acquisition was financed with the Term Note (see Note 4) and was recorded at the same basis as Heritage Propane Partners, L.P. had in those assets, which approximated fair value. Goodwill was warranted in this transaction as the operations of these ProFlame assets enhanced Bi-State's operations in the Nevada area and is expected to reduce costs through synergies with existing operations.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition:

Current assets, net of cash acquired	$ 648
Property, plant and equipment	4,501
Goodwill	3,306
Other intangible assets	1,932
Total assets acquired	10,387
Current liabilities	8
Long-term debt	--
Total liabilities assumed	8
Net assets acquired	$ 10,379

Of the $1,932 of acquired intangible assets, $1,307 was assigned to non-competes, which are being amortized over a 10 year weighted-average useful life and $625 was assigned to customer lists, which are being amortized over a 15 year weighted average useful life.

The results of operations of the ProFlame assets are included in the statement of operations of Bi-State for the year ended August 31, 2003 and from March 1, 2002 for the year ended August 31, 2002. The following unaudited pro forma results of operations are presented as if the acquisition of the ProFlame assets had been made at the beginning of the periods presented:

Year Ended Year Ended August 31, 2002 August 31, 2001 --	
- Total revenues	$ 20,056 $ 24,418
Net income	$ 2,915 $ 2,931

The pro forma consolidated results of operations include adjustments to give effect to amortization of non-competes and customer lists, and interest expense on the Term Note. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the transactions been made at the beginning of the periods presented or the future results of the combined operations.

4. LONG-TERM DEBT:

Long-term debt consists of the following:

August 31, 2003	August 31, 2002

Term Note	$ 9,450	$ 11,150
Current maturities	1,700	1,700
Total long-term debt, net of current maturities	$ 7,750	$ 9,450

Bi-State entered into the Second Amended and Restated Credit Agreement (the "Credit Agreement") dated as of February 28, 2002 in connection with the acquisition of certain ProFlame assets. The terms of the Credit Agreement as amended are as follows:

> A Term Note in the principal amount of $12,000 payable in quarterly installments of principal in the amount of $425, together with interest with all unpaid interest and principal due at final maturity on February 28, 2007. Interest is payable at the Applicable Rate determined pursuant to the Credit Agreement. Applicable Rate means applicability of the Eurodollar (LIBOR) Rate, the Base Rate of the Fixed Rate, on a per annum basis. With respect to the Eurodollar Rate or any Base Rate, the rate of interest per annum shall be 2.01% plus the Eurodollar Rate if one or the Eurodollar Pricing Options is selected, 0.00% plus the Base Rate if the Base Rate Pricing Option is selected, and 2.10% plus the bank's cost of funds if the Fixed Rate is selected. As of August 31, 2003, $9,450 was outstanding on the Term Note with an average rate of 3.9%. Heritage Operating, L.P. and Allied each have a limited guarantee of $5,000 of principle plus all accrued and unpaid interest.

The Term Note contains certain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of Bi-State and additional indebtedness, and requires the maintenance of certain financial ratios. At August 31, 2003, Bi-State was in compliance with all covenants. Substantially all of the assets of Bi-State secure the Term Note.

5. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases, which require fixed monthly rental payments and expire at various dates through 2008. Certain of these leases contain renewal options and also contain escalation clauses, which are accounted for on a straight-line basis over the minimum lease term. Rental expense under these leases totaled approximately $121, $120, and $111 for the years ended August 31, 2003, 2002, and 2001, respectively, and has been included in operating expenses in the accompanying statements of operations. Fiscal year future minimum lease commitments for such leases are $149 in 2004; $37 in 2005; $32 in 2006; $11 in 2007 and $0 thereafter.

Bi-State has entered into a supply agreement with Allied in which Bi-State agrees to purchase from Allied all of Bi-State's requirements of propane delivered to and sold out of its plants at Allied's established distributor cost plus freight charges to the destination with a minimum and maximum quantity per year. The term of this contract expires March 2004, with a year-to year renewal option.

Bi-State is a party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against Bi-State. In the opinion of management, all such matters are covered by insurance, are without merit or involve amounts, which, if resolved unfavorably, would not have a significant effect on the financial position or results of operations of Bi-State.

6. PARTNERS' CAPITAL:

The Partnership Agreement between the Partners contains specific provisions for the maintenance of the Partner's capital accounts. The Partnership Agreement specifies that the profits and losses of Bi-State be shared equally by the Partners, and covered or distributed from time to time, as the Partners shall agree. The initial contribution was based on Allied's prior partnership interest and Heritage Bi-State's acquisition basis that causes amortization and depreciation allocation differences to each Partner. Due to the valuation differences of the Partners' initial contributions, the initial capital accounts were not equal, but subsequent changes in the capital account are subject to adjustment to equalize the Partner's capital accounts. Excess cash, as agreed by the Partners, shall be distributed annually or as the Partners shall otherwise agree. Total distributions to the Partners were $1,070, $800, and $250 for the years ended August 31, 2003, 2002, and 2001, respectively.

7. PROFIT SHARING AND 401(K) SAVINGS PLAN:

Bi-State sponsored a profit sharing and 401(k) savings plan, which covers all employees subject to service period requirements up until December 31, 2002, at which time the Plan merged with the profit sharing and 401(k) saving plan sponsored by Heritage Operating L.P. (collectively referred to as the "Plans"). Annual contributions to the Plans for Bi-State employees, if any, are discretionary, and must be agreed upon in writing by both Partners. Employer matching contributions are calculated using a discretionary formula based on employee contributions. Prior to 2001, employer-matching contributions were entirely discretionary. Bi-State did not recognize any expense under the profit sharing provisions of either of the Plans during the years ended August 31, 2003, 2002, or 2001. Bi-State made matching contributions of $84, $76, and $58 to the Plans for the years ended August 31, 2003, 2002, and 2001, respectively, which have been included in operating expenses in the accompanying statements of operations.

8. RELATED PARTY TRANSACTIONS:

Bi-State entered into an Administrative Agreement with Heritage Bi-State and a Supply Agreement with Allied. Heritage Bi-State performs all the administrative functions on behalf of Bi-State including, but not limited to, accounting, insurance, cash management, training and employee benefits. In consideration of the services provided by Heritage Bi-State, Bi-State pays a negotiated fee, plus any specific charges as described by the Administrative Agreement to Heritage Bi-State. These costs totaled $751, $536, and $448 for the years ended August 31, 2003, 2002, and 2001, respectively. An interest bearing receivable/payable account is maintained to monitor the net cash due between Heritage Bi-State and Bi-State. Heritage Bi-State agrees to advance funds necessary to provide for Bi-State's working capital needs on a daily basis. These advances are reflected in the receivable/payable account. All cash collected by Bi-State is transferred to Heritage Bi-State's depository account on a daily basis and is also reflected in the same receivable/payable account. This account is included in accounts receivable from affiliates on the balance sheet. The interest is based on the amount equal to the rate Heritage Operating L.P. pays on its working capital line of credit (2.49125% at August 31, 2003). The net interest charged by Bi-State to Heritage Bi-State on the receivable due from Heritage Bi-State was $40, $62, and $45 for the years ended August 31, 2003, 2002, and 2001, respectively. The Supply Agreement calls for Bi-State to purchase from Allied all of Bi-State's requirements of propane delivered to and sold out of its plants at Allied's established distributor cost plus freight charges to the destination. Total purchases under this agreement by Bi-State were 16,977,000 gallons, 12,775,000 gallons, and 12,443,000 gallons for the years ended August 31, 2003, 2002, and 2001, respectively for a total cost of $11,975, $7,480, and $11,249 for the years ended August 31, 2003, 2002, and 2001, respectively.

EXHIBIT 99.3

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Members
U.S. Propane, L.L.C.

We have audited the accompanying consolidated balance sheet of U.S. Propane, L.L.C. (a Delaware limited liability company) and subsidiaries as of August 31, 2003. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of U.S. Propane, L.L.C. and subsidiaries as of August 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Tulsa, Oklahoma
October 24, 2003 (except for note 11, as to which the date is November 6, 2003)

U.S. PROPANE, L.L.C. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(in thousands)

August 31, 2003
ASSETS CURRENT ASSETS: Cash and cash equivalents $ 8,140
Marketable securities 3,055
Accounts receivable, net of allowance for doubtful accounts 35,879
Inventories 45,274
Assets from liquids marketing 83
Prepaid expenses and other 4,485
Deferred taxes 1,881
Total current assets 98,797
PROPERTY, PLANT AND EQUIPMENT, net 426,588
ASSETS HELD IN TRUST 724
INVESTMENT IN AFFILIATES 8,692
GOODWILL, net of amortization prior to adoption of SFAS No. 142 218,918
INTANGIBLES AND OTHER ASSETS, net 52,824
Total assets $ 806,543
LIABILITIES AND MEMBERS' DEFICIT CURRENT LIABILITIES:
Working capital facility $ 26,700
Accounts payable 43,832
Accounts payable to related company 1,471
Accrued and other current liabilities 42,975
Liabilities from liquids marketing 80
Current maturities of long-term debt 38,563
Total current liabilities 153,621
LONG-TERM DEBT, less current maturities 361,327
MINORITY INTERESTS 187,752
DEFERRED TAXES

103,845 -------

806,545
COMMITMENTS AND
CONTINGENCIES
MEMBERS'
DEFICIT:
Members'
deficit (2) ---

Total
liabilities and
members'
deficit $
806,543
==========

The accompanying notes are an integral part of this consolidated balance sheet.

U.S. PROPANE, L.L.C. AND SUBSIDIARIES

NOTES TO CONSOLIDATED BALANCE SHEET
AUGUST 31, 2003
(Dollars in thousands)

1. OPERATIONS AND ORGANIZATION:

U.S. Propane, L.L.C. was formed in August 2000 as the General Partner of U.S. Propane, L.P. ("U.S. Propane"). U.S. Propane, L.L.C. holds a 0.01% general partner interest in U.S. Propane. U.S. Propane was formed in August 2000 as a Delaware limited partnership to acquire, directly and indirectly through Heritage Holdings, Inc. ("Heritage Holdings"), a controlling interest in Heritage Propane Partners, L.P. ("Heritage"). U.S. Propane is the General Partner of Heritage. The members of U.S. Propane, L.L.C. and their respective membership interests are as follows:

TECO Propane Ventures, L.L.C.	37.98%
AGL Energy Corporation	22.36%
Piedmont Propane Company	20.69%
United Cities Propane Gas, Inc.	18.97%
Total	100.00%

The members of U.S. Propane, L.L.C. or their affiliates also own, in the same percentages, the limited partner interests in U.S. Propane L.P.

In order to simplify Heritage's obligation under the laws of several jurisdictions in which Heritage conducts business, Heritage's activities are conducted through a subsidiary operating partnership Heritage Operating, L.P. (the "Operating Partnership"). The Operating Partnership sells propane and propane-related products to more than 650,000 active residential, commercial, industrial and agricultural customers in 29 states. Heritage is also a wholesale propane supplier in the southwestern and southeastern United States and in Canada, the latter through participation in MP Energy Partnership. Heritage owns a 60% interest in MP Energy Partnership, a Canadian partnership engaged in supplying the Company's northern U.S. locations and in lower-margin wholesale distribution. U.S. Propane owns a 1% general partner interest in Heritage and the associated Incentive Distribution Rights, a 1.0101% general partner interest in the Operating Partnership, and approximately 4.6 million Common Units of Heritage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BALANCE SHEET DETAIL:

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated balance sheet includes the accounts of U.S. Propane, L.L.C. and its subsidiaries ("the Company"), including its wholly-owned subsidiaries, Heritage Holdings, and U.S. Propane, and its partially-owned subsidiaries over which it exercises control including Heritage Propane Partners, L.P., Heritage Operating, L.P.("the Operating Partnership"), Heritage Energy Resources, L.L.C. ("Resources"), Guilford Gas Service, Inc. and MP Energy Partnership. On May 31, 2003, Guilford Gas Service, Inc. was merged into the Operating Partnership. A minority interest liability and minority interest expense is recorded for all partially owned subsidiaries. The Company accounts for its 50% partnership interest in Bi-State Propane, another propane retailer, under the equity method. All significant intercompany transactions and accounts have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include all cash on hand, demand deposits and investments with original maturities of three months or less. The Company considers cash equivalents to include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

ACCOUNTS RECEIVABLE

The Company grants credit to its customers for the purchase of propane and propane-related products. Accounts receivable are recorded at amounts billed to customers less an allowance for doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the realizability of customer accounts. Management's assessment is based on the payment history of the Company's customers and any specific disputes. Accounts receivable consisted of the following at August 31, 2003:

Accounts receivable	$ 39,383
Less - allowance for doubtful accounts	3,504
Total, net	$ 35,879

INVENTORIES

Inventories are valued at the lower of cost or market. The cost of fuel inventories is determined using weighted-average cost of fuel delivered to the retail districts and includes storage fees and inbound freight costs, while the cost of appliances, parts and fittings is determined by the first-in, first-out method. Inventories consisted of the following at August 31, 2003:

Fuel	$ 34,544
Appliances, parts and fittings	10,730
Total inventories	$ 45,274

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred. Expenditures to refurbish tanks that either extend the useful lives of the tanks or prevent environmental contamination are capitalized and depreciated over the remaining useful life of the tanks. Additionally, the Company capitalizes certain costs directly related to the installation of company-owned tanks, including internal labor costs. Components and useful lives of property, plant and equipment were as follows at August 31, 2003:

Land and improvements	$ 21,937
Buildings and improvements (10 to 30 years)	30,843
Bulk storage, equipment and facilities (3 to 30 years)	43,340
Tanks and other equipment (5 to 30 years)	327,193
Vehicles (5 to 10 years)	76,239
Furniture and fixtures (3 to 10 years)	11,164
Other (5 to 10 years)	3,578
	514,294
Less - Accumulated depreciation	(99,563)
	414,731
Plus - Construction work-in-process	11,857
Property, plant and equipment, net	$ 426,588

INTANGIBLES AND OTHER ASSETS

Intangibles and other assets are stated at cost, net of amortization computed using the straight-line method. The Company eliminates from its balance sheet any fully amortized intangibles and the related accumulated amortization. Components and useful lives of intangibles and other assets were as follows at August 31, 2003:

Gross Carrying Accumulated Amount Amortization

Amortized intangible assets:
Noncompete agreements (5 to 15 years) $ 42,742 $ (15,893)
Customer lists (15 years) 28,378 (6,356)
Financing costs (3 to 15 years) 4,225 (1,995)
Consulting agreements (2 to 7 years) 517 (367)
Total 75,862 (24,611)
Unamortized intangible assets:
Trademarks 1,309 --
Other assets 264 --
Total intangibles and other assets $ 77,435 $ (24,611)

LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, the Company reduces the carrying amount of such assets to fair value. No impairment of long-lived assets has been recorded as of August 31, 2003.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following at August 31, 2003:

Interest payable	$ 4,517
Wages and payroll taxes	11,886
Deferred tank rent	4,080
Advanced budget payments and unearned revenue	15,417
Customer deposits	2,137
Taxes other than income	2,405

Income taxes payable	500
Other	2,033
Accrued and other current liabilities	$ 42,975

INCOME TAXES

U.S. Propane, L.L.C. is a limited liability company. As a result, U.S. Propane, L.L.C.'s earnings or losses for income tax purposes are included in the tax returns of the individual members.

Heritage Holdings is a taxable corporation and follows the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). Under SFAS 109, deferred income taxes are recorded based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets are received and liabilities settled.

STOCK BASED COMPENSATION PLANS

During the fourth quarter of 2003, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (SFAS 123) effective as of September 1, 2002. The Company adopted the fair value recognition provisions following the modified prospective method of adoption described in Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS 148).

USE OF ESTIMATES

The preparation of the consolidated balance sheet in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the balance sheet. Some of the more significant estimates made by management include, but are not limited to, allowances for doubtful accounts, liquids marketing assets and liabilities, purchase accounting allocations, and subsequent realizability of intangible assets, and general business and medical self-insurance reserves. Actual results could differ from those estimates.

FAIR VALUE

The carrying amounts of accounts receivable and accounts payable approximate their fair value. Based on the estimated borrowing rates currently available to the Company for long-term loans with similar terms and average maturities, the aggregate fair value and carrying amount of long-term debt at August 31, 2003 was $422,398 and $399,890, respectively.

GOODWILL AND OTHER INTANGIBLE ASSETS

The Company applies FASB Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142). Accordingly, goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subject to at least an annual assessment for impairment by applying a fair-value-based test.

Management has determined that a detailed evaluation of the Company's operating segments as of August 31, 2003 is not necessary based on the fact that there has not been a significant change in the components of the Company's operating segments since the last evaluation, the previous fair value of the Company's operating segments substantially exceeded the carrying value, and the likelihood that the Company's operating segments' current carrying value exceeds its current fair value is remote based on an analysis of events and circumstances since the Company's most recent evaluation. Accordingly, no impairment of the Company's goodwill was recorded as of August 31, 2003.

Goodwill is associated with acquisitions made for the Company's domestic retail segment; therefore, all goodwill is recorded in this segment. Of the $218,918 balance in goodwill, $23,923 is expected to be tax deductible. Goodwill is tested for impairment at the end of each fiscal year end in accordance with SFAS 142.

MARKETABLE SECURITIES

The Company's marketable securities are classified as available-for-sale securities and are reflected as current assets on the consolidated balance sheet at their fair value.

LIQUIDS MARKETING ACTIVITIES

The Company buys and sells derivative financial instruments, which are within the scope of SFAS 133 and that are not designated as accounting hedges. The Company also enters into energy trading contracts, which are not derivatives, and therefore are not within the scope of SFAS 133. EITF Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 98-10), applied to energy trading contracts not within the scope of SFAS 133 that were entered into prior to October 25, 2002. The types of contracts the Company utilizes in its liquids marketing segment include energy commodity forward contracts, options, and swaps traded on the over-the-counter financial markets. In accordance with the provisions of SFAS 133, financial instruments utilized in connection with the Company's' liquids marketing activity are accounted for using the mark-to-market method. Additionally, all energy trading contracts entered into prior to October 25, 2002 were accounted for using the mark-to-market method in accordance with the provisions of EITF 98-10. Under the mark-to-market method of accounting, forwards, swaps, options, and storage contracts are reflected at fair value, and are shown in the consolidated balance sheet as assets and liabilities from liquids marketing activities. As of August 31, 2002, the Company adopted the applicable provisions of EITF Issue No. 02-3, Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities (EITF 02-3), which requires that gains and losses on derivative instruments be shown net in the statement of operations if the derivative instruments are held for trading purposes. Net realized and unrealized gains and losses from the financial contracts and the impact of price movements are recognized in the statement of operations as liquids marketing revenue. Changes in the assets and liabilities from the liquids marketing activities result primarily from changes in the market prices, newly originated transactions, and the timing and settlement of contracts. EITF 02-3 also rescinds EITF 98-10 for all energy trading contracts entered into after October 25, 2002, and specifies certain disclosure requirements. Consequently, the Company does not apply mark-to-market accounting for any contracts entered into after October 25, 2002, that are not within the scope of SFAS 133. The Company attempts to balance its contractual portfolio in terms of notional amounts and timing of performance and delivery obligations. However, net unbalanced positions can exist or are established based on management's assessment of anticipated market movements.

The notional amounts and terms of these financial instruments as of August 31, 2003 include fixed price payor for 45 barrels of propane, and fixed price receiver of 195 barrels of propane. Notional amounts reflect the volume of the transactions, but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure the Company's exposure to market or credit risks.

Estimates related to the Company's liquids marketing activities are sensitive to uncertainty and volatility inherent in the energy commodities markets and actual results could differ from these estimates. A theoretical change of 10% in the underlying commodity value of the liquids marketing contracts would result in an approximate $345 change in the market value of the contracts as there were approximately 6.3 million gallons of net unbalanced positions at August 31, 2003.

Inherent in the resulting contractual portfolio are certain business risks, including market risk and credit risk. Market risk is the risk that the value of the portfolio will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counterparties to a contract. The Company takes an active role in managing and controlling market and credit risk and have established control procedures, which are reviewed on an ongoing basis. The Company monitors market risk through a variety of techniques, including routine reporting to senior management. The Company attempts to minimize credit risk exposure through credit policies and periodic monitoring procedures.

The following table summarizes the fair value of the Company's contracts, aggregated by method of estimating fair value of the contracts as of August 31, 2003 where settlement had not yet occurred. Resources' contracts all have a maturity of less than 1 year. The market prices used to value these transactions reflect management's best estimate considering various factors including closing average spot prices for the current and outer months plus a differential to consider time value and storage costs.

Source of Fair Value	Prices actively quoted $ 80	Prices based on other valuation methods 3
Assets from liquids marketing	$ 83	
Liabilities from liquids marketing	$ 80	
Unrealized gains (losses)	$ 3	

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the FASB issued Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. The Company adopted the provisions of SFAS 146 effective for exit or disposal activities that are initiated after December 31, 2002. The adoption did not have a material impact on the Company's consolidated financial position.

In November 2002, the FASB issued Financial Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 expands the existing disclosure requirements for guarantees and requires that companies recognize a liability for guarantees issued after December 31, 2002. The implementation of FIN 45 did not have a significant impact on the Company's financial position.

In January 2003, the FASB issued Financial Interpretation No. 46 Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51 (FIN 46). FIN 46 clarifies Accounting Research Bulletin No. 51, Consolidated Financial Statements. If certain conditions are met, this interpretation requires the primary beneficiary to consolidate certain variable interest entities in which equity investors lack the characteristics of a controlling interest or do not have sufficient equity investment at risk to permit the variable interest entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for variable interest entities created or obtained after January 31, 2003. For variable interest entities acquired before February 1, 2003, the interpretation is effective for the first fiscal year or interim period beginning after June 15, 2003. Management does not believe FIN 46 will have a significant impact on the Company's financial position.

In April 2003, the FASB issued Statement No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The Company adopted SFAS 149 as of July 1, 2003. The adoption of SFAS 149 did not have a material impact on the Company's consolidated financial position.

In May 2003, the FASB issued Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It

requires that an issuer classify a financial instrument that is within the scope of SFAS 150 as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted the provisions of SFAS 150 as of September 1, 2003. The adoption did not have a material impact on the Company's consolidated financial position.

3. ASSETS HELD IN TRUST:

In connection with the initial public offering ("IPO") of Heritage in June 1996, Heritage Holdings retained proceeds, which were placed in various trusts to be paid to the noteholders of noncompete agreements entered into prior to the IPO. The proceeds are disbursed monthly from the trust in accordance with the noncompete agreements. The Company retains all earnings from the trust assets.

4. ACQUISITIONS:

On January 2, 2003, the Company purchased the propane assets of V-1 Oil Co. ("V-1") of Idaho Falls, Idaho for total consideration of $35.4 million after post-closing adjustments. The acquisition price was payable $20.0 million in cash, with $17.3 million of that amount financed by the acquisition facility, and by the issuance of 551,456 Common Units of Heritage valued at $15.0 million, and assumed $0.4 million in liabilities. V-1's propane distribution network included 35 customer service locations in Colorado, Idaho, Montana, Oregon, Utah, Washington, and Wyoming. The Company was able to expand its market presence in the Northwest and achieve a greater geographical balance through the transaction with V-1. This acquisition enhanced the Company's current operations and reduced costs through synergies with existing operations in locations in which the Company was already conducting business.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed of V-1 as of the date of acquisition:

Current assets	$ 4,952
Property, plant, & equipment	29,324
Goodwill	20
Customer lists (15 years)	740
Trademarks	370
Total assets acquired	$ 35,406
Total liabilities assumed	(423)
Net assets acquired	$ 34,983

During the year ended August 31, 2003, the Company also acquired substantially all of the assets of four other companies, which included V-1 Oil Company of Spokane, Washington, Stegall Petroleum located in North Carolina, 1st Propane of Boise Idaho, and Love Propane Gas located in South Carolina. The Company also purchased the stock of Tri-Cities Gas Company, Inc. located in Alabama. The aggregate purchase price for these acquisitions totaled $6.4 million, which included liabilities assumed and non-compete agreements of $1.4 million for periods ranging from five to ten years. These acquisitions were financed primarily with the acquisition facility and were accounted for by the purchase method under SFAS 141.

The Company recorded the following intangible assets in conjunction with these acquisitions as of August 31, 2003:

Customer lists (15 years)	$ 1,166
Non-compete agreements (5 to 10 years)	769
Total amortized intangible assets	1,935
Trademarks and tradenames	381
Goodwill	860
Total intangible assets acquired	$ 3,176

Goodwill was warranted because these acquisitions enhance the Company's current operations and certain acquisitions are expected to reduce costs through synergies with existing operations. The Company assigned all of the goodwill acquired to its retail operating segment.

5. WORKING CAPITAL FACILITY AND LONG-TERM DEBT:

Long-term debt consists of the following at August 31, 2003:

1996 8.55% Senior Secured Notes	$ 96,000
1997 Medium Term Note Program:	
7.17% Series A Senior Secured Notes	12,000
7.26% Series B Senior Secured Notes	20,000
6.50% Series C Senior Secured Notes	2,143
2000 and 2001 Senior Secured Promissory Notes:	
8.47% Series A Senior Secured Notes	16,000
8.55% Series B Senior Secured Notes	32,000
8.59% Series C Senior Secured Notes	27,000
8.67% Series D Senior Secured Notes	58,000
8.75% Series E Senior Secured Notes	7,000
8.87% Series F Senior Secured Notes	40,000
7.21% Series G Senior Secured Notes	19,000
7.89% Series H Senior Secured Notes	8,000
7.99% Series I Senior Secured Notes	16,000
Senior Revolving Acquisition Facility	24,700
Notes Payable on noncompete agreements with interest imputed at rates averaging 7.38%, due in installments through 2010, collateralized by a first security lien on certain assets of the Company	20,110
Other	1,937
Current maturities of long-term debt	(38,563)
	$ 361,327

Maturities of the Senior Secured Notes, the Medium Term Note Program and the Senior Secured Promissory Notes are as follows:

1996 8.55% Senior Secured Notes:

mature at the rate of $12,000 on June 30 in each of the years 2002 to and including 2011. Interest is paid semi-annually.

1997 Medium Term Note Program:

Series A Notes: mature at the rate of $2,400 on November 19 in each of the years 2005 to and including 2009. Interest is paid semi-annually.

Series B Notes: mature at the rate of $2,000 on November 19 in each of the years 2003 to and including 2012. Interest is paid semi-annually.

Series C Notes: mature at the rate of $714 on March 13 in each of the years 2000 to and including 2003, $357 on March 13, 2004, $1,073 on March 13,

	2005, and $357 in each of the years 2006 and 2007. Interest is paid semi-annually.
2000 and 2001 Senior Secured Promissory Notes:	
Series A Notes:	mature at the rate of $3,200 on August 15 in each of the years 2003 to and including 2007. Interest is paid quarterly.
Series B Notes:	mature at the rate of $4,571 on August 15 in each of the years 2004 to and including 2010. Interest is paid quarterly.
Series C Notes:	mature at the rate of $5,750 on August 15 in each of the years 2006 to and including 2007, $4,000 on August 15, 2008 and $5,750 on August 15, 2009 to and including 2010. Interest is paid quarterly.
Series D Notes:	mature at the rate of $12,450 on August 15 in each of the years 2008 and 2009, $7,700 on August 15, 2010, $12,450 on August 15, 2011 and $12,950 on August 15, 2012. Interest is paid quarterly.
Series E Notes:	mature at the rate of $1,000 on August 15 in each of the years 2009 to and including 2015. Interest is paid quarterly.
Series F Notes:	mature at the rate of $3,636 on August 15 in each of the years 2010 to and including 2020. Interest is paid quarterly.
Series G Notes:	mature at the rate of $3,800 on May 15 in each of the years 2004 to and including 2008. Interest is paid quarterly. $7.5 million of these notes were retired during the fiscal year ended August 31, 2003.
Series H Notes:	mature at the rate of $727 on May 15 in each of the years 2006 to and including 2016. Interest is paid quarterly. $19.5 million of these notes were retired during the fiscal year ended August 31, 2003.
Series I Notes:	mature in one payment of $16,000 on May 15, 2013. Interest is paid quarterly.

The Senior Secured Notes, the Medium Term Note Program, and the Senior Secured Promissory Notes contain restrictive covenants including limitations on substantial disposition of assets, changes in ownership of the Company, additional indebtedness, and require the maintenance of certain financial ratios. At August 31, 2003, the Company was in compliance with these covenants or had no continuing defaults. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of the Heritage's subsidiaries secure the notes.

The Note Agreements for each of the Senior Secured Notes, Medium Term Note Program and Senior Secured Promissory Notes, and the Bank Credit Facility contain customary restrictive covenants applicable to the Operating Partnership, including limitations on the level of additional indebtedness, creation of liens, and sale of assets. These covenants require the Operating Partnership to maintain ratios of Consolidated Funded Indebtedness to Consolidated EBITDA (as these terms are similarly defined in the Bank Credit Facility and the Note Agreements) of not more than 5.00 to 1 for the Bank Credit Facility and not more than 5.25 to 1 for the Note Agreements and Consolidated EBITDA to Consolidated Interest Expense (as these terms are similarly defined in the Bank Credit Facility and the Note Agreements) of not less than 2.25 to 1. The Consolidated EBITDA used to determine these ratios is calculated in accordance with these debt agreements. For purposes of calculating the ratios under the Bank Credit Facility and the Note Agreements, Consolidated EBITDA is based upon Heritage's EBITDA, as adjusted for the most recent four quarterly periods, and modified to give pro forma effect for acquisitions and divestures made during the test period and is compared to Consolidated Funded Indebtedness as of the test date and the Consolidated Interest Expense for the most recent twelve months. These debt agreements also provide that the Operating Partnership may declare, make, or incur a liability to make, a restricted payment during each fiscal quarter, if: (a) the amount of such restricted payment, together with all other restricted payments during such quarter, do not exceed Available Cash with respect to the immediately preceding quarter; and (b) no default or event of default exists before such restricted payment and after giving effect thereto.

The debt agreements further provide that Available Cash is required to reflect a reserve equal to 50% of the interest to be paid on the notes. In addition, in the third, second and first quarters preceding a quarter in which a scheduled principal payment is to be made on the notes, Available Cash is required to reflect a reserve equal to 25%, 50%, and 75%, respectively, of the principal amount to be repaid on such payment dates.

Failure to comply with the various restrictive and affirmative covenants of the Operating Partnership's Bank Credit Facility and the Note Agreements could negatively impact the Operating Partnership's ability to incur

additional debt and/or Heritage's ability to pay distributions. The Operating Partnership is required to measure these financial tests and covenants quarterly and was in compliance or had no continuing defaults with all requirements, tests, limitations, and covenants related to the Senior Secured Notes, Medium Term Note Program and Senior Secured Promissory Notes, and the Bank Credit Facility at August 31, 2003.

Effective July 16, 2001, the Operating Partnership entered into the Fifth Amendment to the First Amended and Restated Credit Agreement (Bank Credit Facility). The terms of the Bank Credit Facility as amended are as follows:

A $65,000 Senior Revolving Working Capital Facility, expiring June 30, 2004 with $26,700 outstanding at August 31, 2003. The interest rate and interest payment dates vary depending on the terms the Company agrees to when the money is borrowed. The Company must be free of all working capital borrowings for 30 consecutive days each fiscal year. The weighted average interest rate was 2.49125% for the amount outstanding at August 31, 2003. The maximum commitment fee payable on the unused portion of the facility is 0.50%. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of Heritage's subsidiaries secure the Senior Revolving Working Capital Facility.

A $50,000 Senior Revolving Acquisition Facility is available through December 31, 2003, at which time the outstanding amount must be paid in ten equal quarterly installments beginning March 31, 2004, with $24,700 outstanding as of August 31, 2003. The interest rate and interest payment dates vary depending on the terms the Company agrees to when the money is borrowed. The weighted average interest rate was 2.49125% for the amount outstanding at August 31, 2003. The maximum commitment fee payable on the unused portion of the facility is 0.50%. All receivables, contracts, equipment, inventory, general intangibles, cash concentration accounts, and the capital stock of Heritage's subsidiaries secure the Senior Revolving Acquisition Facility.

Future maturities of long-term debt for each of the next five fiscal years and thereafter are $38,563 in 2004; $40,565 in 2005; $48,501 in 2006; $38,543 in 2007; $45,255 in 2008, and $188,463 thereafter.

6. INCOME TAXES:

The components of deferred income taxes were as follows at August 31, 2003:

Deferred Tax Assets-	
Alternative minimum tax carryforwards	$ 1,945
Accruals, reserves and deferred revenue	1,696
Unrealized loss on available-for-sale securities	337
	$ 3,978
Deferred Tax Liabilities-	
Property, plant and equipment	$ (41,656)
Intangibles	(64,134)
Other	(152)
	$(105,942)

7. COMMITMENTS AND CONTINGENCIES:

Certain property and equipment is leased under noncancelable leases, which require fixed monthly rental payments and expire at various dates through 2020. Certain of these leases contain renewal options and also contain escalation clauses, which are accounted for on a straight-line basis over the minimum lease term. Fiscal year future minimum lease commitments for such leases are $2,916 in 2004; $1,906 in 2005; $1,325 in 2006; $929 in 2007; $934 in 2008 and $846 thereafter.

The Company has employment agreements with seven employees. The employment agreements provide for total annual base salary of $1,545. The employment agreements provide for the executives to participate in bonus and incentive plans.

The employment agreements provide that in the event of a change of control of the ownership of the General Partner or in the event an executive (i) is involuntarily terminated (other than for "misconduct" or "disability") or (ii) voluntarily terminates employment for "good reason" (as defined in the agreements), such executive will be entitled to continue receiving his base salary and to participate in all group health insurance plans and programs that may be offered to executives of the General Partner for the remainder of the term of the employment agreement or, if earlier, the executive's death, and the executive will vest immediately in the minimum award of the number of common units to which the executive is entitled under the Long-Term Incentive Plan to the extent not previously awarded, and if the executive is terminated as a result of the foregoing, all restrictions on the transferability of the units purchased by such executive under the subscription agreement dated as of June 15, 2000, shall automatically lapse in full on such date. If such change were to have occurred on August 31, 2003, the General Partner would be required to pay the remaining portion of $1,545 in base salary for the executives and a maximum of 174,993 common units or approximately $5,477 based on a per unit price of $31.30 would be awarded under the Long-Term Incentive Plan, of which $3,165 has been expensed as of August 31, 2003. Each employment agreement also provides that if any payment received by an executive is subject to the 20% federal excise tax under Section 4999(a) of the Code of the Internal Revenue Service, the payment will be grossed up to permit the executive to retain a net amount on an after-tax basis equal to what he would have received had the excise tax and all other federal and state taxes on such additional amount not been payable. In addition, each employment agreement contains non-competition and confidentiality provisions.

The Company is a party to various legal proceedings incidental to its business. Certain claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Company. In the opinion of management, all such matters are either covered by insurance, are without merit or involve amounts, which, if resolved unfavorably, would not have a significant effect on the financial position of the Company. Once management determines that information pertaining to a legal proceeding indicates that it is probable that a liability has been incurred, an accrual is established equal to management's estimate of the likely exposure. For matters that are covered by insurance, the Company accrues the related deductible. As of August 31, 2003 an accrual of $941 was recorded as accrued and other current liabilities on the Company's consolidated balance sheet.

Petroleum-based contamination or environmental wastes are known to be located on or adjacent to six sites, on which the Company presently has, or formerly had, operations. These sites were evaluated at the time of their acquisition. In all cases, remediation operations have been or will be undertaken by others, and in all six cases, the Company obtained indemnification for expenses associated with any remediation from the former owners or related entities. The Company has not been named as a potentially responsible party at any of these sites, nor has the Company's operations contributed to the environmental issues at these sites. Accordingly, no amounts have been recorded in the Company's August 31, 2003 consolidated balance sheet. Based on information currently available to the Company, such projects are not expected to have a material adverse effect on the Company's financial condition.

In July 2001, the Company acquired a company that had previously received a request for information from the U.S. Environmental Protection Agency (the "EPA") regarding potential contribution to a widespread groundwater contamination problem in San Bernardino, California, known as the Newmark Groundwater Contamination. Although the EPA has indicated that the groundwater contamination may be attributable to releases of solvents from a former military base located within the subject area that occurred long before the facility acquired by the Company was constructed, it is possible that the EPA may seek to recover all or a portion of groundwater remediation costs from private parties under the Comprehensive Environmental

Response, Compensation, and Liability Act (commonly called "Superfund"). Based upon information currently available to the Company, it is not believed that the Company's liability if such action were to be taken by the EPA would have a material adverse effect on the Company's financial condition.

The Company has entered into several purchase and supply commitments with varying terms as to quantities and prices, which expire at various dates through March 2004.

8. MEMBERS' DEFICIT:

The partnership agreement of Heritage requires that Heritage will distribute all of its "Available Cash" to its Unitholders and its General Partner within 45 days following the end of each fiscal quarter, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved. The term "Available Cash" generally means, with respect to any fiscal quarter of the Heritage, all cash on hand at the end of such quarter, plus working capital borrowings after the end of the quarter, less reserves established by the General Partner in its sole discretion to provide for the proper conduct of Heritage's business, to comply with applicable laws or any Heritage debt instrument or other agreement, or to provide funds for future distributions to partners with respect to any one or more of the next four quarters.

Distributions by Heritage in an amount equal to 100% of Available Cash will generally be made 98% to the Common Unitholders and 2% to U.S. Propane, subject to the payment of incentive distributions to the holders of Incentive Distribution Rights to the extent that certain target levels of cash distributions are achieved.

Heritage currently distributes Available Cash, excluding any Available Cash to be distributed to the Class C Unitholders as follows:

- First, 98% to all Unitholders, pro rata, and 2% to U.S. Propane, until all Unitholders have received $0.50 per unit for such quarter and any prior quarter;

- Second, 98% to all Unitholders, pro rata, and 2% to U.S. Propane, until all Unitholders have received $0.55 per unit for such quarter;

- Third, 85% to all Unitholders, pro rata, 13% to the holders of Incentive Distribution Right, pro rata, and 2% to U.S. Propane, until all Common Unitholders have received at least $0.635 per unit for such quarter;

- Fourth, 75% to all Unitholders, pro rata, 23% to the holders of Incentive Distribution Right, pro rata and 2% to U.S. Propane, until all Common Unitholders have received at least $0.825 per unit for such quarter;

- Fifth, thereafter 50% to all Unitholders, pro rata, 48% to the holders of Incentive Distribution Right, pro rata, and 2% to U.S. Propane.

The total amount of distributions for the 2003 fiscal year on Common Units, the general partner interests and the Incentive Distribution Rights totaled $43.7 million, $0.9 million and $1.0 million, respectively. All such distributions were made from Available Cash from Operating Surplus.

RESTRICTED UNIT PLAN

U.S. Propane has adopted the Amended and Restated Restricted Unit Plan dated August 10, 2000, amended February 4, 2002 as the Second Amended and Restated Restricted Unit Plan (the "Restricted Unit Plan"), for certain directors and key employees of the General Partner and its affiliates. The Restricted Unit Plan covers rights to acquire 146,000 of Heritage's Common Units. The right to acquire the Common Units under the Restricted Unit Plan, including any forfeiture or lapse of rights is available for grant to key employees on such terms and conditions (including vesting conditions) as the Compensation Committee of the General Partner shall determine. Each director shall automatically receive a Director's grant with respect to 500 Common Units on each September 1 that such person continues as a director. Newly elected directors are also entitled to receive a grant with respect to 2,000 Common Units upon election or appointment to the Board. Directors who are

employees of U.S. Propane, TECO, Atmos Energy, Piedmont Natural Gas or AGL Resources or their affiliates are not entitled to receive a Director's grant of Common Units. Generally, the rights to acquire the Common Units will vest upon the later to occur of (i) the three-year anniversary of the grant date, or (ii) on such terms as the Compensation Committee may establish, which may include the achievement of performance objectives. In the event of a "change of control" (as defined in the Restricted Unit Plan), all rights to acquire Common Units pursuant to the Restricted Unit Plan will immediately vest.

The issuance of the Common Units pursuant to the Restricted Unit Plan is intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation in respect of the Common Units. Therefore, no consideration will be payable by the plan participants upon vesting and issuance of the Common Units. As of August 31, 2003, 39,400 restricted units are outstanding and 15,800 are available for grants to non-employee directors and key employees. Subsequent to August 31, 2003, 14,800 additional Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued.

During the fiscal year ended August 31, 2003, 15,000 units were granted under the Restricted Unit Plan. The units had a weighted-average fair value of $20.24 per unit at the grant date. During fiscal year 2003, 2,500 Phantom Units vested pursuant to the vesting rights of the Restricted Unit Plan and Common Units were issued.

LONG-TERM INCENTIVE PLAN

Effective September 1, 2000, the Company adopted a long-term incentive plan whereby Heritage Common Units will be awarded based on Heritage achieving certain targeted levels of Distributed Cash (as defined in the Long-Term Incentive Plan) per unit. Awards under the program will be made starting in 2003 based upon the average of the prior three years' Distributed Cash per unit. A minimum of 250,000 Common Units and if certain targeted levels are achieved, a maximum of 500,000 Common Units will be awarded. During the fiscal year ended August 31, 2003, 66,118 units vested pursuant to the vesting rights of the Long-Term Incentive Plan and Common Units were issued, and 8,889 units were forfeited.

9. SIGNIFICANT INVESTEE:

The Company holds a 50% interest in Bi-State Propane, which is accounted for under the equity method. The Company's investment in Bi-State Propane totaled $8,242 at August 31, 2003. The Operating Partnership guarantees $5 million of debt of Bi-State Propane to a financial institution. Based on the current financial condition of Bi-State Propane, management considers the likelihood of the Company incurring a liability resulting from the guarantee to be remote. The Company has not recorded a liability on the consolidated balance sheet as of August 31, 2003 for this guarantee because the guarantee was in effect prior to the issuance of FIN 45, and there have been no amendments to the original guarantee.

Bi-State Propane's financial position is summarized below as of August 31, 2003:

Current assets	$ 3,393
Noncurrent assets	23,187
	$ 26,580
Current liabilities	$ 3,701
Long-term debt	7,750
Partners' capital:	
Heritage	8,242
Other partner	6,887
	$ 26,580

10. SUPPLEMENTAL INFORMATION:

The following balance sheet of the Company includes its investment in U.S. Propane L.P. on an equity basis. Such presentation is included to provide additional information with respect to the Company's financial position on a stand-alone basis as of August 31, 2003:

ASSETS	
	--
Total assets	$ --
LIABILITIES AND MEMBERS' DEFICIT	
Liability for negative investment in U.S. Propane L.P.	2
Members' Deficit	(2)
Total liabilities and members' deficit	$ --

11. SUBSEQUENT EVENT:

On November 6, 2003, the Company signed a definitive agreement with Energy Transfer Company to purchase substantially all of its assets in exchange for approximately $300 million in cash, repayment of outstanding indebtedness, and a combination of Heritage Common Units, Class D Units and Special Units. The transaction is valued at approximately $980 million. Heritage will also acquire the stock of Heritage Holdings, Inc., which owns approximately 4.4 million Common Units of Heritage for $100 million. Energy Transfer Company will also purchase U.S. Propane, L.P., the General Partner of Heritage, and U.S. Propane, L.L.C. from subsidiaries of AGL Resources, Atmos Energy Corporation, TECO Energy, Inc. and Piedmont Natural Gas Company, Inc.