MAGELLAN MIDSTREAM PARTNERS LP
Form 10-Q
November 03, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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 No.: 1-16335

Magellan Midstream Partners, L.P.
(Exact name of registrant as specified in its charter)

Delaware	73-1599053
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One Williams Center, P.O. Box 22186, Tulsa, Oklahoma 74121-2186
(Address of principal executive offices and zip code)
(918) 574-7000
(Registrant’s telephone number, including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer x Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No x

As of November 2, 2015, there were 227,427,247 outstanding limited partner units of Magellan Midstream Partners, L.P. that trade on the New York Stock Exchange under the ticker symbol "MMP."

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PART I
FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

MAGELLAN MIDSTREAM PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per unit amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Transportation and terminals revenue	$360,517	$400,944	$1,031,722	$1,120,560
Product sales revenue	155,865	172,731	589,585	455,827
Affiliate management fee revenue	5,219	3,557	15,346	10,478
Total revenue	521,601	577,232	1,636,653	1,586,865
Costs and expenses:				
Operating	132,387	137,906	330,758	367,834
Cost of product sales	91,591	85,522	398,734	316,208
Depreciation and amortization	38,054	42,043	122,462	124,180
General and administrative	35,377	37,612	109,621	111,052
Total costs and expenses	297,409	303,083	961,575	919,274
Earnings of non-controlled entities	1,645	15,521	4,066	49,653
Operating profit	225,837	289,670	679,144	717,244
Interest expense	34,993	39,779	108,674	116,142
Interest income	(374)	(310)	(1,171)	(993)
Interest capitalized	(9,205)	(3,984)	(21,358)	(9,037)
Debt placement fee amortization expense	566	640	1,767	1,867
Other expense (income)	—	1,706	—	(4,554)
Income before provision for income taxes	199,857	251,839	591,232	613,819
Provision for income taxes	1,237	867	3,798	1,820
Net income	$198,620	$250,972	$587,434	$611,999
Basic net income per limited partner unit	$0.87	$1.10	$2.59	$2.69
Diluted net income per limited partner unit	$0.87	$1.10	$2.58	$2.69
Weighted average number of limited partner units outstanding used for basic net income per unit calculation(1)	227,294	227,580	227,242	227,540
Weighted average number of limited partner units outstanding used for diluted net income per unit calculation(1)	227,830	227,945	227,422	227,702

(1) See Note 10–Long-Term Incentive Plan for additional information regarding our weighted average unit calculations.

See notes to consolidated financial statements.

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MAGELLAN MIDSTREAM PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Net income	$198,620	$250,972	$587,434	$611,999
Other comprehensive income:				
Derivative activity:				
Net loss on cash flow hedges[1]	(1,830)	(3,410)	(5,443)	(16,939)
Reclassification of net loss (gain) on cash flow hedges to income[1]	119	388	(60)	976
Changes in employee benefit plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of prior service credit[2]	(928)	(928)	(2,751)	(2,784)
Amortization of actuarial loss[2]	985	1,798	3,001	5,393
Settlement cost[2]	30	—	1,599	—
Total other comprehensive loss	(1,624)	(2,152)	(3,654)	(13,354)
Comprehensive income	$196,996	$248,820	$583,780	$598,645

(1) See Note 8–Derivative Financial Instruments for details of the amount of gain/loss recognized in accumulated other comprehensive loss ("AOCL") for derivative financial instruments and the amount of gain/loss reclassified from AOCL into income.
(2) See Note 6–Employee Benefit Plans for details of the changes in employee benefit plan assets and benefit obligations recognized in AOCL.

See notes to consolidated financial statements.

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MAGELLAN MIDSTREAM PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31, 2014	September 30, 2015 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$17,063	$9,007
Trade accounts receivable	84,465	113,760
Other accounts receivable	15,711	11,099
Inventory	157,762	135,181
Energy commodity derivatives contracts, net	87,151	49,172
Energy commodity derivatives deposits	6,184	—
Other current assets	34,331	39,937
Total current assets	402,667	358,156
Property, plant and equipment	5,533,935	5,998,280
Less: Accumulated depreciation	1,204,601	1,317,630
Net property, plant and equipment	4,329,334	4,680,650
Investments in non-controlled entities	613,867	753,568
Long-term receivables	28,611	22,055
Goodwill	53,260	53,260
Other intangibles (less accumulated amortization of $11,526 and $13,029 at December 31, 2014 and September 30, 2015, respectively)	4,573	2,535
Debt placement costs (less accumulated amortization of $8,952 and $10,819 at December 31, 2014 and September 30, 2015, respectively)	18,084	20,971
Tank bottoms and linefill	42,585	36,491
Other noncurrent assets	24,304	38,497
Total assets	$5,517,285	$5,966,183
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$97,131	$123,813
Accrued payroll and benefits	48,298	48,750
Accrued interest payable	45,973	45,132
Accrued taxes other than income	47,888	54,222
Environmental liabilities	10,564	16,575
Deferred revenue	71,142	75,283
Accrued product purchases	44,355	20,408
Energy commodity derivatives contracts, net	5,413	—
Energy commodity derivatives deposits	84,463	49,447
Other current liabilities	80,928	34,932
Total current liabilities	536,155	468,562
Long-term debt	2,982,895	3,407,114
Long-term pension and benefits	75,155	68,681
Other noncurrent liabilities	29,069	24,846
Environmental liabilities	25,778	14,903
Commitments and contingencies		
Partners’ capital:		

Limited partner unitholders (227,068 units and 227,427 units outstanding at December 31, 2014 and September 30, 2015, respectively)	1,949,773	2,076,971
Accumulated other comprehensive loss	(81,540)	(94,894)
Total partners’ capital	1,868,233	1,982,077
Total liabilities and partners' capital	$5,517,285	$5,966,183

See notes to consolidated financial statements.

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MAGELLAN MIDSTREAM PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2014	2015
Operating Activities:		
Net income	$587,434	$611,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	122,462	124,180
Debt placement fee amortization expense	1,767	1,867
Loss on sale and retirement of assets	4,830	4,378
Earnings of non-controlled entities	(4,066)	(49,653)
Distributions from investments in non-controlled entities	2,398	47,236
Equity-based incentive compensation expense	17,731	15,226
Amortization of prior service credit, actuarial loss and pension settlement	1,849	2,609
Changes in operating assets and liabilities:		
Trade accounts receivable and other accounts receivable	10,929	(24,601)
Inventory	(15,251)	22,581
Energy commodity derivatives contracts, net of derivatives deposits	(17,540)	(11,402)
Accounts payable	6,483	12,226
Accrued payroll and benefits	(669)	452
Accrued interest payable	(574)	(841)
Accrued taxes other than income	6,596	6,334
Accrued product purchases	(8,584)	(23,947)
Deferred revenue	7,484	4,141
Current and noncurrent environmental liabilities	(1,172)	(4,864)
Other current and noncurrent assets and liabilities	(8,792)	(13,817)
Net cash provided by operating activities	713,315	724,104
Investing Activities:		
Additions to property, plant and equipment, net[(1)]	(234,763)	(431,260)
Proceeds from sale and disposition of assets	264	3,178
Acquisition of business	—	(54,678)
Investments in non-controlled entities	(378,220)	(133,373)
Distributions in excess of earnings of non-controlled entities	3,918	9,341
Net cash used by investing activities	(608,801)	(606,792)
Financing Activities:		
Distributions paid	(417,238)	(489,535)
Net commercial paper borrowings (repayments)	315,967	(69,976)
Borrowings under long-term notes	257,713	499,589
Payments on notes	(250,000)	—
Debt placement costs	(2,912)	(4,754)
Net payment on financial derivatives	(3,613)	(42,908)
Settlement of tax withholdings on long-term incentive compensation	(14,813)	(17,784)
Net cash used by financing activities	(114,896)	(125,368)
Change in cash and cash equivalents	(10,382)	(8,056)
Cash and cash equivalents at beginning of period	25,235	17,063
Cash and cash equivalents at end of period	$14,853	$9,007

Supplemental non-cash investing and financing activities:		
Contribution of property, plant and equipment to a non-controlled entity	$—	$13,252
Issuance of limited partner units in settlement of equity-based incentive plan awards	$7,315	$8,045

(1) Additions to property, plant and equipment	$(237,240)	$(439,721)
Changes in accounts payable and other current liabilities related to capital expenditures	2,477	8,461
Additions to property, plant and equipment, net	$(234,763)	$(431,260)

See notes to consolidated financial statements.

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MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Description of Business and Basis of Presentation

Organization

Unless indicated otherwise, the terms “our,” “we,” “us” and similar language refer to Magellan Midstream Partners, L.P. together with its subsidiaries. We are a Delaware limited partnership and our limited partner units are traded on the New York Stock Exchange under the ticker symbol “MMP.” Magellan GP, LLC, a wholly-owned Delaware limited liability company, serves as our general partner.

Description of Business

We are principally engaged in the transportation, storage and distribution of refined petroleum products and crude oil. As of September 30, 2015, our asset portfolio, including the assets of our joint ventures, consisted of:

- our refined products segment, comprised of our 9,500-mile refined products pipeline system with 52 terminals as well as 28 independent terminals not connected to our pipeline system and our 1,100-mile ammonia pipeline system;
- our crude oil segment, comprised of approximately 1,600 miles of crude oil pipelines and storage facilities with an aggregate storage capacity of approximately 21 million barrels, of which 13 million barrels are used for leased storage; and
- our marine storage segment, consisting of five marine terminals located along coastal waterways with an aggregate storage capacity of approximately 26 million barrels.

Products transported, stored or distributed through our pipelines and terminals include:

- refined products are the output from refineries and are primarily used as fuels by consumers. Refined products include gasoline, diesel fuel, aviation fuel, kerosene and heating oil. Collectively, diesel fuel and heating oil are referred to as distillates;
- liquefied petroleum gases, or LPGs, are produced as by-products of the crude oil refining process and in connection with natural gas production. LPGs include butane and propane;
- blendstocks are blended with refined products to change or enhance their characteristics such as increasing a gasoline's octane or oxygen content. Blendstocks include alkylates, oxygenates and natural gasoline;
- heavy oils and feedstocks are used as burner fuels or feedstocks for further processing by refineries and petrochemical facilities. Heavy oils and feedstocks include No. 6 fuel oil and vacuum gas oil;
- crude oil and condensate are used as feedstocks by refineries and petrochemical facilities;
- biofuels, such as ethanol and biodiesel, are increasingly required by government mandates; and
- ammonia is primarily used as a nitrogen fertilizer.

Except for ammonia, we use the term petroleum products to describe any, or a combination, of the above-noted products.

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MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basis of Presentation

In the opinion of management, our accompanying consolidated financial statements which are unaudited, except for the consolidated balance sheet as of December 31, 2014 which is derived from our audited financial statements, include all normal and recurring adjustments necessary to present fairly our financial position as of September 30, 2015, the results of operations for the three and nine months ended September 30, 2014 and 2015 and cash flows for the nine months ended September 30, 2014 and 2015. The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015 as profits from our blending activities are realized largely during the first and fourth quarters of each year. Additionally, gasoline demand, which drives transportation volumes and revenues on our pipeline systems, generally trends higher during the summer driving months. Further, the volatility of commodity prices impact the profits from our commodity activities and, to a lesser extent, the volume of petroleum products we ship on our pipelines.

Pursuant to the rules and regulations of the Securities and Exchange Commission, the financial statements in this report do not include all of the information and notes normally included with financial statements prepared in accordance with accounting principles generally accepted in the United States. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Use of Estimates

The preparation of our consolidated financial statements in conformity with generally accepted accounting principles in the U.S. ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities that exist at the date of our consolidated financial statements, as well as their impact on the reported amounts of revenue and expense during the reporting periods. Actual results could differ from those estimates.

2. Product Sales Revenue

The amounts reported as product sales revenue on our consolidated statements of income include revenue from the physical sale of petroleum products and from mark-to-market adjustments from New York Mercantile Exchange ("NYMEX") contracts. See Note 8 – Derivative Financial Instruments for a discussion of our commodity hedging strategies and how our NYMEX contracts impact product sales revenue. All of the petroleum products inventory we physically sell associated with our butane blending and fractionation activities, as well as the barrels from product gains we obtain from our independent and marine terminals, are reported as product sales revenue on our consolidated statements of income. The physical sale of the petroleum products inventory from product gains obtained from our pipeline operations and related activities from terminals physically connected to our pipeline system are reported as adjustments to operating expense.

MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three and nine months ended September 30, 2014 and 2015, product sales revenue included the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2015	2014	2015
Physical sale of petroleum products	$108,320	$100,829	$555,870	$403,395
NYMEX contract adjustments:				
Change in value of NYMEX contracts that were not designated as hedging instruments associated with our butane blending and fractionation activities	47,546	71,902	33,703	52,432
Other	(1)	—	12	—
Total NYMEX contract adjustments	47,545	71,902	33,715	52,432
Total product sales revenue	$155,865	$172,731	$589,585	$455,827

3. Segment Disclosures

Our reportable segments are strategic business units that offer different products and services. Our segments are managed separately as each segment requires different marketing strategies and business knowledge. Management evaluates performance based on segment operating margin, which includes revenue from affiliates and external customers, operating expenses, cost of product sales and earnings of non-controlled entities.

We believe that investors benefit from having access to the same financial measures used by management. Operating margin, which is presented in the following tables, is an important measure used by management to evaluate the economic performance of our core operations. Operating margin is not a GAAP measure, but the components of operating margin are computed using amounts that are determined in accordance with GAAP. A reconciliation of operating margin to operating profit, which is its nearest comparable GAAP financial measure, is included in the tables below. Operating profit includes depreciation and amortization expense and general and administrative ("G&A") expenses that management does not consider when evaluating the core profitability of our separate operating segments.

On May 1, 2015, we acquired a refined products terminal in Atlanta, Georgia for net cash consideration of $54.7 million. As this acquired business is not significant to our consolidated operating results and financial position, pro forma financial information and the purchase price allocation of acquired assets and liabilities have not been presented. The results of the acquired operations subsequent to the acquisition date have been included in the accompanying consolidated financial statements and in the tables below in our refined products operating segment.

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MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended September 30, 2014 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$237,972	$78,839	$43,706	$—	$360,517
Product sales revenue	155,134	—	731	—	155,865
Affiliate management fee revenue	—	4,902	317	—	5,219
Total revenue	393,106	83,741	44,754	—	521,601
Operating expenses	101,206	14,375	17,691	(885)	132,387
Cost of product sales	91,407	—	184	—	91,591
Earnings of non-controlled entities	—	(959)	(686)	—	(1,645)
Operating margin	200,493	70,325	27,565	885	299,268
Depreciation and amortization expense	23,050	6,918	7,201	885	38,054
G&A expenses	22,600	7,635	5,142	—	35,377
Operating profit	$154,843	$55,772	$15,222	$—	$225,837

	Three Months Ended September 30, 2015 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$259,806	$96,029	$45,109	$—	$400,944
Product sales revenue	171,775	—	956	—	172,731
Affiliate management fee revenue	—	3,211	346	—	3,557
Total revenue	431,581	99,240	46,411	—	577,232
Operating expenses	104,622	19,479	14,700	(895)	137,906
Cost of product sales	85,341	—	181	—	85,522
Losses (earnings) of non-controlled entities	48	(14,906)	(663)	—	(15,521)
Operating margin	241,570	94,667	32,193	895	369,325
Depreciation and amortization expense	24,333	9,502	7,313	895	42,043
G&A expenses	22,238	9,818	5,556	—	37,612
Operating profit	$194,999	$75,347	$19,324	$—	$289,670

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MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended September 30, 2014 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$680,697	$226,298	$124,727	$—	$1,031,722
Product sales revenue	585,178	—	4,407	—	589,585
Affiliate management fee revenue	—	14,399	947	—	15,346
Total revenue	1,265,875	240,697	130,081	—	1,636,653
Operating expenses	249,665	35,300	48,321	(2,528)	330,758
Cost of product sales	397,980	—	754	—	398,734
Earnings of non-controlled entities	—	(1,667)	(2,399)	—	(4,066)
Operating margin	618,230	207,064	83,405	2,528	911,227
Depreciation and amortization expense	78,305	20,106	21,523	2,528	122,462
G&A expenses	70,993	21,326	17,302	—	109,621
Operating profit	$468,932	$165,632	$44,580	$—	$679,144

	Nine Months Ended September 30, 2015 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$710,294	$278,345	$131,921	$—	$1,120,560
Product sales revenue	453,737	—	2,090	—	455,827
Affiliate management fee revenue	—	9,449	1,029	—	10,478
Total revenue	1,164,031	287,794	135,040	—	1,586,865
Operating expenses	275,403	49,354	45,916	(2,839)	367,834
Cost of product sales	315,301	—	907	—	316,208
Losses (earnings) of non-controlled entities	146	(47,735)	(2,064)	—	(49,653)
Operating margin	573,181	286,175	90,281	2,839	952,476
Depreciation and amortization expense	71,742	25,995	23,604	2,839	124,180
G&A expenses	68,730	26,935	15,387	—	111,052
Operating profit	$432,709	$233,245	$51,290	$—	$717,244

MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Investments in Non-Controlled Entities

Our investments in non-controlled entities at September 30, 2015 were comprised of:

Entity	Ownership Interest
BridgeTex Pipeline Company, LLC ("BridgeTex")	50%
Double Eagle Pipeline LLC ("Double Eagle")	50%
Osage Pipe Line Company, LLC ("Osage")	50%
Powder Springs Logistics, LLC ("Powder Springs")	50%
Saddlehorn Pipeline Company, LLC ("Saddlehorn")	40%
Seabrook Logistics, LLC ("Seabrook")	50%
Texas Frontera, LLC ("Texas Frontera")	50%

The management fees we have recognized or will recognize from BridgeTex, Osage, Powder Springs, Saddlehorn, Seabrook and Texas Frontera are or will be reported as affiliate management fee revenue on our consolidated statements of income.

At December 31, 2014 and September 30, 2015, we recognized liabilities of $2.2 million and $0.5 million, respectively, to BridgeTex primarily for pre-paid construction management fees. For the three and nine months ended September 30, 2015, we recognized pipeline capacity lease revenue from BridgeTex of $8.9 million and $25.8 million, respectively, which we included in transportation and terminals revenue on our consolidated statements of income. We recognized a $2.6 million receivable from BridgeTex at December 31, 2014. There was no receivable at September 30, 2015.

In third quarter 2015, we purchased surplus pipe from BridgeTex for the amount of $0.6 million. We sold a portion of the pipe purchased from BridgeTex to Saddlehorn for $0.2 million.

We recognized throughput revenue from Double Eagle for the three months ended September 30, 2014 and 2015 of $0.7 million and $0.8 million, respectively, and for the nine months ended September 30, 2014 and 2015 of $2.0 million and $2.6 million, respectively, which we included in transportation and terminals revenue. At December 31, 2014 and September 30, 2015, respectively, we recognized a $0.3 million trade accounts receivable from Double Eagle.

The financial results from Texas Frontera are included in our marine storage segment, the financial results from BridgeTex, Double Eagle, Osage, Saddlehorn and Seabrook are included in our crude oil segment and the financial results from Powder Springs are included in our refined products segment as earnings/losses of non-controlled entities.

MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of our investments in non-controlled entities follows (in thousands):

	BridgeTex	All Others	Consolidated
Investments at December 31, 2014	$489,348	$124,519	$613,867
Additional investment	16,608	130,017	146,625
Earnings of non-controlled entities:			
Proportionate share of earnings	45,903	5,842	51,745
Amortization of excess investment and capitalized interest	(1,529)	(563)	(2,092)
Earnings of non-controlled entities	44,374	5,279	49,653
Less:			
Distributions of earnings from investments in non-controlled entities	44,374	2,862	47,236
Distributions in excess of earnings of non-controlled entities	9,341	—	9,341
Investments at September 30, 2015	$496,615	$256,953	$753,568

Summarized financial information of our non-controlled entities for the three and nine months ended September 30, 2014 and 2015 follows (in thousands):

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2015		
	BridgeTex	All Others	Consolidated	BridgeTex	All Others	Consolidated
Revenue	$428	$8,882	$9,310	$47,555	$12,530	$60,085
Net income	$297	$3,370	$3,667	$28,150	$4,151	$32,301

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2015		
	BridgeTex	All Others	Consolidated	BridgeTex	All Others	Consolidated
Revenue	$428	$27,346	$27,774	$146,320	$33,677	$179,997
Net income	$17	$9,241	$9,258	$91,806	$11,525	$103,331

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MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Inventory

Inventory at December 31, 2014 and September 30, 2015 was as follows (in thousands):

	December 31, 2014	September 30, 2015
Refined products	$67,055	$27,864
Liquefied petroleum gases	37,642	42,984
Transmix	36,867	28,608
Crude oil	10,015	29,626
Additives	6,183	6,099
Total inventory	$157,762	$135,181

6. Employee Benefit Plans

We sponsor two pension plans for certain union employees and a pension plan primarily for non-union employees, a postretirement benefit plan for selected employees and a defined contribution plan. The following tables present our consolidated net periodic benefit costs related to the pension and postretirement benefit plans for the three and nine months ended September 30, 2014 and 2015 (in thousands):

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2015	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Components of net periodic benefit costs:				
Service cost	$3,348	$57	$4,723	$61
Interest cost	1,332	126	1,938	109
Expected return on plan assets	(1,588)	—	(2,009)	—
Amortization of prior service credit	—	(928)	—	(928)
Amortization of actuarial loss	756	229	1,577	221
Settlement cost	30	—	—	—
Net periodic benefit cost (credit)	$3,878	$(516)	$6,229	$(537)

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MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2015	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Components of net periodic benefit costs:				
Service cost	$10,052	$171	$14,168	$183
Interest cost	5,021	379	5,815	328
Expected return on plan assets	(4,775)	—	(6,028)	—
Amortization of prior service cost (credit)	33	(2,784)	—	(2,784)
Amortization of actuarial loss	2,315	686	4,730	663
Settlement cost	1,599	—	—	—
Net periodic benefit cost (credit)	$14,245	$(1,548)	$18,685	$(1,610)

Contributions estimated to be paid into the plans in 2015 are $21.1 million and $1.2 million for the pension and other postretirement benefit plans, respectively.

We match our employees' qualifying contributions to our defined contribution plan, resulting in expense to us. Expenses related to the defined contribution plan were $1.7 million and $1.8 million, respectively, for the three months ended September 30, 2014 and 2015, and $6.3 million and $6.8 million, respectively, for the nine months ended September 30, 2014 and 2015.

Amounts Included in AOCL

The changes in AOCL related to employee benefit plan assets and benefit obligations for the three and nine months ended September 30, 2014 and 2015 were as follows (in thousands):

	Three Months Ended September 30, 2014		Three Months Ended September 30, 2015	
Gains (Losses) Included in AOCL	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Beginning balance	$(33,023)	$1,654	$(60,104)	$(3,110)
Amortization of prior service credit	—	(928)	—	(928)
Amortization of actuarial loss	756	229	1,577	221
Settlement cost	30	—	—	—
Ending balance	$(32,237)	$955	$(58,527)	$(3,817)

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2015	
Gains (Losses) Included in AOCL				

	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Beginning balance	$(36,184)	$3,053	$(63,257)	$(1,696)
Amortization of prior service cost (credit)	33	(2,784)	—	(2,784)
Amortization of actuarial loss	2,315	686	4,730	663
Settlement cost	1,599	—	—	—
Ending balance	$(32,237)	$955	$(58,527)	$(3,817)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Debt

Consolidated debt at December 31, 2014 and September 30, 2015 was as follows (in thousands, except as otherwise noted):

	December 31, 2014	September 30, 2015	Weighted-Average Interest Rate for the Nine Months Ended September 30, 2015 (1)
Commercial paper(2)	$296,942	$226,966	0.5%
$250.0 million of 5.65% Notes due 2016	250,758	250,440	5.7%
$250.0 million of 6.40% Notes due 2018	257,280	255,731	5.4%
$550.0 million of 6.55% Notes due 2019	567,868	565,064	5.7%
$550.0 million of 4.25% Notes due 2021	556,304	555,601	4.0%
$250.0 million of 3.20% Notes due 2025(2)	—	249,694	3.2%
$250.0 million of 6.40% Notes due 2037	249,017	249,031	6.4%
$250.0 million of 4.20% Notes due 2042	248,406	248,429	4.2%
$550.0 million of 5.15% Notes due 2043	556,320	556,245	5.1%
$250.0 million of 4.20% Notes due 2045(2)	—	249,913	4.6%
Total debt	$2,982,895	$3,407,114	4.7%

(1) Weighted-average interest rate includes the amortization/accretion of discounts, premiums and gains/losses realized on historical cash flow and fair value hedges recognized as interest expense.

(2) These borrowings were outstanding for only a portion of the nine-month period ending September 30, 2015. The weighted-average interest rate for these borrowings was calculated based on the number of days the borrowings were outstanding during the noted period.

All of the instruments detailed in the table above are senior indebtedness.

The face value of our debt at December 31, 2014 and September 30, 2015 was $2.9 billion and $3.4 billion, respectively. The difference between the face value and carrying value of our debt outstanding is the unamortized portion of terminated fair value hedges and the unamortized discounts and premiums on debt issuances. Realized gains and losses on fair value hedges and note discounts and premiums are being amortized or accreted to the applicable notes over the respective lives of those notes.

2015 Debt Offerings

In March 2015, we issued $250.0 million of our 3.20% notes due 2025 in an underwritten public offering. The notes were issued at 99.871% of par. Net proceeds from this offering were $247.6 million, after underwriting discounts and offering expenses of $2.1 million.

Also in March 2015, we issued $250.0 million of our 4.20% notes due 2045 in an underwritten public offering. The notes were issued at 99.965% of par. Net proceeds from this offering were $247.3 million, after underwriting discounts and offering expenses of $2.6 million.

The net proceeds from these offerings were used to repay borrowings outstanding under our commercial paper program and for general partnership purposes, including expansion capital.

MAGELLAN MIDSTREAM PARTNERS, L.P.
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Other Debt

Revolving Credit Facility. At September 30, 2015, the total borrowing capacity under our revolving credit facility, with a maturity date of November 2018, was $1.0 billion. Borrowings outstanding under the facility were classified as long-term debt on our consolidated balance sheets. Borrowings under the facility were unsecured and bore interest at LIBOR plus a spread ranging from 1.0% to 1.75% based on our credit ratings. Additionally, an unused commitment fee was assessed at a rate from 0.10% to 0.28%, depending on our credit ratings. The unused commitment fee was 0.125% at September 30, 2015. Borrowings under this facility could be used for general partnership purposes, including capital expenditures. As of September 30, 2015, there were no borrowings outstanding under this facility; however, $5.6 million was obligated for letters of credit. Amounts obligated for letters of credit were not reflected as debt on our consolidated balance sheets but decreased our borrowing capacity under the facility. See Note 14 – Subsequent Events for information about amendments made to our revolving credit facility and a new 364-day credit facility entered into after September 30, 2015.

Commercial Paper Program. The maturities of our commercial paper notes vary, but may not exceed 397 days from the date of issuance. The commercial paper notes are sold under customary terms in the commercial paper market and are issued at a discount from par, or alternatively, are sold at par and bear varying interest rates on a fixed or floating basis. The commercial paper we can issue is limited by the amounts available under our revolving credit facility up to an aggregate principal amount of $1.0 billion and, therefore, is classified as long-term debt.

8. Derivative Financial Instruments

Interest Rate Derivatives

We periodically enter into interest rate derivatives to hedge the fair value of our debt or interest on expected debt issuances, and we have historically designated these derivatives as cash flow or fair value hedges for accounting purposes. Adjustments resulting from discontinued hedges continue to be recognized in accordance with their historic hedging relationships.

Through September 30, 2015, we entered into $150.0 million of forward-starting interest rate swap agreements to hedge against the risk of variability of future interest payments on a portion of debt we anticipate issuing in 2016. The fair value of these contracts at September 30, 2015 was recorded on our balance sheet as an other noncurrent asset of $0.6 million and as an other noncurrent liability of $1.1 million, with the offsets recorded to other comprehensive income. We account for these agreements as cash flow hedges.

During 2014, we entered into $250.0 million of forward-starting interest rate swap agreements to hedge against the risk of variability of future interest payments on a portion of debt we anticipated issuing in 2015. We accounted for these agreements as cash flow hedges. When we issued the $250.0 million of 4.20% notes due 2045 in first quarter 2015, we settled the associated interest rate swap agreements for a loss of $42.9 million. The loss was recorded to other comprehensive income ($26.5 million and $16.4 million recorded in 2014 and 2015, respectively) and will be recognized into earnings as an adjustment to our periodic interest expense accruals over the life of the associated notes. This loss was also reported as a net payment on financial derivatives in the financing activities of our consolidated statements of cash flows in 2015.

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Commodity Derivatives

Hedging Strategies

Our butane blending activities produce gasoline products, and we can reasonably estimate the timing and quantities of sales of these products. We use a combination of NYMEX and forward purchase and sale contracts to help manage commodity price changes, which is intended to mitigate the risk of decline in the product margin realized from our butane blending activities that we choose to hedge. Further, certain of our other commercial operations generate petroleum products. We use NYMEX contracts to hedge against future price changes for some of these commodities.

We account for the forward physical purchase and sale contracts we use in our butane blending and fractionation activities as normal purchases and sales. Forward contracts that qualify for and are elected as normal purchases and sales are accounted for using traditional accrual accounting. As of September 30, 2015, we had commitments under these forward purchase and sale contracts as follows (in millions):

	Notional Value	Barrels
Forward purchase contracts	$137.5	3.9
Forward sale contracts	$0.3	—

The NYMEX contracts that we enter into fall into one of three hedge categories:

Hedge Category	Hedge Purpose	Accounting Treatment
Qualifies For Hedge Accounting Treatment		
Cash Flow Hedge	To hedge the variability in cash flows related to a forecasted transaction.	The effective portion of changes in the value of the hedge is recorded to accumulated other comprehensive income/loss and reclassified to earnings when the forecasted transaction occurs. Any ineffectiveness is recognized currently in earnings.
Fair Value Hedge	To hedge against changes in the fair value of a recognized asset or liability.	The effective portion of changes in the value of the hedge is recorded as adjustments to the asset or liability being hedged. Any ineffectiveness and amounts excluded from the assessment of hedge effectiveness is recognized currently in earnings.
Does Not Qualify For Hedge Accounting Treatment		
Economic Hedge	To effectively serve as either a fair value or a cash flow hedge; however, the derivative agreement does not qualify for hedge accounting treatment under Accounting Standards Codification ("ASC") 815, Derivatives and Hedging.	Changes in the fair value of these agreements are recognized currently in earnings.

During the three and nine months ended September 30, 2014 and 2015, none of the commodity hedging contracts we entered into qualified for or were designated as cash flow hedges.

Period changes in the fair value of NYMEX agreements that are accounted for as economic hedges (other than those economic hedges of our butane purchases and our pipeline product overages as discussed below), the effective portion of changes in the fair value of cash flow hedges that are reclassified from AOCL and any ineffectiveness associated with hedges related to our commodity activities are recognized currently in earnings as adjustments to product sales.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also use NYMEX contracts, which are not designated as hedges for accounting purposes, to economically hedge against changes in the price of butane we expect to purchase in the future. Period changes in the fair value of these agreements are recognized currently in earnings as adjustments to cost of product sales.

We currently hold petroleum product inventories that we obtained from overages on our pipeline systems. We use NYMEX contracts that are not designated as hedges for accounting purposes to help manage price changes related to these overage inventory barrels. Period changes in the fair value of these agreements are recognized currently in earnings as adjustments to operating expense.

Additionally, we hold crude oil barrels that we use for operational purposes, which we classify as noncurrent assets on our balance sheet as tank bottoms and linefill. We use NYMEX contracts to hedge against changes in the price of these crude oil barrels. We record the effective portion of the gains or losses for those contracts that qualify as fair value hedges as adjustments to the assets being hedged and the ineffective portions as well as amounts excluded from the assessment of hedge effectiveness as adjustments to other income or expense.

As outlined in the table below, our open NYMEX contracts at September 30, 2015 were as follows:

Type of Contract/Accounting Methodology	Product Represented by the Contract and Associated Barrels	Maturity Dates
NYMEX - Fair Value Hedges	0.7 million barrels of crude oil	Between December 2015 and November 2016
NYMEX - Economic Hedges	5.4 million barrels of refined products and crude oil(1)	Between October 2015 and December 2016
NYMEX - Economic Hedges	1.2 million barrels of future purchases of butane	Between October 2015 and December 2016

(1) Of the 5.4 million barrels of products we have economically hedged at September 30, 2015, we had open agreements which swap the pricing on 1.2 million of those barrels from New York Harbor to Platts Group 3 or Platts Gulf Coast, which are the geographic locations where these barrels will be sold.

Energy Commodity Derivatives Contracts and Deposits Offsets

At September 30, 2015, we had received margin deposits of $49.4 million for our NYMEX contracts with our counterparties, which were recorded as a current liability under energy commodity derivatives deposits on our consolidated balance sheet. We have the right to offset the combined fair values of our open NYMEX contracts against our margin deposits under a master netting arrangement for each counterparty; however, we have elected to present the combined fair values of our open NYMEX contracts separately from the related margin deposits on our consolidated balance sheets. Additionally, we have the right to offset the fair values of our NYMEX agreements together for each counterparty, which we have elected to do, and we report the combined net balances on our consolidated balance sheets. A schedule of the derivative amounts we have offset and the deposit amounts we could offset under a master netting arrangement are provided below as of December 31, 2014 and September 30, 2015 (in thousands):

Description	December 31, 2014 Gross Amounts of Recognized Assets	Gross Amounts of Liabilities Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet(1)	Margin Deposit Amounts Not Offset in the Consolidated Balance Sheet	Net Asset Amount(3)
Energy commodity derivatives	$106,764	$(10,622)	$96,142	$(78,279)	$17,863

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	September 30, 2015				
Description	Gross Amounts of Recognized Assets	Gross Amounts of Liabilities Offset in the Consolidated Balance Sheet	Net Amounts of Assets Presented in the Consolidated Balance Sheet(2)	Margin Deposit Amounts Not Offset in the Consolidated Balance Sheet	Net Asset Amount(3)
Energy commodity derivatives	$89,138	$(10,695)	$78,443	$(49,447)	$28,996

(1) Net amount includes energy commodity derivative contracts classified as current assets, net, of $87,151, current liabilities of $5,413 and noncurrent assets of $14,404.
(2) Net amount includes energy commodity derivative contracts classified as current assets, net, of $49,172 and noncurrent assets of $29,271.
(3) This represents the maximum amount of loss we would incur if all of our counterparties failed to perform on their derivative contracts.

Impact of Derivatives on Our Financial Statements

Comprehensive Income

The changes in derivative activity included in AOCL for the three and nine months ended September 30, 2014 and 2015 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Gains (Losses) Included in AOCL	2014	2015	2014	2015
Beginning balance	$9,835	$(29,528)	$13,627	$(16,587)
Net loss on interest rate contract cash flow hedges	(1,830)	(3,410)	(5,443)	(16,939)
Reclassification of net loss (gain) on cash flow hedges to income	119	388	(60)	976
Ending balance	$8,124	$(32,550)	$8,124	$(32,550)

Income Statement

The following tables provide a summary of the effect on our consolidated statements of income for the three and nine months ended September 30, 2014 and 2015 of derivatives accounted for under ASC 815-30, Derivatives and Hedging—Cash Flow Hedges, that were designated as cash flow hedging instruments (in thousands):

	Three Months Ended September 30, 2014			
			Amount of Loss Reclassified from AOCL into Income	
Derivative Instrument	Amount of Loss Recognized in AOCL on Derivative	Location of Loss Reclassified from AOCL into Income	Effective Portion	Ineffective Portion
Interest rate contracts	$(1,830)	Interest expense	$(119)	$—

	Three Months Ended September 30, 2015			
			Amount of Loss Reclassified from AOCL into Income	
Derivative Instrument	Amount of Loss Recognized in AOCL on Derivative	Location of Loss Reclassified from AOCL into Income	Effective Portion	Ineffective Portion
Interest rate contracts	$(3,410)	Interest expense	$(388)	$—

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	Nine Months Ended September 30, 2014			
			Amount of Gain (Loss) Reclassified from AOCL into Income	
Derivative Instrument	Amount of Loss Recognized in AOCL on Derivative	Location of Gain (Loss) Reclassified from AOCL into Income	Effective Portion	Ineffective Portion
Interest rate contracts	$(5,443)	Interest expense	$(123)	$183

	Nine Months Ended September 30, 2015			
			Amount of Loss Reclassified from AOCL into Income	
Derivative Instrument	Amount of Loss Recognized in AOCL on Derivative	Location of Loss Reclassified from AOCL into Income	Effective Portion	Ineffective Portion
Interest rate contracts	$(16,939)	Interest expense	$(976)	$—

As of September 30, 2015, the net loss estimated to be classified to interest expense over the next twelve months from AOCL is approximately $1.5 million.

During 2014 and 2015, we had open NYMEX contracts on 0.7 million barrels of crude oil that were designated as fair value hedges. Because there was no ineffectiveness recognized on these hedges, the cumulative gains at December 31, 2014 and September 30, 2015 of $13.3 million and $19.4 million, respectively, from these agreements were offset by a cumulative decrease to tank bottoms and linefill. The differential between the current spot price and forward price is excluded from the assessment of hedge effectiveness for these fair value hedges. For the three and nine months ended September 30, 2015, we recognized a gain (loss) of $(1.7) million and $4.6 million, respectively, for the amounts we excluded from the assessment of effectiveness of these fair value hedges, which we reported as other expense/income on our consolidated statements of income.

The following table provides a summary of the effect on our consolidated statements of income for the three and nine months ended September 30, 2014 and 2015 of derivatives accounted for under ASC 815, Derivatives and Hedging, that were not designated as hedging instruments (in thousands):

		Amount of Gain (Loss) Recognized on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Instruments	Location of Gain (Loss) Recognized on Derivatives	2014	2015	2014	2015
NYMEX commodity contracts	Product sales revenue	$47,545	$71,902	$33,715	$52,432
NYMEX commodity contracts	Operating expenses	4,350	14,761	447	7,181
NYMEX commodity contracts	Cost of product sales	(3,913)	(3,767)	(3,137)	(5,847)
	Total	$47,982	$82,896	$31,025	$53,766

The impact of the derivatives in the above table was reflected as cash from operations on our consolidated statements of cash flows.

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Balance Sheet

The following tables provide a summary of the fair value of derivatives accounted for under ASC 815, Derivatives and Hedging, which are presented on a net basis in our consolidated balance sheets, that were designated as hedging instruments as of December 31, 2014 and September 30, 2015 (in thousands):

	December 31, 2014			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
NYMEX commodity contracts	Energy commodity derivatives contracts, net	$360	Energy commodity derivatives contracts, net	$—
NYMEX commodity contracts	Other noncurrent assets	14,404	Other noncurrent liabilities	—
Interest rate contracts	Other current assets	—	Other current liabilities	26,478
	Total	$14,764	Total	$26,478

	September 30, 2015			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
NYMEX commodity contracts	Energy commodity derivatives contracts, net	$913	Energy commodity derivatives contracts, net	$—
NYMEX commodity contracts	Other noncurrent assets	24,499	Other noncurrent liabilities	—
Interest rate contracts	Other noncurrent assets	574	Other noncurrent liabilities	1,082
	Total	$25,986	Total	$1,082

The following tables provide a summary of the fair value of derivatives accounted for under ASC 815, Derivatives and Hedging, which are presented on a net basis in our consolidated balance sheets, that were not designated as hedging instruments as of December 31, 2014 and September 30, 2015 (in thousands):

	December 31, 2014			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
NYMEX commodity contracts	Energy commodity derivatives contracts, net	$92,000	Energy commodity derivatives contracts, net	$10,622

	September 30, 2015			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
NYMEX commodity contracts	Energy commodity derivatives contracts, net	$58,685	Energy commodity derivatives contracts, net	$10,426
NYMEX commodity contracts	Other noncurrent assets	5,041	Other noncurrent liabilities	269
	Total	$63,726	Total	$10,695

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Commitments and Contingencies

Environmental Liabilities

Liabilities recognized for estimated environmental costs were $36.3 million and $31.5 million at December 31, 2014 and September 30, 2015, respectively. We have classified environmental liabilities as current or noncurrent based on management's estimates regarding the timing of actual payments. Management estimates that expenditures associated with these environmental liabilities will be paid over the next 10 years. Environmental expenditures recognized as a result of changes in our environmental liabilities are generally included in operating expenses on our consolidated statements of income. Environmental expenses for the three and nine months ended September 30, 2014 were $3.7 million and $4.1 million, respectively. Environmental expenses for the three and nine months ended September 30, 2015 were $1.3 million and $5.6 million, respectively.

Environmental Receivables

Receivables from insurance carriers and other third parties related to environmental matters were $5.1 million at December 31, 2014, of which $1.3 million and $3.8 million were recorded to other accounts receivable and long-term receivables, respectively, on our consolidated balance sheet. Receivables from insurance carriers and other third parties related to environmental matters were $2.6 million at September 30, 2015, of which $0.9 million and $1.7 million were recorded to other accounts receivable and long-term receivables, respectively, on our consolidated balance sheet.

Other

We are a party to various other claims, legal actions and complaints arising in the ordinary course of business, including without limitation those disclosed in Item 1, Legal Proceedings of Part II of this report on Form 10-Q. While the results cannot be predicted with certainty, management believes the ultimate resolution of these claims, legal actions and complaints after consideration of amounts accrued, insurance coverage or other indemnification arrangements will not have a material adverse effect on our results of operations, financial position or cash flows.

10. Long-Term Incentive Plan

We have a long-term incentive plan ("LTIP") for certain of our employees and directors of our general partner. The LTIP primarily consists of phantom units and permits the grant of awards covering an aggregate payout of 9.4 million of our limited partner units. The estimated units available under the LTIP at September 30, 2015 total 1.0 million. The compensation committee of our general partner's board of directors administers our LTIP.

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Our equity-based incentive compensation expense was as follows (in thousands):

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Equity Method	Liability Method	Total	Equity Method	Liability Method	Total
Performance/market-based awards:						
2012 awards	$1,022	$651	$1,673	$3,066	$3,192	$6,258
2013 awards	1,350	558	1,908	4,726	2,411	7,137
2014 awards	1,101	—	1,101	3,233	—	3,233
Retention awards	296	—	296	1,103	—	1,103
Total	$3,769	$1,209	$4,978	$12,128	$5,603	$17,731
Allocation of LTIP expense on our consolidated statements of income:						
G&A expense			$4,862			$17,322
Operating expense			116			409
Total			$4,978			$17,731

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Equity Method	Liability Method	Total	Equity Method	Liability Method	Total
Performance/market-based awards:						
2013 awards	$1,673	$(590)	$1,083	$6,246	$501	$6,747
2014 awards	1,497	—	1,497	3,980	—	3,980
2015 awards	1,727	—	1,727	3,687	—	3,687
Retention awards	380	—	380	812	—	812
Total	$5,277	$(590)	$4,687	$14,725	$501	$15,226
Allocation of LTIP expense on our consolidated statements of income:						
G&A expense			$4,643			$15,016
Operating expense			44			210
Total			$4,687			$15,226

In February 2015, 166,189 phantom unit awards were issued pursuant to our LTIP. These grants included both performance-based and retention awards.

In January 2015, we issued 354,529 limited partner units to settle unit award grants to certain employees that vested on December 31, 2014. Further, 4,461 limited partner units were issued during 2015 to settle the equity-based retainer paid to certain members of our general partner's board of directors.

Basic and Diluted Net Income Per Limited Partner Unit

The difference between our actual limited partner units outstanding and our weighted-average number of limited partner units outstanding used to calculate earnings per unit, is due to the impact of: (i) the phantom units issued to non-employee directors which is included in the calculation of basic and diluted weighted average units

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outstanding, and (ii) the weighted average effect of units actually issued during a period. The difference between the weighted-average number of limited partner units outstanding used for basic and diluted net income per unit calculations on our consolidated statements of income is primarily the dilutive effect of phantom unit grants associated with our LTIP.

11. Distributions

Distributions we paid during 2014 and 2015 were as follows (in thousands, except per unit amounts):

Payment Date	Per Unit Cash Distribution Amount	Total Cash Distribution to Limited Partners
02/14/2014	$0.5850	$132,835
05/15/2014	0.6125	139,079
08/14/2014	0.6400	145,324
Through 09/30/2014	1.8375	417,238
11/14/2014	0.6675	151,568
Total	$2.5050	$568,806
02/13/2015	$0.6950	$158,061
05/15/2015	0.7175	163,178
08/14/2015	0.7400	168,296
Through 09/30/2015	2.1525	489,535
11/13/2015(1)	0.7625	173,413
Total	$2.9150	$662,948

(1) Our general partner's board of directors declared this cash distribution on October 22, 2015 to be paid on November 13, 2015 to unitholders of record at the close of business on November 2, 2015.

12. Fair Value

Recurring

Fair Value Methods and Assumptions - Financial Assets and Liabilities.

We used the following methods and assumptions in estimating fair value for our financial assets and liabilities:

- Energy commodity derivatives contracts. These include NYMEX futures agreements related to petroleum products. These contracts are carried at fair value on our consolidated balance sheets and are valued based on quoted prices in active markets. See Note 8 – Derivative Financial Instruments for further disclosures regarding these contracts.

- Interest rate contracts. These include forward-starting interest rate swap agreements to hedge against the risk of variability of interest payments on future debt. These contracts are carried at fair value on our consolidated balance sheets and are valued based on an assumed exchange, at the end of each period, in an orderly transaction with a market participant in the market in which the financial instrument is traded. The exchange value was calculated using present value techniques

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on estimated future cash flows based on forward interest rate curves. See Note 8 – Derivative Financial Instruments for further disclosures regarding these contracts.

- Long-term receivables. These include lease payments receivable under a direct-financing leasing arrangement and insurance receivables. Fair value was determined by estimating the present value of future cash flows using current market rates.

- Debt. The fair value of our publicly traded notes was based on the prices of those notes at December 31, 2014 and September 30, 2015; however, where recent observable market trades were not available, prices were determined using adjustments to the last traded value for that debt issuance or by adjustments to the prices of similar debt instruments of peer entities that are actively traded. The carrying amount of borrowings, if any, under our revolving credit facility and our commercial paper program approximates fair value due to the frequent repricing of these obligations.

Fair Value Measurements - Financial Assets and Liabilities

The following tables summarize the carrying amounts, fair values and recurring fair value measurements recorded or disclosed as of December 31, 2014 and September 30, 2015, based on the three levels established by ASC 820, Fair Value Measurements and Disclosures (in thousands):

	As of December 31, 2014				
			Fair Value Measurements using:		
Assets (Liabilities)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Energy commodity derivatives contracts – assets	$96,142	$96,142	$96,142	$—	$—
Interest rate contracts – liabilities	$(26,478)	$(26,478)	$—	$(26,478)	$—
Long-term receivables	$28,611	$30,200	$—	$—	$30,200
Debt	$(2,982,895)	$(3,212,462)	$—	$(3,212,462)	$—

	As of September 30, 2015				
			Fair Value Measurements using:		
Assets (Liabilities)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Energy commodity derivatives contracts – assets	$78,443	$78,443	$78,443	$—	$—
Interest rate contracts – liabilities	$(508)	$(508)	$—	$(508)	$—
Long-term receivables	$22,055	$21,681	$—	$—	$21,681
Debt	$(3,407,114)	$(3,420,351)	$—	$(3,420,351)	$—

MAGELLAN MIDSTREAM PARTNERS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Related Party Transactions

Barry R. Pearl is an independent member of our general partner's board of directors and is also a director of the general partner of Targa Resources Partners, L.P. ("Targa"). In the normal course of business, we purchase butane from subsidiaries of Targa. For the three months ended September 30, 2014 and 2015, we made purchases of butane from subsidiaries of Targa of $0.1 million and $1.5 million, respectively. For the nine months ended September 30, 2014 and 2015, we made purchases of butane from subsidiaries of Targa of $13.9 million and $14.3 million, respectively. These purchases were based on the then-current index prices. We had recognized payables to Targa of $0.9 million and $1.0 million at December 31, 2014 and September 30, 2015, respectively.

Stacy P. Methvin was elected as an independent member of our general partner's board of directors on April 23, 2015 and is also a director of one of our customers. We received tariff revenue of $4.1 million and $6.7 million for the three months ended September 30, 2015 and for the period of April 23, 2015 through September 30, 2015, respectively, and have recorded a $1.3 million receivable from this customer at September 30, 2015. The tariff revenue we recognized from this customer was in the normal course of business, with rates determined in accordance with published tariffs.

See Note 4 – Investments in Non-Controlled Entities for a discussion of affiliate joint venture transactions we account for under the equity method.

14. Subsequent Events

Recognizable events

No recognizable events occurred subsequent to September 30, 2015.

Non-recognizable events

Cash Distribution. In October 2015, our general partner's board of directors declared a quarterly distribution of $0.7625 per unit to be paid on November 13, 2015 to unitholders of record at the close of business on November 2, 2015. The total cash distributions expected to be paid under this declaration are approximately $173.4 million.

Credit Facilities. On October 27, 2015, we entered into a $1.0 billion amended and restated revolving credit facility and a new $250.0 million 364-day revolving credit facility. The $1.0 billion facility matures on October 27, 2020, while the 364-day facility matures on October 25, 2016, subject to a term-out option. We may exercise the term-out option no later than 30 days prior to October 25, 2016 and elect to have all outstanding borrowings converted into a term loan due and payable on October 25, 2018, subject to the payment of a term-out fee. Borrowings under our new credit facilities will be unsecured and bear interest at LIBOR, plus a spread ranging from 1.00% to 1.625% based on our credit ratings and amounts outstanding. Additionally, commitment fees are assessed on undrawn amounts under our $1.0 billion facility at a rate between 0.100% and 0.275% and under our 364-day facility at a rate between 0.080%

and 0.225%, subject to our credit ratings. Our commitment fee was 0.125% on our $1.0 billion facility and 0.100% on our 364-day facility at October 27, 2015. Debt placement costs related to our $1.0 billion facility and our 364-day facility of $1.4 million and $0.1 million, respectively, will be amortized over the term of the credit facilities. Borrowings from the credit facilities will be used for general purposes, including capital expenditures.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We are a publicly traded limited partnership principally engaged in the transportation, storage and distribution of refined petroleum products and crude oil. As of September 30, 2015, our asset portfolio, including the assets of our joint ventures, consisted of:

- our refined products segment, comprised of our 9,500-mile refined products pipeline system with 52 terminals as well as 28 independent terminals not connected to our pipeline system and our 1,100-mile ammonia pipeline system;
- our crude oil segment, comprised of approximately 1,600 miles of crude oil pipelines and storage facilities with an aggregate storage capacity of approximately 21 million barrels, of which 13 million barrels are used for leased storage; and
- our marine storage segment, consisting of five marine terminals located along coastal waterways with an aggregate storage capacity of approximately 26 million barrels.

The following discussion provides an analysis of the results for each of our operating segments, an overview of our liquidity and capital resources and other items related to our partnership. The following discussion and analysis should be read in conjunction with (i) our accompanying interim consolidated financial statements and related notes and (ii) our consolidated financial statements, related notes and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Recent Developments

Cash Distribution. In October 2015, the board of directors of our general partner declared a quarterly cash distribution of $0.7625 per unit for the period of July 1, 2015 through September 30, 2015. This quarterly cash distribution will be paid on November 13, 2015 to unitholders of record on November 2, 2015. Total distributions expected to be paid under this declaration are approximately $173.4 million.

Credit Facilities. On October 27, 2015, we entered into a $1.0 billion amended and restated revolving credit facility and a new $250.0 million 364-day revolving credit facility. The $1.0 billion facility matures on October 27, 2020, while the 364-day facility matures on October 25, 2016, subject to a term-out option. We may exercise the term-out option no later than 30 days prior to October 25, 2016 and elect to have all outstanding borrowings converted into a term loan due and payable on October 25, 2018, subject to the payment of a term-out fee. Borrowings under our new credit facilities will be unsecured and bear interest at LIBOR, plus a spread ranging from 1.00% to 1.625% based on our credit ratings and amounts outstanding. Additionally, commitment fees are assessed on undrawn amounts under our $1.0 billion facility at a rate between 0.100% and 0.275% and under our 364-day facility at a rate between 0.080% and 0.225%, subject to our credit ratings. Our commitment fee was 0.125% on our $1.0 billion facility and 0.100% on our 364-day facility at October 27, 2015. Debt placement costs related to our $1.0 billion facility and our 364-day facility of $1.4 million and $0.1 million, respectively, will be amortized over the term of the credit facilities. Borrowings from the credit facilities will be used for general purposes, including capital expenditures.

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Results of Operations

We believe that investors benefit from having access to the same financial measures utilized by management. Operating margin, which is presented in the following tables, is an important measure used by management to evaluate the economic performance of our core operations. Operating margin is not a generally accepted accounting principles ("GAAP") measure, but the components of operating margin are computed using amounts that are determined in accordance with GAAP. A reconciliation of operating margin to operating profit, which is its nearest comparable GAAP financial measure, is included in the following tables. Operating profit includes expense items, such as depreciation and amortization expense and general and administrative ("G&A") expense, which management does not focus on when evaluating the core profitability of our separate operating segments. Additionally, product margin, which management primarily uses to evaluate the profitability of our commodity-related activities, is provided in these tables. Product margin is a non-GAAP measure; however, its components of product sales revenue and cost of product sales are determined in accordance with GAAP. Our butane blending, fractionation and other commodity-related activities generate significant product revenue. We believe the product margin from these activities, which takes into account the related cost of product sales, better represents its importance to our results of operations.

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Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2015

	Three Months Ended September 30,		Variance Favorable (Unfavorable)	
	2014	2015	$ Change	% Change
Financial Highlights ($ in millions, except operating statistics)				
Transportation and terminals revenue:				
Refined products	$238.0	$259.8	$21.8	9
Crude oil	78.8	96.1	17.3	22
Marine storage	43.7	45.1	1.4	3
Total transportation and terminals revenue	360.5	401.0	40.5	11
Affiliate management fee revenue	5.2	3.6	(1.6)	(31)
Operating expenses:				
Refined products	101.2	104.6	(3.4)	(3)
Crude oil	14.4	19.4	(5.0)	(35)
Marine storage	17.7	14.7	3.0	17
Intersegment eliminations	(0.9)	(0.8)	(0.1)	(11)
Total operating expenses	132.4	137.9	(5.5)	(4)
Product margin:				
Product sales revenue	155.9	172.7	16.8	11
Cost of product sales	91.6	85.5	6.1	7
Product margin[1]	64.3	87.2	22.9	36
Earnings of non-controlled entities	1.7	15.5	13.8	812
Operating margin	299.3	369.4	70.1	23
Depreciation and amortization expense	38.1	42.1	(4.0)	(10)
G&A expense	35.4	37.7	(2.3)	(6)
Operating profit	225.8	289.6	63.8	28
Interest expense (net of interest income and interest capitalized)	25.4	35.4	(10.0)	(39)
Debt placement fee amortization expense	0.6	0.7	(0.1)	(17)
Other expense	—	1.7	(1.7)	n/a
Income before provision for income taxes	199.8	251.8	52.0	26
Provision for income taxes	1.2	0.8	0.4	33
Net income	$198.6	$251.0	$52.4	26
Operating Statistics:				
Refined products:				
Transportation revenue per barrel shipped	$1.408	$1.476		
Volume shipped (million barrels):				
Gasoline	66.2	73.9		
Distillates	41.6	38.8		
Aviation fuel	6.4	5.6		
Liquefied petroleum gases	4.3	3.5		
Total volume shipped	118.5	121.8		
Crude oil:				
Magellan 100%-owned assets:				