MAGELLAN MIDSTREAM PARTNERS LP
Form 10-Q
August 06, 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 June 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 August 5, 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."

Table of Contents

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

1

Table of Contents

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 June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Transportation and terminals revenue	$353,568	$374,016	$671,205	$719,616
Product sales revenue	137,657	109,969	433,720	283,096
Affiliate management fee revenue	5,221	3,558	10,127	6,921
Total revenue	496,446	487,543	1,115,052	1,009,633
Costs and expenses:				
Operating	124,874	131,433	198,371	229,928
Cost of product sales	109,103	94,507	307,143	230,686
Depreciation and amortization	46,897	40,440	84,408	82,137
General and administrative	39,309	37,942	74,244	73,440
Total costs and expenses	320,183	304,322	664,166	616,191
Earnings of non-controlled entities	1,955	24,542	2,421	34,132
Operating profit	178,218	207,763	453,307	427,574
Interest expense	37,265	39,756	73,681	76,363
Interest income	(406)	(334)	(797)	(683)
Interest capitalized	(6,843)	(2,946)	(12,153)	(5,053)
Debt placement fee amortization expense	602	640	1,201	1,227
Other income	—	(6,539)	—	(6,260)
Income before provision for income taxes	147,600	177,186	391,375	361,980
Provision for income taxes	1,340	(205)	2,561	953
Net income	$146,260	$177,391	$388,814	$361,027
Basic and diluted net income per limited partner unit	$0.64	$0.78	$1.71	$1.59
Weighted average number of limited partner units outstanding used for basic and diluted net income per unit calculation	227,288	227,631	227,215	227,578

See notes to consolidated financial statements.

2

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Net income	$146,260	$177,391	$388,814	$361,027
Other comprehensive income:				
Derivative activity:				
Net gain (loss) on cash flow hedges(1)	—	1,936	(3,613)	(13,529)
Reclassification of net loss (gain) on cash flow hedges to income(1)	(153)	388	(179)	588
Changes in employee benefit plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of prior service credit(2)	(928)	(928)	(1,823)	(1,856)
Amortization of actuarial loss(2)	1,192	2,023	2,016	3,595
Settlement cost(2)	1,569	—	1,569	—
Total other comprehensive income (loss)	1,680	3,419	(2,030)	(11,202)
Comprehensive income	$147,940	$180,810	$386,784	$349,825

(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.

Table of Contents

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

	December 31, 2014	June 30, 2015 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$17,063	$29,030
Trade accounts receivable (less allowance for doubtful accounts of $0 and $20 at December 31, 2014 and June 30, 2015, respectively)	84,465	84,715
Other accounts receivable	15,711	12,447
Inventory	157,762	159,920
Energy commodity derivatives contracts, net	87,151	—
Energy commodity derivatives deposits	6,184	5,696
Other current assets	34,331	40,893
Total current assets	402,667	332,701
Property, plant and equipment	5,533,935	5,832,338
Less: Accumulated depreciation	1,204,601	1,278,865
Net property, plant and equipment	4,329,334	4,553,473
Investments in non-controlled entities	613,867	666,451
Long-term receivables	28,611	25,614
Goodwill	53,260	53,260
Other intangibles (less accumulated amortization of $11,526 and $12,885 at December 31, 2014 and June 30, 2015, respectively)	4,573	3,214
Debt placement costs (less accumulated amortization of $8,952 and $10,179 at December 31, 2014 and June 30, 2015, respectively)	18,084	21,591
Tank bottoms and linefill	42,585	47,204
Other noncurrent assets	24,304	28,548
Total assets	$5,517,285	$5,732,056
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$97,131	$95,810
Accrued payroll and benefits	48,298	33,576
Accrued interest payable	45,973	52,037
Accrued taxes other than income	47,888	46,865
Environmental liabilities	10,564	14,581
Deferred revenue	71,142	71,178
Accrued product purchases	44,355	21,629
Energy commodity derivatives contracts, net	5,413	2,860
Energy commodity derivatives deposits	84,463	—
Other current liabilities	80,928	44,669
Total current liabilities	536,155	383,205
Long-term debt	2,982,895	3,326,936
Long-term pension and benefits	75,155	79,807
Other noncurrent liabilities	29,069	23,843
Environmental liabilities	25,778	21,877
Commitments and contingencies		

Partners’ capital:		
Limited partner unitholders (227,068 units and 227,427 units outstanding at December 31, 2014 and June 30, 2015, respectively)	1,949,773	1,989,130
Accumulated other comprehensive loss	(81,540)	(92,742)
Total partners’ capital	1,868,233	1,896,388
Total liabilities and partners' capital	$5,517,285	$5,732,056

See notes to consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30, 2014	2015
Operating Activities:		
Net income	$388,814	$361,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	84,408	82,137
Debt placement fee amortization expense	1,201	1,227
Loss on sale and retirement of assets	3,310	2,084
Earnings of non-controlled entities	(2,421)	(34,132)
Distributions from investments in non-controlled entities	1,713	31,243
Equity-based incentive compensation expense	12,753	10,539
Amortization of prior service credit, actuarial loss and pension settlement	1,762	1,739
Changes in operating assets and liabilities:		
Trade accounts receivable and other accounts receivable	25,486	3,096
Inventory	(1,718)	(2,158)
Energy commodity derivatives contracts, net of derivatives deposits	(4,133)	(1,411)
Accounts payable	486	8,406
Accrued payroll and benefits	(11,434)	(14,722)
Accrued interest payable	1,038	6,064
Accrued taxes other than income	(3,679)	(1,023)
Accrued product purchases	(25,278)	(22,726)
Deferred revenue	6,174	36
Current and noncurrent environmental liabilities	(3,820)	116
Other current and noncurrent assets and liabilities	2,694	(16,723)
Net cash provided by operating activities	477,356	414,819
Investing Activities:		
Additions to property, plant and equipment, net[(1)]	(153,250)	(275,848)
Proceeds from sale and disposition of assets	107	3,153
Acquisition of business	—	(54,678)
Investments in non-controlled entities	(285,945)	(36,443)
Distributions in excess of earnings of non-controlled entities	1,765	—
Net cash used by investing activities	(437,323)	(363,816)
Financing Activities:		
Distributions paid	(271,914)	(321,239)
Net commercial paper borrowings (repayments)	220,977	(151,960)
Borrowings under long-term notes	257,713	499,589
Payments on notes	(250,000)	—
Debt placement costs	(2,887)	(4,734)
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	(64,537)	(39,036)
Change in cash and cash equivalents	(24,504)	11,967
Cash and cash equivalents at beginning of period	25,235	17,063
Cash and cash equivalents at end of period	$731	$29,030

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	$(149,138)	$(268,849)
Changes in accounts payable and other current liabilities related to capital expenditures	(4,112)	(6,999)
Additions to property, plant and equipment, net	$(153,250)	$(275,848)

See notes to consolidated financial statements.

5

Table of Contents

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 June 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.

Table of Contents

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 June 30, 2015, the results of operations for the three and six months ended June 30, 2014 and 2015 and cash flows for the six months ended June 30, 2014 and 2015. The results of operations for the six months ended June 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 revenues. 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 terminals are reported as product sales on our consolidated statements of income. The physical sale of the petroleum products inventory from product gains obtained from our pipeline operations and crude terminal activities are reported as adjustments to operating expense.

Table of Contents

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Physical sale of petroleum products	$154,310	$133,319	$447,550	$302,566
NYMEX contract adjustments:				
Change in value of NYMEX contracts that were not designated as hedging instruments associated with our butane blending and fractionation activities	(16,666)	(23,350)	(13,843)	(19,470)
Other	13	—	13	—
Total NYMEX contract adjustments	(16,653)	(23,350)	(13,830)	(19,470)
Total product sales revenue	$137,657	$109,969	$433,720	$283,096

3. Segment Disclosures

Our reportable segments are strategic business units that offer different products and services. Our segments are managed separately because 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.

Table of Contents

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

	Three Months Ended June 30, 2014 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$232,489	$79,556	$41,523	$—	$353,568
Product sales revenue	136,334	—	1,323	—	137,657
Affiliate management fee revenue	—	4,902	319	—	5,221
Total revenue	368,823	84,458	43,165	—	496,446
Operating expenses	97,302	11,867	16,544	(839)	124,874
Cost of product sales	108,817	—	286	—	109,103
Earnings of non-controlled entities	—	(888)	(1,067)	—	(1,955)
Operating margin	162,704	73,479	27,402	839	264,424
Depreciation and amortization expense	32,083	6,725	7,250	839	46,897
G&A expenses	25,374	7,697	6,238	—	39,309
Operating profit	$105,247	$59,057	$13,914	$—	$178,218

	Three Months Ended June 30, 2015 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$233,711	$95,756	$44,549	$—	$374,016
Product sales revenue	109,323	—	646	—	109,969
Affiliate management fee revenue	—	3,211	347	—	3,558
Total revenue	343,034	98,967	45,542	—	487,543
Operating expenses	100,475	16,014	15,881	(937)	131,433
Cost of product sales	94,326	—	181	—	94,507
Losses (earnings) of non-controlled entities	43	(23,905)	(680)	—	(24,542)
Operating margin	148,190	106,858	30,160	937	286,145
Depreciation and amortization expense	23,962	8,264	7,277	937	40,440
G&A expenses	23,893	9,031	5,018	—	37,942
Operating profit	$100,335	$89,563	$17,865	$—	$207,763

Table of Contents

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

	Six Months Ended June 30, 2014 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$442,725	$147,459	$81,021	$—	$671,205
Product sales revenue	430,044	—	3,676	—	433,720
Affiliate management fee revenue	—	9,497	630	—	10,127
Total revenue	872,769	156,956	85,327	—	1,115,052
Operating expenses	148,459	20,925	30,630	(1,643)	198,371
Cost of product sales	306,573	—	570	—	307,143
Earnings of non-controlled entities	—	(708)	(1,713)	—	(2,421)
Operating margin	417,737	136,739	55,840	1,643	611,959
Depreciation and amortization expense	55,255	13,188	14,322	1,643	84,408
G&A expenses	48,393	13,691	12,160	—	74,244
Operating profit	$314,089	$109,860	$29,358	$—	$453,307

	Six Months Ended June 30, 2015 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$450,488	$182,316	$86,812	$—	$719,616
Product sales revenue	281,962	—	1,134	—	283,096
Affiliate management fee revenue	—	6,238	683	—	6,921
Total revenue	732,450	188,554	88,629	—	1,009,633
Operating expenses	170,781	29,875	31,216	(1,944)	229,928
Cost of product sales	229,960	—	726	—	230,686
Losses (earnings) of non-controlled entities	98	(32,829)	(1,401)	—	(34,132)
Operating margin	331,611	191,508	58,088	1,944	583,151
Depreciation and amortization expense	47,409	16,493	16,291	1,944	82,137
G&A expenses	46,492	17,117	9,831	—	73,440
Operating profit	$237,710	$157,898	$31,966	$—	$427,574

4. Investments in Non-Controlled Entities

Recently-Formed Company

Seabrook Logistics, LLC ("Seabrook") was formed in second quarter 2015 to construct, own and operate crude oil storage and pipeline infrastructure in the Houston Gulf Coast area. We hold a 50% equity ownership interest in

Seabrook, with LBC Tank Terminals, LLC holding the other 50% equity ownership interest. The assets to be constructed and owned by Seabrook include over 700,000 barrels of crude oil storage located adjacent to LBC's existing terminal in Seabrook, Texas. In addition, Seabrook will construct and own an 18-inch diameter pipeline, which will connect Seabrook's storage facilities to an existing third-party pipeline that will transport crude oil to a Houston-area refinery. Subject to the receipt of permits and regulatory approvals, the new storage facility and pipeline infrastructure are expected to be operational in the first quarter of 2017.

Table of Contents

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

Our investments in non-controlled entities at June 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	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 June 30, 2015, we recognized liabilities of $2.2 million and $1.1 million, respectively, to BridgeTex primarily for pre-paid construction management fees. For the three and six months ended June 30, 2015, we recognized pipeline capacity lease revenue from BridgeTex of $8.5 million and $16.9 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 (no receivable was recognized at June 30, 2015).

We recognized throughput revenue from Double Eagle for the three months ended June 30, 2014 and 2015 of $0.8 million and $0.9 million, respectively, and for the six months ended June 30, 2014 and 2015 of $1.3 million and $1.8 million, respectively, which we included in transportation and terminals revenue. At December 31, 2014 and June 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 or will be 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.

Table of Contents

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	16,609	33,086	49,695
Earnings of non-controlled entities:			
Proportionate share of earnings	31,828	3,699	35,527
Amortization of excess investment and capitalized interest	(1,020)	(375)	(1,395)
Earnings of non-controlled entities	30,808	3,324	34,132
Less:			
Distributions of earnings from investments in non-controlled entities	30,332	911	31,243
Investments at June 30, 2015	$506,433	$160,018	$666,451

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

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2015		
	BridgeTex	All Others	Consolidated	BridgeTex	All Others	Consolidated
Revenue	$—	$11,709	$11,709	$61,629	$11,627	$73,256
Net income (loss)	$(240)	$4,524	$4,284	$45,619	$4,793	$50,412

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2015		
	BridgeTex	All Others	Consolidated	BridgeTex	All Others	Consolidated
Revenue	$—	$18,464	$18,464	$98,765	$21,147	$119,912
Net income (loss)	$(280)	$5,871	$5,591	$63,656	$7,374	$71,030

Table of Contents

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

5. Inventory

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

	December 31, 2014	June 30, 2015
Refined products	$67,055	$33,862
Liquefied petroleum gases	37,642	39,942
Transmix	36,867	47,513
Crude oil	10,015	32,501
Additives	6,183	6,102
Total inventory	$157,762	$159,920

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 six months ended June 30, 2014 and 2015 (in thousands):

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2015	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Components of net periodic benefit costs:				
Service cost	$3,352	$47	$4,975	$56
Interest cost	2,030	139	2,008	109
Expected return on plan assets	(1,490)	—	(2,123)	—
Amortization of prior service credit	—	(928)	—	(928)
Amortization of actuarial loss	930	262	1,806	217
Settlement cost	1,569	—	—	—
Net periodic benefit cost (credit)	$6,391	$(480)	$6,666	$(546)

Table of Contents

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

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2015	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Components of net periodic benefit costs:				
Service cost	$6,704	$114	$9,445	$122
Interest cost	3,689	253	3,877	219
Expected return on plan assets	(3,187)	—	(4,019)	—
Amortization of prior service cost (credit)	33	(1,856)	—	(1,856)
Amortization of actuarial loss	1,559	457	3,153	442
Settlement cost	1,569	—	—	—
Net periodic benefit cost (credit)	$10,367	$(1,032)	$12,456	$(1,073)

Contributions estimated to be paid into the plans in 2015 are $21.1 million and $1.1 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 $2.0 million and $2.2 million, respectively, for the three months ended June 30, 2014 and 2015, and $4.6 million and $5.0 million, respectively, for the six months ended June 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 six months ended June 30, 2014 and 2015 were as follows (in thousands):

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2015	
Gains (Losses) Included in AOCL	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Beginning balance	$(35,522)	$2,320	$(61,910)	$(2,399)
Amortization of prior service credit	—	(928)	—	(928)
Amortization of actuarial loss	930	262	1,806	217
Settlement cost	1,569	—	—	—
Ending balance	$(33,023)	$1,654	$(60,104)	$(3,110)

	Six Months Ended June 30, 2014		Six Months Ended June 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	(1,856)	—	(1,856)
Amortization of actuarial loss	1,559	457	3,153	442
Settlement cost	1,569	—	—	—
Ending balance	$(33,023)	$1,654	$(60,104)	$(3,110)

14

Table of Contents

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

7. Debt

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

	December 31, 2014	June 30, 2015	Weighted-Average Interest Rate for the Six Months Ended June 30, 2015 (1)
Commercial paper(2)	$296,942	$144,982	0.5%
$250.0 million of 5.65% Notes due 2016	250,758	250,546	5.7%
$250.0 million of 6.40% Notes due 2018	257,280	256,248	5.4%
$550.0 million of 6.55% Notes due 2019	567,868	566,006	5.7%
$550.0 million of 4.25% Notes due 2021	556,304	555,837	4.0%
$250.0 million of 3.20% Notes due 2025(2)	—	249,687	3.2%
$250.0 million of 6.40% Notes due 2037	249,017	249,026	6.4%
$250.0 million of 4.20% Notes due 2042	248,406	248,421	4.2%
$550.0 million of 5.15% Notes due 2043	556,320	556,270	5.1%
$250.0 million of 4.20% Notes due 2045(2)	—	249,913	4.6%
Total debt	$2,982,895	$3,326,936	4.8%

(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 six month period ending June 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 June 30, 2015 was $2.9 billion and $3.3 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.

Other Debt

Revolving Credit Facility. The total borrowing capacity under our revolving credit facility, which matures in November 2018, is $1.0 billion. Borrowings outstanding under the facility are classified as long-term debt on our consolidated balance sheets. Borrowings under the facility are unsecured and bear interest at LIBOR plus a spread

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

ranging from 1.0% to 1.75% based on our credit ratings. Additionally, an unused commitment fee is assessed at a rate from 0.10% to 0.28%, depending on our credit ratings. The unused commitment fee was 0.125% at June 30, 2015. Borrowings under this facility may be used for general partnership purposes, including capital expenditures. As of June 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 are not reflected as debt on our consolidated balance sheets but decrease our borrowing capacity under the facility.

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 economically hedge debt, interest or 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.

In first quarter 2015, we entered into a $50.0 million forward-starting interest rate swap agreement 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 this contract at June 30, 2015 was recorded on our balance sheet as an other noncurrent asset of $2.9 million with an offset to other comprehensive income. We account for this agreement as a cash flow hedge.

In third and fourth quarter of 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.

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

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

purchases and sales are accounted for using traditional accrual accounting. As of June 30, 2015, we had commitments under these forward purchase and sale contracts as follows (in millions):

	Notional Value	Barrels
Forward purchase contracts	$118.3	3.5
Forward sale contracts	$11.4	0.1

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 six months ended June 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 accumulated other comprehensive income/loss and any ineffectiveness associated with hedges related to our commodity activities are recognized currently in earnings as adjustments to product sales.

We also use NYMEX contracts, which are not designated as hedges for accounting purposes, to 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 long-term assets on our balance sheet and which are reported as tank bottom and linefill assets. 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.

Table of Contents

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

As outlined in the table below, our open NYMEX contracts at June 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

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