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

FORM 10-Q

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

For the quarterly period ended June 30, 2019
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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Units representing limited partnership units	MMP	New York Stock Exchange

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of July 31, 2019, there were 228,403,428 outstanding common units representing limited partner units of Magellan Midstream Partners, L.P.

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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 June 30,		Six Months Ended June 30,	
	2018	2019	2018	2019
Transportation and terminals revenue	$ 472,248	$ 506,405	$ 904,185	$ 967,197
Product sales revenue	166,797	189,989	408,389	352,984
Affiliate management fee revenue	5,046	5,305	10,296	10,453
Total revenue	644,091	701,699	1,322,870	1,330,634
Costs and expenses:				
Operating	159,845	168,929	303,141	314,954
Cost of product sales	153,679	152,876	353,271	321,970
Depreciation, amortization and impairment	53,619	62,530	105,498	124,401
General and administrative	53,290	52,383	99,846	98,378
Total costs and expenses	420,433	436,718	861,756	859,703
Other operating income (expense)	—	(5,024)	—	1,917
Earnings of non-controlled entities	42,510	40,785	77,048	72,040
Operating profit	266,168	300,742	538,162	544,888
Interest expense	56,750	51,406	113,402	111,572
Interest capitalized	(5,608)	(5,134)	(10,255)	(8,588)
Interest income	(380)	(338)	(959)	(1,998)
Gain on disposition of assets	—	(4,646)	—	(26,434)
Other (income) expense	(119)	4,570	8,605	6,620
Income before provision for income taxes	215,525	254,884	427,369	463,716
Provision for income taxes	1,116	1,181	2,050	2,350
Net income	$ 214,409	$ 253,703	$ 425,319	$ 461,366
Basic net income per limited partner unit	$ 0.94	$ 1.11	$ 1.86	$ 2.02
Diluted net income per limited partner unit	$ 0.94	$ 1.11	$ 1.86	$ 2.02
Weighted average number of limited partner units outstanding used for basic net income per unit calculation	228,387	228,647	228,354	228,603
Weighted average number of limited partner units outstanding used for diluted net income per unit calculation	228,425	228,688	228,393	228,623

See notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2019	2018	2019
Net income	$ 214,409	$ 253,703	$ 425,319	$ 461,366
Other comprehensive income (loss):				
Derivative activity:				
Net gain (loss) on cash flow hedges	1,697	(6,659)	7,111	(11,035)
Reclassification of net loss on cash flow hedges to income	739	601	1,479	1,228
Changes in employee benefit plan assets and benefit obligations recognized in other comprehensive income:				
Net actuarial gain (loss)	653	(10,913)	(5,291)	(10,913)
Amortization of prior service credit	(46)	(45)	(91)	(90)
Amortization of actuarial loss	1,703	1,625	6,817	2,973
Settlement cost	—	2,060	—	2,060
Total other comprehensive income (loss)	4,746	(13,331)	10,025	(15,777)
Comprehensive income	$ 219,155	$ 240,372	$ 435,344	$ 445,589

See notes to consolidated financial statements.

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

	December 31, 2018	June 30, 2019
ASSETS		**(Unaudited)**
Current assets:		
Cash and cash equivalents	$ 218,283	$ 3,070
Trade accounts receivable	104,164	139,611
Other accounts receivable	25,007	25,317
Inventory	185,735	172,907
Energy commodity derivatives contracts, net	55,011	—
Energy commodity derivatives deposits	—	27,533
Other current assets	58,143	38,580
Total current assets	646,343	407,018
Property, plant and equipment	7,628,592	8,024,845
Less: accumulated depreciation	1,830,411	1,935,301
Net property, plant and equipment	5,798,181	6,089,544
Investments in non-controlled entities	1,076,306	1,165,028
Right-of-use asset, operating leases	—	167,456
Long-term receivables	20,844	21,304
Goodwill	53,260	53,260
Other intangibles (less accumulated amortization of $2,979 and $4,920 at December 31, 2018 and June 30, 2019, respectively)	51,174	49,233
Restricted cash	90,978	28,176
Other noncurrent assets	10,451	24,421
Total assets	$ 7,747,537	$ 8,005,440
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 138,735	$ 179,734
Accrued payroll and benefits	70,276	47,396
Accrued interest payable	63,258	57,805
Accrued taxes other than income	53,093	48,148
Environmental liabilities	9,153	4,687
Deferred revenue	121,085	111,896
Accrued product liabilities	75,482	76,459
Energy commodity derivatives contracts, net	—	9,097
Energy commodity derivatives deposits	37,328	—
Current portion of operating lease liability	—	22,477
Current portion of long-term debt, net	59,489	—
Other current liabilities	48,657	60,572
Total current liabilities	676,556	618,271
Long-term operating lease liability	—	146,726
Long-term debt, net	4,211,380	4,407,793
Long-term pension and benefits	122,580	133,513
Other noncurrent liabilities	82,240	48,968
Environmental liabilities	11,347	12,390
Commitments and contingencies		
Partners' capital:		
Limited partner unitholders (228,195 units and 228,403 units outstanding at December 31, 2018 and June 30, 2019, respectively)	2,763,925	2,774,047
Accumulated other comprehensive loss	(120,491)	(136,268)
Total partners' capital	2,643,434	2,637,779
Total liabilities and partners' capital	$ 7,747,537	$ 8,005,440

See notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	**2019**
Operating Activities:		
Net income	$ 425,319	$ 461,366
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and impairment expense	105,498	124,401
Loss (gain) on sale and retirement of assets	4,586	(26,437)
Earnings of non-controlled entities	(77,048)	(72,040)
Distributions from operations of non-controlled entities	94,661	83,069
Equity-based incentive compensation expense	16,679	15,804
Settlement cost, amortization of prior service credit and actuarial loss	6,726	4,943
Debt prepayment costs	—	8,270
Changes in operating assets and liabilities:		
Trade accounts receivable and other accounts receivable	24,739	(35,757)
Inventory	(1,233)	12,828
Accounts payable	18,843	22,110
Accrued payroll and benefits	(11,070)	(22,880)
Accrued interest payable	(62)	(5,453)
Accrued taxes other than income	(10,199)	(4,945)
Accrued product liabilities	(32,142)	977
Deferred revenue	4,240	(9,189)
Other current and noncurrent assets and liabilities	(5,471)	13,493
Net cash provided by operating activities	564,066	570,560
Investing Activities:		
Additions to property, plant and equipment, net[1]	(219,442)	(487,662)
Proceeds from sale and disposition of assets	241	63,887
Investments in non-controlled entities	(144,859)	(112,251)
Distributions from returns of investments in non-controlled entities	—	7,500
Deposits received from undivided joint interest third party	41,571	26,352
Net cash used by investing activities	(322,489)	(502,174)
Financing Activities:		
Distributions paid	(423,873)	(457,377)
Net commercial paper borrowings	119,896	197,000
Borrowings under long-term notes	—	496,855
Payments on notes	—	(550,000)
Debt placement costs	(326)	(6,817)
Net payment on financial derivatives	—	(8,028)
Payments associated with settlement of equity-based incentive compensation	(9,285)	(9,764)
Debt prepayment costs	—	(8,270)
Net cash used by financing activities	(313,588)	(346,401)
Change in cash, cash equivalents and restricted cash	(72,011)	(278,015)
Cash, cash equivalents and restricted cash at beginning of period	176,068	309,261
Cash, cash equivalents and restricted cash at end of period	$ 104,057	$ 31,246
Supplemental non-cash investing activities:		
[1] Additions to property, plant and equipment	$ (219,828)	$ (514,812)
Changes in accounts payable and other current liabilities related to capital expenditures	386	27,150
Additions to property, plant and equipment, net	$ (219,442)	$ (487,662)

See notes to consolidated financial statements.

MAGELLAN MIDSTREAM PARTNERS, L.P.
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL
(Unaudited, in thousands)

	Limited Partners	Accumulated Other Comprehensive Loss	Total Partners' Capital
Balance, April 1, 2018	$ 2,271,486	$(132,299)	$ 2,139,187
Comprehensive income:			
Net income	214,409	—	214,409
Total other comprehensive income	—	4,746	4,746
Total comprehensive income	214,409	4,746	219,155
Distributions	(213,933)	—	(213,933)
Equity-based incentive compensation expense	10,047	—	10,047
Other	(164)	—	(164)
Three Months Ended June 30, 2018	$ 2,281,845	$(127,553)	$ 2,154,292
Balance, April 1, 2019	$ 2,739,192	$(122,937)	2,616,255
Comprehensive income:			
Net income	253,703	—	253,703
Total other comprehensive loss	—	(13,331)	(13,331)
Total comprehensive income	253,703	(13,331)	240,372
Distributions	(229,545)	—	(229,545)
Equity-based incentive compensation expense	10,890	—	10,890
Other	(193)	—	(193)
Three Months Ended June 30, 2019	$ 2,774,047	$(136,268)	$ 2,637,779

MAGELLAN MIDSTREAM PARTNERS, L.P.
CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL (Continued)
(Unaudited, in thousands)

	Limited Partners	Accumulated Other Comprehensive Loss	Total Partners' Capital
Balance, January 1, 2018	$ 2,267,231	$(137,578)	$ 2,129,653
Comprehensive income:			
Net income	425,319	—	425,319
Total other comprehensive income	—	10,025	10,025
Total comprehensive income	425,319	10,025	435,344
Distributions	(423,873)	—	(423,873)
Equity-based incentive compensation expense	16,679	—	16,679
Issuance of limited partner units in settlement of equity-based incentive plan awards	120	—	120
Payments associated with settlement of equity-based incentive compensation	(9,285)	—	(9,285)
ASC 606 cumulative effect	5,975	—	5,975
Other	(321)	—	(321)
Six Months Ended June 30, 2018	$ 2,281,845	$(127,553)	$ 2,154,292
Balance, January 1, 2019	$ 2,763,925	$(120,491)	2,643,434
Comprehensive income:			
Net income	461,366	—	461,366
Total other comprehensive loss	—	(15,777)	(15,777)
Total comprehensive income	461,366	(15,777)	445,589
Distributions	(457,377)	—	(457,377)
Equity-based incentive compensation expense	15,804	—	15,804
Issuance of limited partner units in settlement of equity-based incentive plan awards	480	—	480
Payments associated with settlement of equity-based incentive compensation	(9,764)	—	(9,764)
Other	(387)	—	(387)
Six Months Ended June 30, 2019	$ 2,774,047	$(136,268)	$ 2,637,779

See notes to consolidated financial statements.

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. Magellan Midstream Partners, L.P. is a Delaware limited partnership, and its 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 its 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, 2019, our asset portfolio consisted of:

- our refined products segment, comprised of our approximately 9,700-mile refined products pipeline system with 53 terminals as well as 25 independent terminals not connected to our pipeline system and our 1,100-mile ammonia pipeline system;
- our crude oil segment, comprised of approximately 2,200 miles of crude oil pipelines, a condensate splitter and 33 million barrels of aggregate storage capacity, of which approximately 21 million barrels are used for contract storage. Approximately 1,000 miles of these pipelines, the condensate splitter and 28 million barrels of this storage capacity (including 19 million barrels used for contract storage) are wholly-owned, with the remainder owned through joint ventures; and
- our marine storage segment, consisting of six marine terminals located along coastal waterways with an aggregate storage capacity of approximately 27 million barrels. Five of these terminals and approximately 25 million barrels of this storage capacity are wholly-owned, with the remainder owned through joint ventures.

Terminology common in our industry includes the following terms, which describe products that we transport, store and distribute through our pipelines and terminals:

- *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, kerosene 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*, which includes condensate, is used as feedstock by refineries, splitters and petrochemical facilities; and

- *biofuels*, such as ethanol and biodiesel, are typically blended with other refined products as required by government mandates.

We use the term *petroleum products* to describe any, or a combination, of the above-noted products.

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, 2018, 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, 2019, the results of operations for the three and six months ended June 30, 2018 and 2019 and cash flows for the six months ended June 30, 2018 and 2019. The results of operations for the six months ended June 30, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019 for several reasons. Profits from our butane 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 refined products pipeline system, generally trends higher during the summer driving months. Further, the volatility of commodity prices impacts the profits from our commodity activities and the volume of petroleum products we transport 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 U.S. generally accepted accounting principles (“GAAP”). 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, 2018.

Use of Estimates

The preparation of our consolidated financial statements in conformity with 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.

New Accounting Pronouncements - Adopted by us on January 1, 2019

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842).* This ASU requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases, with the exception of short-term leases. The new accounting model for lessors remains largely the same, although some changes have been made to align it with the new lessee model and the new revenue recognition guidance. This update also requires companies to include additional disclosures regarding their lessee and lessor agreements. We adopted this standard on January 1, 2019, and it did not have a material impact on our consolidated statements of income or our leverage ratio as defined in our credit agreement. Adoption of this ASU resulted in an initial increase in our assets and liabilities by approximately $172 million due to the recognition of right of use assets and lease liabilities. See Note 7 – *Leases* for our lease disclosures.

2. Revenue from Contracts with Customers

Statement of Income Disclosures

The following tables provide details of our revenues disaggregated by key activities that comprise our performance obligations by operating segment (in thousands):

	Three Months Ended June 30, 2018				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation	$ 184,596	$ 84,755	$ —	$ —	$ 269,351
Terminalling	50,574	—	592	—	51,166
Storage	24,969	28,536	33,319	(915)	85,909
Ancillary services	28,459	8,199	6,037	—	42,695
Lease revenue	2,466	16,463	4,198	—	23,127
Transportation and terminals revenue	291,064	137,953	44,146	(915)	472,248
Product sales revenue	150,934	13,282	2,581	—	166,797
Affiliate management fee revenue	352	3,849	845	—	5,046
Total revenue	442,350	155,084	47,572	(915)	644,091
Revenue not under the guidance of ASC 606, *Revenue from Contracts with Customers*:					
Lease revenue[1]	(2,466)	(16,463)	(4,198)	—	(23,127)
Losses from futures contracts included in product sales revenue[2]	34,840	3,570	—	—	38,410
Affiliate management fee revenue	(352)	(3,849)	(845)	—	(5,046)
Total revenue from contracts with customers under ASC 606	$ 474,372	$ 138,342	$ 42,529	$ (915)	$ 654,328

[1] Lease revenue in 2018 is accounted for under ASC 840, *Leases*.
[2] The impact on product sales revenue from futures contracts falls under the guidance of ASC 815, *Derivatives and Hedging*.

	Three Months Ended June 30, 2019				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation	$ 201,173	$ 91,534	$ —	$ —	$ 292,707
Terminalling	48,554	4,723	690	—	53,967
Storage	25,471	34,972	34,485	(1,341)	93,587
Ancillary services	28,128	6,611	6,581	—	41,320
Lease revenue	2,889	17,729	4,206	—	24,824
Transportation and terminals revenue	306,215	155,569	45,962	(1,341)	506,405
Product sales revenue	183,211	5,295	1,483	—	189,989
Affiliate management fee revenue	470	3,646	1,189	—	5,305
Total revenue	489,896	164,510	48,634	(1,341)	701,699
Revenue not under the guidance of ASC 606, *Revenue from Contracts with Customers*:					
Lease revenue[1]	(2,889)	(17,729)	(4,206)	—	(24,824)
(Gains) losses from futures contracts included in product sales revenue[2]	4,713	(95)	—	—	4,618
Affiliate management fee revenue	(470)	(3,646)	(1,189)	—	(5,305)
Total revenue from contracts with customers under ASC 606	$ 491,250	$ 143,040	$ 43,239	$ (1,341)	$ 676,188

(1) Lease revenue in 2019 is accounted for under ASC 842, *Leases*.
(2) The impact on product sales revenue from futures contracts falls under the guidance of ASC 815, *Derivatives and Hedging*.

	Six Months Ended June 30, 2018				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation	$ 351,498	$ 163,878	$ —	$ —	$ 515,376
Terminalling	89,922	—	1,304	—	91,226
Storage	50,216	58,526	67,530	(1,830)	174,442
Ancillary services	54,247	13,234	13,071	—	80,552
Lease revenue	5,575	28,573	8,441	—	42,589
Transportation and terminals revenue	551,458	264,211	90,346	(1,830)	904,185
Product sales revenue	383,708	19,721	4,960	—	408,389
Affiliate management fee revenue	649	7,865	1,782	—	10,296
Total revenue	935,815	291,797	97,088	(1,830)	1,322,870
Revenue not under the guidance of ASC 606, *Revenue from Contracts with Customers*:					
Lease revenue[1]	(5,575)	(28,573)	(8,441)	—	(42,589)
Losses from futures contracts included in product sales revenue[2]	40,305	5,480	—	—	45,785
Affiliate management fee revenue	(649)	(7,865)	(1,782)	—	(10,296)
Total revenue from contracts with customers under ASC 606	$ 969,896	$ 260,839	$ 86,865	$ (1,830)	$ 1,315,770

(1) Lease revenue in 2018 is accounted for under ASC 840, *Leases*.
(2) The impact on product sales revenue from futures contracts falls under the guidance of ASC 815, *Derivatives and Hedging*.

	Six Months Ended June 30, 2019				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation	$ 372,200	$ 176,692	$ —	$ —	$ 548,892
Terminalling	88,952	9,969	1,589	—	100,510
Storage	51,910	69,290	69,703	(2,279)	188,624
Ancillary services	54,024	12,632	13,466	—	80,122
Lease revenue	6,134	34,594	8,321	—	49,049
Transportation and terminals revenue	573,220	303,177	93,079	(2,279)	967,197
Product sales revenue	338,367	11,008	3,609	—	352,984
Affiliate management fee revenue	882	7,132	2,439	—	10,453
Total revenue	912,469	321,317	99,127	(2,279)	1,330,634
Revenue not under the guidance of ASC 606, *Revenue from Contracts with Customers*:					
Lease revenue[1]	(6,134)	(34,594)	(8,321)	—	(49,049)
Losses from futures contracts included in product sales revenue[2]	56,822	2,307	—	—	59,129
Affiliate management fee revenue	(882)	(7,132)	(2,439)	—	(10,453)
Total revenue from contracts with customers under ASC 606	$ 962,275	$ 281,898	$ 88,367	$ (2,279)	$ 1,330,261

[1] Lease revenue in 2019 is accounted for under ASC 842, *Leases*.
[2] The impact on product sales revenue from futures contracts falls under the guidance of ASC 815, *Derivatives and Hedging*.

Balance Sheet Disclosures

The following table summarizes our accounts receivable, contract assets and contract liabilities resulting from contracts with customers (in thousands):

	December 31, 2018	June 30, 2019
Accounts receivable from contracts with customers	$ 102,684	$ 134,506
Contract assets	$ 8,487	$ 8,226
Contract liabilities	$ 122,129	$ 115,692

For the three and six months ended June 30, 2019, we recognized $13.8 million and $84.0 million of transportation and terminals revenue that was recorded in deferred revenue as of December 31, 2018.

Unfulfilled Performance Obligations

The following table provides the aggregate amount of the transaction price allocated to our unfulfilled performance obligations ("UPOs") as of June 30, 2019 by operating segment, including the range of years remaining on our contracts with customers and an estimate of revenues expected to be recognized over the next 12 months (dollars in thousands):

	Refined Products	Crude Oil	Marine Storage	Total
Balances at June 30, 2019	$ 2,052,375	$ 1,244,128	$ 221,848	$ 3,518,351
Remaining terms	1 - 19 years	1 - 10 years	1 - 5 years	
Estimated revenues from UPOs to be recognized in the next 12 months	$ 273,714	$ 330,830	$ 114,166	$ 718,710

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 is calculated in the tables below.

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 (presented in thousands). Operating profit includes depreciation, amortization and impairment expense and general and administrative ("G&A") expense that management does not consider when evaluating the core profitability of our separate operating segments.

	Three Months Ended June 30, 2018				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$ 291,064	$ 137,953	$ 44,146	$ (915)	$ 472,248
Product sales revenue	150,934	13,282	2,581	—	166,797
Affiliate management fee revenue	352	3,849	845	—	5,046
Total revenue	442,350	155,084	47,572	(915)	644,091
Operating expenses	113,342	31,177	17,693	(2,367)	159,845
Cost of product sales	137,543	13,761	2,375	—	153,679
(Earnings) losses of non-controlled entities	97	(41,851)	(756)	—	(42,510)
Operating margin	191,368	151,997	28,260	1,452	373,077
Depreciation, amortization and impairment expense	30,508	12,741	8,918	1,452	53,619
G&A expense	33,187	13,455	6,648	—	53,290
Operating profit	$ 127,673	$ 125,801	$ 12,694	$ —	$ 266,168

	Three Months Ended June 30, 2019				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$ 306,215	$ 155,569	$ 45,962	$ (1,341)	$ 506,405
Product sales revenue	183,211	5,295	1,483	—	189,989
Affiliate management fee revenue	470	3,646	1,189	—	5,305
Total revenue	489,896	164,510	48,634	(1,341)	701,699
Operating expenses	115,811	37,217	18,586	(2,685)	168,929
Cost of product sales	146,516	4,710	1,650	—	152,876
Other operating (income) expense	(738)	6,056	(294)	—	5,024
(Earnings) losses of non-controlled entities	4,218	(43,735)	(1,268)	—	(40,785)
Operating margin	224,089	160,262	29,960	1,344	415,655
Depreciation, amortization and impairment expense	34,738	15,743	10,705	1,344	62,530
G&A expense	31,020	14,097	7,266	—	52,383
Operating profit	$ 158,331	$ 130,422	$ 11,989	$ —	$ 300,742

	Six Months Ended June 30, 2018				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$ 551,458	$ 264,211	$ 90,346	$ (1,830)	$ 904,185
Product sales revenue	383,708	19,721	4,960	—	408,389
Affiliate management fee revenue	649	7,865	1,782	—	10,296
Total revenue	935,815	291,797	97,088	(1,830)	1,322,870
Operating expenses	207,391	64,768	35,657	(4,675)	303,141
Cost of product sales	327,876	20,811	4,584	—	353,271
Earnings of non-controlled entities	(2,221)	(73,459)	(1,368)	—	(77,048)
Operating margin	402,769	279,677	58,215	2,845	743,506
Depreciation, amortization and impairment expense	59,415	25,503	17,735	2,845	105,498
G&A expense	62,074	25,361	12,411	—	99,846
Operating profit	$ 281,280	$ 228,813	$ 28,069	$ —	$ 538,162

	Six Months Ended June 30, 2019				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$ 573,220	$ 303,177	$ 93,079	$ (2,279)	$ 967,197
Product sales revenue	338,367	11,008	3,609	—	352,984
Affiliate management fee revenue	882	7,132	2,439	—	10,453
Total revenue	912,469	321,317	99,127	(2,279)	1,330,634
Operating expenses	205,489	81,040	33,483	(5,058)	314,954
Cost of product sales	306,670	11,374	3,926	—	321,970
Other operating (income) expense	(1,352)	4,483	(5,048)	—	(1,917)
(Earnings) losses of non-controlled entities	5,648	(76,037)	(1,651)	—	(72,040)
Operating margin	396,014	300,457	68,417	2,779	767,667
Depreciation, amortization and impairment expense	70,272	31,002	20,348	2,779	124,401
G&A expense	58,735	26,712	12,931	—	98,378
Operating profit	$ 267,007	$ 242,743	$ 35,138	$ —	$ 544,888

4. Investments in Non-Controlled Entities

Our investments in non-controlled entities at June 30, 2019 were comprised of:

Entity	Ownership Interest
BridgeTex Pipeline Company, LLC (“BridgeTex”)	30%
Double Eagle Pipeline LLC (“Double Eagle”)	50%
HoustonLink Pipeline Company, LLC (“HoustonLink”)	50%
MVP Terminalling, LLC (“MVP”)	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%

We serve as operator of BridgeTex, HoustonLink, MVP, Powder Springs, Saddlehorn, Texas Frontera and the pipeline activities of Seabrook. We receive fees for management services as well as reimbursement or payment to us for certain direct operational payroll and other overhead costs. The management fees we receive are reported as affiliate management fee revenue on our consolidated statements of income. Cost reimbursements we receive from these entities in connection with our operating services are included as reductions to costs and expenses on our consolidated statements of income and totaled $1.2 million and $1.1 million during the three months ended June 30, 2018 and 2019, respectively, and $1.7 million and $2.6 million during the six months ended June 30, 2018 and 2019, respectively.

We recorded the following revenue and expense transactions from certain of these non-controlled entities in our consolidated statements of income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2019	2018	2019
Transportation and terminals revenue:				
BridgeTex, pipeline capacity and storage	$ 9,697	$ 10,181	$ 19,561	$ 20,326
Double Eagle, throughput revenue	$ 1,343	$ 1,572	$ 2,887	$ 3,231
Saddlehorn, storage revenue	$ 538	$ 551	$ 1,076	$ 1,103
Operating costs:				
Seabrook, storage lease and ancillary services	$ —	$ 6,241	$ —	$ 13,150
Product sales revenue:				
Powder Springs, butane sales	$ 2,180	$ —	$ 4,899	$ —
Cost of product sales:				
Powder Springs, butane purchases	$ 410	$ —	$ 410	$ —

Our consolidated balance sheets reflected the following balances related to our investments in non-controlled entities (in thousands):

	December 31, 2018			
	Trade Accounts Receivable	Other Accounts Receivable	Other Accounts Payable	Long-Term Receivables
BridgeTex	$ 318	$ 1,549	$ —	$ —
Double Eagle	$ 546	$ —	$ —	$ —
MVP	$ —	$ 397	$ —	$ —
Powder Springs	$ —	$ —	$ —	$ 2,221
Saddlehorn	$ —	$ 183	$ —	$ —
Seabrook	$ —	$ —	$ 1,140	$ —

	June 30, 2019			
	Trade Accounts Receivable	Other Accounts Receivable	Other Accounts Payable	Long-Term Receivables
BridgeTex	$ —	$ 31	$ 530	$ —
Double Eagle	$ 569	$ —	$ —	$ —
MVP	$ —	$ 387	$ —	$ —
Powder Springs	$ 144	$ 5	$ —	$ 3,824
Saddlehorn	$ 184	$ 123	$ —	$ —
Seabrook	$ —	$ 252	$ 1,195	$ —

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

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

Investments at 12/31/2018	**$ 1,076,306**
Additional investment	112,251
Indemnification settlement	(5,000)
Earnings of non-controlled entities:	
Proportionate share of earnings	72,968
Amortization of excess investment and capitalized interest	(928)
Earnings of non-controlled entities	72,040
Less:	
Distributions from operations of non-controlled entities	83,069
Distributions from returns of investments in non-controlled entities	7,500
Investments at 6/30/2019	**$ 1,165,028**

5. Inventory

Inventory at December 31, 2018 and June 30, 2019 was as follows (in thousands):

	December 31, 2018	June 30, 2019
Refined products	$ 92,751	$ 72,219
Liquefied petroleum gases	46,612	46,294
Transmix	28,497	32,891
Crude oil	11,220	15,051
Additives	6,655	6,452
Total inventory	$ 185,735	$ 172,907

6. Employee Benefit Plans

We sponsor a defined contribution plan in which we match our employees' qualifying contributions, resulting in additional expense to us. Expenses related to the defined contribution plan were $2.3 million and $2.4 million for the three months ended June 30, 2018 and 2019, respectively, and $6.1 million and $6.5 million for the six months ended June 30, 2018 and 2019, respectively.

Additionally, we sponsor two union pension plans that cover certain union employees, a pension plan for all non-union employees and a postretirement benefit plan for certain employees. Net periodic benefit expense for the three and six months ended June 30, 2018 and 2019 was as follows (in thousands):

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2019	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Components of net periodic benefit costs:				
Service cost	$ 6,269	$ 51	$ 6,358	$ 43
Interest cost	2,795	102	3,110	135
Expected return on plan assets	(3,024)	—	(2,317)	—
Amortization of prior service credit	(46)	—	(45)	—
Amortization of actuarial loss	1,569	134	1,508	117
Settlement cost	—	—	2,060	—
Net periodic benefit cost	$ 7,563	$ 287	$ 10,674	$ 295

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2019	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Components of net periodic benefit costs:				
Service cost	$ 21,969	$ 116	$ 12,885	$ 97
Interest cost	9,238	208	6,110	254
Expected return on plan assets	(6,002)	—	(4,691)	—
Amortization of prior service credit	(91)	—	(90)	—
Amortization of actuarial loss	6,523	294	2,785	188
Settlement cost	—	—	2,060	—
Net periodic benefit cost	$ 31,637	$ 618	$ 19,059	$ 539

The service component of our net periodic benefit costs is presented in operating expense and G&A expense, and the non-service components are presented in other (income) expense in our consolidated statements of income.

The changes in accumulated other comprehensive loss ("AOCL") related to employee benefit plan assets and benefit obligations for the three and six months ended June 30, 2018 and 2019 were as follows (in thousands):

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2019	
Gains (Losses) Included in AOCL	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Beginning balance	$ (98,261)	$ (6,437)	$ (87,370)	$ (5,338)
Net actuarial gain (loss)	386	267	(10,029)	(884)
Amortization of prior service credit	(46)	—	(45)	—
Amortization of actuarial loss	1,569	134	1,508	117
Settlement cost	—	—	2,060	—
Ending balance	$ (96,352)	$ (6,036)	$ (93,876)	$ (6,105)

	Six Months Ended June 30, 2018		Six Months Ended June 30, 2019	
Gains (Losses) Included in AOCL	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Beginning balance	$ (97,226)	$ (6,597)	$ (88,602)	$ (5,409)
Net actuarial gain (loss)	(5,558)	267	(10,029)	(884)
Amortization of prior service credit	(91)	—	(90)	—
Amortization of actuarial loss	6,523	294	2,785	188
Settlement cost	—	—	2,060	—
Ending balance	$ (96,352)	$ (6,036)	$ (93,876)	$ (6,105)

Contributions estimated to be paid into the plans in 2019 are $31.6 million and $0.6 million for the pension plans and other postretirement benefit plan, respectively.

7. Leases

As of January 1, 2019, we adopted ASU 2016-02, *Leases (Topic 842)* using the modified retrospective method of adoption. We elected to use the transition option that allows us to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment, if any, to the opening balance of retained earnings in the year of adoption. Comparable periods continue to be presented under the guidance of the previous standard, ASC 840. ASC 842 requires lessees to recognize a lease liability and right-of-use asset on the balance sheet for operating leases. For lessors, the new accounting model remains largely the same, although some changes have been made to align it with the new lessee model and the new revenue recognition guidance, ASC 606, *Revenue from Contracts with Customers*. Our adoption of ASC 842 did not result in any material adjustments to retained earnings, changes in the timing or amounts of lease costs or changes to our leverage ratio as defined in our credit agreement.

We have both lessee and lessor arrangements. Our leases are evaluated at inception or at any subsequent modification. Depending on the terms, leases are classified as either operating or finance leases if we are the lessee, or as operating, sales-type or direct financing leases if we are the lessor, as appropriate under ASC 842. Our lessee arrangements primarily include a terminalling and storage contract where we have exclusive use of dedicated tankage, leased pipelines and office buildings. Our lessor arrangements include pipeline capacity and storage contracts and our condensate splitter tolling agreement that qualify as operating leases under ASC 842. In addition, we have a long-term throughput and deficiency agreement with a customer that is being accounted for as a sales-type lease under ASC 842.

In accordance with ASC 842, we have made an accounting policy election to not apply the new standard to lessee arrangements with a term of one year or less and no purchase option that is reasonably certain of exercise. We will continue to account for these short-term arrangements by recognizing payments and expenses as incurred, without recording a lease liability and right-of-use asset.

We have also made an accounting policy election for both our lessee and lessor arrangements to combine lease and non-lease components. This election is applied to all of our lease arrangements as our non-lease components are not material and do not result in significant timing differences in the recognition of rental expenses or income.

Operating Leases – Lessee

We recognize a lease liability for each lease based on the present value of remaining minimum fixed rental payments (which includes payments under any renewal option that we are reasonably certain to exercise), using a discount rate that approximates the rate of interest we would have to pay to borrow on a collateralized basis over a similar term. We also recognize a right-of-use asset for each lease, valued at the lease liability, adjusted for prepaid or accrued rent balances existing at the time of initial recognition. The lease liability and right-of-use asset are reduced over the term of the lease as payments are made and the assets are used.

Related Party Operating Lease. In 2018, we entered into a long-term terminalling and storage contract with our equity investee, Seabrook, for exclusive use of dedicated tankage that provides our customers with crude oil storage capacity and dock access for crude oil imports and exports on the Texas Gulf Coast. This arrangement meets the definition of an operating lease, and our lease liability includes renewal options necessary to maintain control of the assets for a time period sufficient to meet our performance obligations to our third party customers.

Minimum fixed rental payments are recognized on a straight-line basis over the life of the lease as costs and expenses on our consolidated statements of income. Variable and short-term rental payments are recognized as costs and expenses as they are incurred. Variable payments consist of amounts that exceed the contractual minimum rental payment (for example, payment increases tied to a change in a market index). Future minimum rental payments under operating leases with initial terms greater than one year as of June 30, 2019 are as follows (in thousands):

	Third Party Leases	Seabrook Lease	All Leases
2019	$ 12,961	$ 5,214	$ 18,175
2020	18,510	10,429	28,939
2021	18,875	8,973	27,848
2022	18,748	6,612	25,360
2023	18,225	6,612	24,837
Thereafter	33,676	37,473	71,149
Total future minimum rental payments	120,995	75,313	196,308
Present value discount	14,105	13,000	27,105
Total operating lease liability	$ 106,890	$ 62,313	$ 169,203

The following tables provide further information about our operating leases (dollars in thousands):

	Three Months Ended June 30, 2019			Six Months Ended June 30, 2019		
	Third Party Leases	Seabrook Lease	All Leases	Third Party Leases	Seabrook Lease	All Leases
Fixed lease cost	$ 4,762	$ 2,588	$ 7,350	$ 9,583	$ 5,343	$ 14,926
Short-term lease cost	353	—	353	810	—	810
Variable lease cost	661	—	661	1,032	—	1,032
Total lease cost	$ 5,776	$ 2,588	$ 8,364	$ 11,425	$ 5,343	$ 16,768

	As of and for the Six Months Ended June 30, 2019		
	Third Party Leases	Seabrook Lease	All Leases
Current lease liability	$ 14,480	$ 7,997	$ 22,477
Long-term lease liability	$ 92,411	$ 54,315	$ 146,726
Right-of-use asset	$ 105,143	$ 62,313	$ 167,456
Operating cash flows from operating leases	$ 6,663	5,363	$ 12,026
Weighted average remaining lease term (years)	7	9	8
Weighted-average discount rate	4.0%	4.2%	4.1%

Rent expense was $9.5 million and $18.5 million, respectively, for three and six months ended June 30, 2018 and was recognized in accordance with ASC 840.

Operating Leases – Lessor

We recognize fixed rental income on a straight-line basis over the life of the lease as revenue on our consolidated statements of income. Variable rental payments are recognized as revenue in the period in which the circumstances on which the variable lease payments are based occur.

Future minimum payments receivable under operating leases with terms greater than one year as of June 30, 2019 are estimated as follows (in thousands):

2019	$ 19,744
2020	33,584
2021	33,253
2022	23,544
2023	7,652
Thereafter	15,740
Total	$ 133,517

We recognized variable lease revenue of $14.2 million and $27.9 million, respectively, for the three and six months ended June 30, 2019, primarily related to our condensate splitter in Corpus Christi, Texas.

At June 30, 2019, property, plant and equipment utilized by our customers in operating lease arrangements consisted of: $226.5 million of processing equipment; $73.6 million of storage tanks; $53.5 million of pipeline and station equipment; and $26.7 million of other assets. The processing equipment primarily relates to our condensate splitter.

Sales-Type Lease - Lessor

We entered into a long-term throughput and deficiency agreement with a customer on a pipeline and related assets that we constructed in Texas and New Mexico, which contains minimum payment commitments. Our customer has the option to purchase this pipeline and related assets at the end of the lease term for a nominal amount. This agreement was previously accounted for as a direct-financing lease under ASC 840 and is now being accounted for as a sales-type lease under ASC 842. The net investment under this arrangement as of December 31, 2018 and June 30, 2019 was as follows (in thousands):

	December 31, 2018	June 30, 2019
Total minimum lease payments receivable	$ 17,468	$ 16,594
Less: Unearned income	3,422	3,112
Recorded net investment in sales-type lease	$ 14,046	$ 13,482

The net investment in sales-type leases was classified in the consolidated balance sheets as follows (in thousands):

	December 31, 2018	June 30, 2019
Other accounts receivable	$ 1,138	$ 1,164
Long-term receivables	12,908	12,318
Total	$ 14,046	$ 13,482

Future minimum payments receivable under this lease are $0.9 million in 2019, $1.7 million in 2020, $1.7 million in 2021, $1.7 million in 2022, $1.7 million in 2023 and $8.7 million thereafter.

8. Debt

Long-term debt at December 31, 2018 and June 30, 2019 was as follows (in thousands):

	December 31, 2018	June 30, 2019
Commercial paper	$ —	$ 197,000
6.55% Notes due 2019	550,000	—
4.25% Notes due 2021	550,000	550,000
3.20% Notes due 2025	250,000	250,000
5.00% Notes due 2026	650,000	650,000
6.40% Notes due 2037	250,000	250,000
4.20% Notes due 2042	250,000	250,000
5.15% Notes due 2043	550,000	550,000
4.20% Notes due 2045	250,000	250,000
4.25% Notes due 2046	500,000	500,000
4.20% Notes due 2047	500,000	500,000
4.85% Notes due 2049	—	500,000
Face value of long-term debt	4,300,000	4,447,000
Unamortized debt issuance costs(1)	(27,070)	(31,195)
Net unamortized debt discount(1)	(2,927)	(8,012)
Net unamortized amount of gains from historical fair value hedges(1)	866	—
Long-term debt, net, including current portion	4,270,869	4,407,793
Less: Current portion of long-term debt, net	59,489	—
Long-term debt, net	$ 4,211,380	$ 4,407,793

(1) Debt issuance costs, note discounts and premiums and realized gains and losses of historical fair value hedges are being amortized or accreted to the applicable notes over the respective lives of those notes.

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

2019 Debt Issuance

On January 18, 2019, we issued $500.0 million of 4.85% senior notes due 2049 in an underwritten public offering. The notes were issued at 99.371% of par. Net proceeds from this offering were approximately $491.5 million after underwriting discounts and offering expenses. The net proceeds from this offering along with cash on hand were used to early redeem our $550.0 million of 6.55% senior notes due 2019 on February 11, 2019. In connection with this offering, we recognized $8.3 million of debt prepayment costs that were recorded as interest expense in our consolidated statements of income.

Other Debt

Revolving Credit Facilities. At June 30, 2019, the total borrowing capacity under our revolving credit facility maturing in May 2024 was $1.0 billion. Any borrowings outstanding under this facility are classified as long-term debt on our consolidated balance sheets. Borrowings under this facility are unsecured and bear interest at LIBOR plus a spread ranging from 0.875% to 1.500% based on our credit ratings. Additionally, an unused commitment fee is assessed at a rate between 0.075% and 0.200% depending on our credit ratings. The unused commitment fee was 0.125% at June 30, 2019. Borrowings under this facility may be used for general partnership purposes, including capital expenditures. As of December 31, 2018 and June 30, 2019, there were no borrowings outstanding under this facility, with $6.8 million and $3.5 million, respectively, 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 this facility.

In second quarter 2019, we entered into a $500.0 million 364-day revolving credit facility, which matures in May 2020. Borrowings under this facility are unsecured and generally bear interest at LIBOR plus a spread ranging from 1.000% to 1.250% based on our credit ratings. Additionally, an unused commitment fee is assessed at a rate between 0.075% and 0.125%. The unused commitment fee was 0.100% at June 30, 2019. Borrowings under this facility may be used for general purposes, including capital expenditures. As of June 30, 2019, there were no borrowings outstanding under this facility.

Commercial Paper Program. We have a commercial paper program under which we may issue commercial paper notes in an amount up to the available capacity under our $1.0 billion revolving credit facility. The maturities of the commercial paper notes vary, but may not exceed 397 days from the date of issuance. Because the commercial paper we can issue is limited to amounts available under our revolving credit facility, amounts outstanding under the program are classified as long-term debt. 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 weighted-average interest rate for commercial paper borrowings based on the number of days outstanding was 2.3% for the year ended December 31, 2018 and 2.7% for the six months ended June 30, 2019.

9. Derivative Financial Instruments

Interest Rate Derivatives

We periodically enter into interest rate derivatives to hedge the fair value of debt or hedge against variability in interest rates. For interest rate cash flow hedges, we record the unrealized gains or losses as an adjustment to other comprehensive income. The realized gains and losses from our cash flow hedges are recognized into earnings as an adjustment to our periodic interest expenses over the life of the related debt issuance. For fair value hedges on long-term debt, we record the unrealized gains or losses as an adjustment to long-term debt, and realized amounts as an adjustment to our periodic interest expense. Adjustments resulting from discontinued hedges continue to be recognized in accordance with their historic hedging relationships.

At June 30, 2019, we had $100.0 million of treasury lock agreements outstanding to protect against the risk of variability of a portion of debt issuances we anticipate to occur in 2019. The fair value of these interest rate derivative agreements at June 30, 2019 was recorded as a current liability of $11.1 million, with the offset recorded to other comprehensive income. We account for these agreements as cash flow hedges.

In first quarter 2019, upon issuance of $500.0 million of 4.85% notes due 2049, we terminated and settled $150.0 million of treasury lock agreements that we had previously entered into to protect against the variability of interest payments on this anticipated debt issuance for a loss of $8.0 million, which was included in our statements of cash flows as a net payment on financial derivatives. These agreements were accounted for as cash flow hedges. The loss was recorded to other comprehensive income and will be recognized into earnings as an adjustment to our periodic interest expense over the life of the debt issuance.

Commodity Derivatives

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

Forward physical purchase and sale contracts that qualify for and are elected as normal purchases and sales are accounted for using traditional accrual accounting, whereby changes in the mark-to-market values of such contracts are not recognized in income; rather the revenues and expenses associated with such transactions are recognized during the period when commodities are physically delivered or received. Forward physical commodity contracts subject to this exception are evaluated for the probability of future delivery and are periodically tested once the forecasted period has passed to determine whether similar forward contracts are probable of physical delivery in the future.

We record the effective portion of the gains or losses for commodity-based contracts designated 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. We recognize the change in fair value of economic hedges that hedge against changes in the price of petroleum products that we expect to sell or purchase in the future currently in earnings as adjustments to product sales revenue, cost of product sales or operating expenses, as applicable.

Our open futures contracts at June 30, 2019 were as follows:

Type of Contract/Accounting Methodology	Product Represented by the Contract and Associated Barrels	Maturity Dates
Futures - Economic Hedges	4.3 million barrels of refined products and crude oil	Between July 2019 and April 2020
Futures - Economic Hedges	1.3 million barrels of butane and natural gasoline	Between July 2019 and April 2020

Energy Commodity Derivatives Contracts and Deposits Offsets

At June 30, 2019, we had made margin deposits of $27.5 million for our future contracts with our counterparties, which were recorded as current assets under energy commodity derivatives deposits on our consolidated balance sheets. At December 31, 2018 we held margin deposits of $37.3 million for our future contracts with our counterparties, which were recorded as current liabilities under energy commodity derivatives deposits on our consolidated balance sheets. We have the right to offset the combined fair values of our open futures 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 futures contracts separately from the related margin deposits on our consolidated balance sheets. Additionally, we have the right to offset the fair values of our futures contracts 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, 2018 and June 30, 2019 (in thousands):

Description	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts of Assets (Liabilities) Offset in the Consolidated Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Consolidated Balance Sheets	Margin Deposit Amounts Not Offset in the Consolidated Balance Sheets	Net Asset Amount(1)
As of 12/31/2018	$ 62,166	$ (7,155)	$ 55,011	$ (37,328)	$ 17,683
As of 6/30/2019	$ (11,655)	$ 2,558	$ (9,097)	$ 27,533	$ 18,436

(1) Amount represents the maximum loss we would incur if all of our counterparties failed to perform on their derivative contracts.

Basis Derivative Agreement

During 2019, we entered into a basis derivative agreement with a joint venture co-owner's affiliate, and, contemporaneously, that affiliate entered into an intrastate transportation services agreement with the joint venture. Settlements under the basis derivative agreement are determined based on the basis differential of crude oil prices at different market locations and a notional volume of 30,000 barrels per day. As a result, we account for this agreement as a derivative. The agreement will expire in early 2022. We recognize the changes in fair value of this agreement based on forward price curves for crude oil in West Texas and the Houston Gulf Coast currently in other operating income (expense) in our consolidated statements of income. The liability for this agreement at June 30, 2019 was $12.6 million.

Impact of Derivatives on Our Financial Statements

Comprehensive Income

The changes in derivative activity included in AOCL for the three and six months ended June 30, 2018 and 2019 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
Derivative Losses Included in AOCL	**2018**	**2019**	**2018**	**2019**
Beginning balance	$ (27,601)	$ (30,229)	$ (33,755)	$ (26,480)
Net gain (loss) on cash flow hedges	1,697	(6,659)	7,111	(11,035)
Reclassification of net loss on cash flow hedges to income	739	601	1,479	1,228
Ending balance	$ (25,165)	$ (36,287)	$ (25,165)	$ (36,287)

The following is a summary of the effect on our consolidated statements of income for the three and six months ended June 30, 2018 and 2019 of derivatives that were designated as cash flow hedges (in thousands):

	Interest Rate Contracts		
	Amount of Gain (Loss) Recognized in AOCL on Derivatives	Location of Loss Reclassified from AOCL into Income	Amount of Loss Reclassified from AOCL into Income
Three Months Ended June 30, 2018	$ 1,697	Interest expense	$ (739)
Three Months Ended June 30, 2019	$ (6,659)	Interest expense	$ (601)
Six Months Ended June 30, 2018	$ 7,111	Interest expense	$ (1,479)
Six Months Ended June 30, 2019	$ (11,035)	Interest expense	$ (1,228)

As of June 30, 2019, the net loss estimated to be classified to interest expense over the next twelve months from AOCL is approximately $2.4 million. This amount relates to the amortization of losses on interest rate contracts over the life of the related debt instruments.

The following table provides a summary of the effect on our consolidated statements of income for the three and six months ended June 30, 2018 and 2019 of derivatives that were not designated as hedging instruments (in thousands):

		Amount of Gain (Loss) Recognized on Derivatives			
		Three Months Ended June 30,		Six Months Ended June 30,	
Derivative Instrument	Location of Gain (Loss) Recognized on Derivatives	2018	2019	2018	2019
Futures contracts	Product sales revenue	$ (38,411)	$ (4,619)	$ (45,786)	$ (59,130)
Futures contracts	Cost of product sales	8,337	(6,148)	4,393	(3,875)
Basis derivative agreement	Other operating income (expense)	—	(6,487)	—	(4,959)
	Total	$ (30,074)	$ (17,254)	$ (41,393)	$ (67,964)

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

Balance Sheets

The following tables provide a summary of the fair value of derivatives, which are presented on a net basis in our consolidated balance sheets, that were designated as hedging instruments as of December 31, 2018 and June 30, 2019 (in thousands):

	December 31, 2018			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Futures contracts	Energy commodity derivatives contracts, net	$ 462	Energy commodity derivatives contracts, net	$ —
Interest rate contracts	Other current assets	312	Other current liabilities	8,438
	Total	$ 774	Total	$ 8,438

	June 30, 2019			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts	Other current assets	$ —	Other current liabilities	$ 11,133

The following tables provide a summary of the fair value of derivatives, which are presented on a net basis in our consolidated balance sheets, that were not designated as hedging instruments as of December 31, 2018 and June 30, 2019 (in thousands):

	December 31, 2018			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Futures contracts	Energy commodity derivatives contracts, net	$ 61,704	Energy commodity derivatives contracts, net	$ 7,155

	June 30, 2019			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Futures contracts	Energy commodity derivatives contracts, net	$ 2,558	Energy commodity derivatives contracts, net	$ 11,655
Basis derivative agreement	Other current assets	—	Other current liabilities	4,979
Basis derivative agreement	Other noncurrent assets	—	Other noncurrent liabilities	7,620
	Total	$ 2,558	Total	$ 24,254

10. Commitments and Contingencies

Butane Blending Patent Infringement Proceeding

On October 4, 2017, Sunoco Partners Marketing & Terminals L.P. (“Sunoco”) brought an action for patent infringement in the U.S. District Court for the District of Delaware alleging Magellan Midstream Partners, L.P. (“Magellan”) and Powder Springs Logistics, LLC (“Powder Springs”) have infringed patents relating to butane blending at the Powder Springs facility located in Powder Springs, Georgia. Sunoco has since submitted pleadings alleging that Magellan has also infringed various patents relating to butane blending at nine Magellan facilities, in addition to Powder Springs. Sunoco is seeking an undetermined amount of damages, attorneys' fees and a permanent injunction enjoining Magellan and Powder Springs from infringing on the subject patents. We deny and are vigorously defending against all claims asserted by Sunoco. Although it is not possible to predict the ultimate outcome, we believe, based on our current understanding of the applicable facts and law, that the ultimate resolution of this matter will not have a material adverse impact on our results of operations, financial position or cash flows.

Environmental Liabilities

Liabilities recognized for estimated environmental costs were $20.5 million and $17.1 million at December 31, 2018 and June 30, 2019, respectively. We have classified environmental liabilities as current or noncurrent based on management's estimates regarding the timing of actual payments. Environmental expenses recognized as a result of changes in our environmental liabilities are generally included in operating expenses on our consolidated statements of income. Environmental expenses were $2.8 million and $1.4 million for the three months ended June 30, 2018 and 2019, respectively, and $5.3 million and $3.4 million for the six months ended June 30, 2018 and 2019, respectively.

Environmental Receivables

Receivables from insurance carriers and other third parties related to environmental matters were $4.1 million at December 31, 2018, of which $2.4 million and $1.7 million were recorded to other accounts receivable and long-term receivables, respectively, on our consolidated balance sheets. Receivables from insurance carriers and other third parties related to environmental matters were $2.8 million at June 30, 2019, of which $1.0 million and $1.8 million were recorded to other accounts receivable and long-term receivables, respectively, on our consolidated balance sheets.

Other

We have entered into an agreement to guarantee our 50% pro rata share, up to $25.0 million, of obligations under Powder Springs' credit facility. As of June 30, 2019, our consolidated balance sheets reflected a $0.4 million other current liability and a corresponding increase in our investment in non-controlled entities on our consolidated balance sheets to reflect the fair value of this guarantee.

We and the non-controlled entities in which we own an interest are a party to various other claims, legal actions and complaints. 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.

11. Long-Term Incentive Plan

The compensation committee of our general partner's board of directors administers our long-term incentive plan ("LTIP") covering certain of our employees and the independent directors of our general partner. The LTIP primarily consists of phantom units and permits the grant of awards covering an aggregate payout of 11.9 million of our limited partner units. The estimated units remaining available under the LTIP at June 30, 2019 total 1.6 million.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2019	2018	2019
Performance-based awards	$ 9,165	$ 9,317	$ 15,089	$ 12,961
Time-based awards	882	1,573	1,590	2,843
Total	$ 10,047	$ 10,890	$ 16,679	$ 15,804
Allocation of LTIP expense on our consolidated statements of income:				
G&A expense	$ 9,968	$ 10,802	$ 16,545	$ 15,673
Operating expense	79	88	134	131
Total	$ 10,047	$ 10,890	$ 16,679	$ 15,804

On February 1, 2019, 347,473 unit awards were granted pursuant to our LTIP. These awards included both performance-based and time-based awards and have a three-year vesting period that will end on December 31, 2021.

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 basic net income per unit is due to the impact of: (i) the unit awards issued to non-employee directors 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 unit awards associated with our LTIP that have not yet vested.

12. Partners' Capital and Distributions

Partners' Capital

In May 2017, we filed a prospectus supplement to the shelf registration statement for our continuous equity offering program (which we refer to as an at-the-market program, or "ATM") pursuant to which we may issue up to $750.0 million of common units in amounts, at prices and on terms to be determined by market conditions at the time. The net proceeds from any sales under the ATM, after deducting the sales agents' commissions and our offering expenses, will be used for general partnership purposes, including repayment of indebtedness or capital expenditures. No units have been issued pursuant to this program.

The following table details the changes in the number of our limited partner units outstanding from December 31, 2018 through June 30, 2019:

Limited partner units outstanding on December 31, 2018	228,195,160
February 2019–Settlement of employee LTIP awards	199,792
During 2019–Other[(a)]	8,476
Limited partner units outstanding on June 30, 2019	228,403,428

(a) Limited partner units issued to settle the equity-based retainers paid to four independent directors of our general partner.

Distributions

Distributions we paid during 2018 and 2019 were as follows (in thousands, except per unit amounts):

Payment Date	Per Unit Cash Distribution Amount	Total Cash Distribution to Limited Partners
02/14/2018	$ 0.9200	$ 209,940
05/15/2018	0.9375	213,933
Through 06/30/2018	1.8575	423,873
08/14/2018	0.9575	218,497
11/14/2018	0.9775	223,061
Total	$ 3.7925	$ 865,431
02/14/2019	$ 0.9975	$ 227,832
05/15/2019	1.0050	229,545
Through 06/30/2019	2.0025	457,377
08/14/2019[(a)]	1.0125	231,258
Total	$ 3.0150	$ 688,635

(a) Our general partner's board of directors declared this cash distribution in July 2019 to be paid on August 14, 2019 to unitholders of record at the close of business on August 7, 2019.

13. Fair Value

Fair Value Methods and Assumptions - Financial Assets and Liabilities.

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

- *Energy commodity derivatives contracts*. These include exchange-traded futures contracts 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 9 – *Derivative Financial Instruments* for further disclosures regarding these contracts.

- *Interest rate contracts.* These include forward-starting interest rate hedge agreements to protect 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 participant in the market in which the financial instrument is traded. The exchange value was calculated using present value techniques on estimated future cash flows based on forward interest rate curves. See Note 9 – *Derivative Financial Instruments* for further disclosures regarding these contracts.

- *Basis Derivative Agreement.* During 2019, we entered into a basis derivative agreement with a joint venture co-owner's affiliate, and, contemporaneously, that affiliate entered into an intrastate transportation services agreement with the joint venture. Settlements under the basis derivative agreement are determined based on the basis differential of crude oil prices at different market locations and a notional volume of 30,000 barrels per day (see Note 9 - *Derivative Financial Instruments* for further disclosures regarding this agreement). The fair value of this derivative was calculated based on observable market data inputs, including published commodity pricing data and market interest rates. The key inputs in the fair value calculation include the forward price curves for crude oil, the implied forward correlation in crude oil prices between West Texas and the Houston Gulf Coast, and the implied forward volatility for crude oil futures contracts.

- *Long-term receivables.* These primarily include payments receivable under a sales-type leasing arrangement and cost reimbursement payments receivable. These receivables were recorded at fair value on our consolidated balance sheets, using then-current market rates to estimate the present value of future cash flows.

- *Guarantees.* At December 31, 2018, these guarantees primarily included an indemnification agreement we entered into with an affiliate of OMERS, the defined benefit pension plan for municipal employees in Ontario, Canada, in connection with the partial sale of our interest in BridgeTex. This indemnification was recorded at fair value on our consolidated balance sheets upon initial recognition, using probability-weighted potential outcome scenarios to estimate our possible liability for specific events covered by this indemnification. In first quarter 2019, certain litigation subject to the indemnification agreement was settled, which resulted in our paying $5.0 million under the indemnification agreement and recognizing the reduction of the remaining $11.0 million liability as an additional gain on disposition of assets on our consolidated statements of income.

- *Debt.* The fair value of our publicly traded notes was based on the prices of those notes at December 31, 2018 and June 30, 2019; 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 fair value measurements recorded or disclosed as of December 31, 2018 and June 30, 2019 based on the three levels established by ASC 820, *Fair Value Measurements and Disclosures* (in thousands):

	December 31, 2018				
			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	$ 55,011	$ 55,011	$ 55,011	$ —	$ —
Interest rate contracts	$ (8,126)	$ (8,126)	$ —	$ (8,126)	$ —
Long-term receivables	$ 20,844	$ 20,844	$ —	$ —	$ 20,844
Guarantees	$ (16,409)	$ (16,409)	$ —	$ —	$ (16,409)
Debt	$ (4,270,869)	$ (4,224,373)	$ —	$ (4,224,373)	$ —

	June 30, 2019				
			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	$ (9,097)	$ (9,097)	$ (9,097)	$ —	$ —
Interest rate contracts	$ (11,133)	$ (11,133)	$ —	$ (11,133)	$ —
Basis derivative agreement	$ (12,599)	$ (12,599)	$ —	$ (12,599)	$ —
Long-term receivables	$ 21,304	$ 21,304	$ —	$ —	$ 21,304
Guarantees	$ (408)	$ (408)	$ —	$ —	$ (408)
Debt	$ (4,407,793)	$ (4,740,628)	$ —	$ (4,740,628)	$ —

14. Related Party Transactions

Stacy Methvin is an independent member of our general partner's board of directors and is also a director of one of our customers. We received tariff and other ancillary revenue from this customer of $4.6 million and $7.0 million for the three months ended June 30, 2018 and 2019, respectively, and $8.4 million and $14.3 million for the six months ended June 30, 2018 and 2019, respectively. We recorded receivables of $1.9 million and $2.0 million from this customer at December 31, 2018 and June 30, 2019, respectively. The tariff revenue we recognized from this customer was in the normal course of business, with rates determined in accordance with published tariffs. We also made a one-time payment of $0.2 million in second quarter 2019 to a subsidiary of this customer for an easement related to one of our expansion projects.

See Note 4 – *Investments in Non-Controlled Entities* for details of transactions with our joint ventures.

15. Subsequent Events

Recognizable events

No recognizable events occurred subsequent to June 30, 2019.

Non-recognizable events

Cash Distribution. In July 2019, our general partner's board of directors declared a quarterly cash distribution of $1.0125 per unit for the period of April 1, 2019 through June 30, 2019. This quarterly cash distribution will be paid on August 14, 2019 to unitholders of record on August 7, 2019. The total cash distributions expected to be paid under this declaration are approximately $231.3 million.

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 June 30, 2019, our asset portfolio consisted of:

- our refined products segment, comprised of our approximately 9,700-mile refined products pipeline system with 53 terminals as well as 25 independent terminals not connected to our pipeline system and our 1,100-mile ammonia pipeline system;

- our crude oil segment, comprised of approximately 2,200 miles of crude oil pipelines, a condensate splitter and 33 million barrels of aggregate storage capacity, of which 21 million barrels are used for contract storage. Approximately 1,000 miles of these pipelines, the condensate splitter and 28 million barrels of this storage capacity (including 19 million barrels used for contract storage) are wholly-owned, with the remainder owned through joint ventures; and

- our marine storage segment, consisting of six marine terminals located along coastal waterways with an aggregate storage capacity of approximately 27 million barrels. Five of these terminals and approximately 25 million barrels of this storage capacity are wholly-owned, with the remainder owned through joint ventures.

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, 2018.

Recent Developments

Cash Distribution. In July 2019, our general partner’s board of directors declared a quarterly cash distribution of $1.0125 per unit for the period of April 1, 2019 through June 30, 2019. This quarterly cash distribution will be paid on August 14, 2019 to unitholders of record on August 7, 2019. The total cash distributions expected to be paid under this declaration are approximately $231.3 million.

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, amortization and impairment 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 but 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 revenue. However, 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.

Three Months Ended June 30, 2018 compared to Three Months Ended June 30, 2019

	Three Months Ended June 30,		Variance Favorable (Unfavorable)	
	2018	2019	$ Change	% Change
Financial Highlights ($ in millions, except operating statistics)				
Transportation and terminals revenue:				
Refined products	$ 291.1	$ 306.2	$ 15.1	5
Crude oil	137.9	155.6	17.7	13
Marine storage	44.1	46.0	1.9	4
Intersegment eliminations	(0.8)	(1.4)	(0.6)	(75)
Total transportation and terminals revenue	472.3	506.4	34.1	7
Affiliate management fee revenue	5.0	5.4	0.4	8
Operating expenses:				
Refined products	113.3	115.8	(2.5)	(2)
Crude oil	31.2	37.2	(6.0)	(19)
Marine storage	17.7	18.6	(0.9)	(5)
Intersegment eliminations	(2.3)	(2.6)	0.3	13
Total operating expenses	159.9	169.0	(9.1)	(6)
Product margin:				
Product sales revenue	166.8	190.0	23.2	14
Cost of product sales	153.6	152.9	0.7	—
Product margin	13.2	37.1	23.9	181
Other operating income (expense)	—	(5.0)	(5.0)	n/a
Earnings of non-controlled entities	42.5	40.8	(1.7)	(4)
Operating margin	373.1	415.7	42.6	11
Depreciation, amortization and impairment expense	53.6	62.6	(9.0)	(17)
G&A expense	53.3	52.4	0.9	2
Operating profit	266.2	300.7	34.5	13
Interest expense (net of interest income and interest capitalized)	50.8	45.9	4.9	10
Gain on disposition of assets	—	(4.6)	4.6	n/a
Other (income) expense	(0.2)	4.5	(4.7)	n/a
Income before provision for income taxes	215.6	254.9	39.3	18
Provision for income taxes	1.2	1.2	—	—
Net income	$ 214.4	$ 253.7	$ 39.3	18
Operating Statistics:				
Refined products:				
Transportation revenue per barrel shipped	$ 1.503	$ 1.606		
Volume shipped (million barrels):				
Gasoline	78.0	70.8		
Distillates	44.1	47.2		
Aviation fuel	6.9	9.9		
Liquefied petroleum gases	4.9	4.5		
Total volume shipped	133.9	132.4		
Crude oil:				
Magellan 100%-owned assets:				
Transportation revenue per barrel shipped	$ 1.492	$ 0.977		
Volume shipped (million barrels)	49.9	80.5		
Crude oil terminal average utilization (million barrels per month)	16.6	20.5		
Select joint venture pipelines:				
BridgeTex - volume shipped (million barrels)(1)	35.2	38.8		
Saddlehorn - volume shipped (million barrels)(2)	6.0	13.4		
Marine storage:				
Marine terminal average utilization (million barrels per month)	22.6	23.8		

(1) These volumes reflect the total shipments for the BridgeTex pipeline, which was owned 50% by us through September 28, 2018 and 30% thereafter.
(2) These volumes reflect the total shipments for the Saddlehorn pipeline, which is owned 40% by us.

Transportation and terminals revenue increased $34.1 million resulting from:

- an increase in refined products revenue of $15.1 million primarily due to a higher average transportation rate per barrel. The average rate per barrel in the current period was favorably impacted by the 2018 mid-year tariff adjustment as well as longer haul shipments on the Mid-Continent system, which move at a higher rate. Less short-haul movements on the South Texas pipelines resulted in approximately 1% lower shipments with these supply-driven barrels causing the fluctuations in product mix transported as well;
- an increase in crude oil revenue of $17.7 million primarily due to higher revenues from system storage and dock services that we provided to our customers in conjunction with capacity that we lease from the Seabrook Logistics, LLC ("Seabrook") export facility, as well as higher transportation volumes on our Houston distribution system primarily due to the increased activity at Seabrook. Overall, the average crude oil rate per barrel decreased between periods due to significantly higher volumes on our Houston distribution system, which move at a lower rate, and lower average rates on new long-term contracts on our Longhorn pipeline; and
- an increase in marine storage revenue of $1.9 million primarily due to higher storage availability related to timing of maintenance work.

Operating expenses increased by $9.1 million primarily resulting from:

- an increase in refined products expenses of $2.5 million primarily due to higher spending for asset integrity in the 2019 period and less favorable product overages (which reduce operating expenses);
- an increase in crude oil expenses of $6.0 million primarily due to fees we paid to Seabrook for leased storage and dock services and higher maintenance costs on our condensate splitter; and
- an increase in marine storage expenses of $0.9 million primarily due to higher property taxes.

Product margin increased $23.9 million primarily due to higher sales prices and lower costs on butane blending physical sales.

Other operating expense of $5.0 million primarily relates to unrealized fair value adjustments associated with a basis derivative agreement (see Note 9 – Derivative Financial Instruments for more information regarding this derivative agreement), net of realized amounts received under this agreement.

Earnings of non-controlled entities decreased $1.7 million primarily due to lower earnings from BridgeTex Pipeline Company, LLC ("BridgeTex") following the sale of a portion of our investment and lower earnings from Powder Springs Logistics, LLC ("Powder Springs") primarily attributable to losses on futures contracts in 2019, partially offset by higher earnings from Seabrook due to the initiation of export capabilities in August 2018 as well as higher earnings from Saddlehorn Pipeline Company, LLC ("Saddlehorn") due to increased volume from a contractual step-up in committed shipments in September 2018, as well as recently implemented incentive tariff arrangements.

Depreciation, amortization and impairment expense increased $9.0 million primarily due to the commencement of depreciation on projects recently placed into service and an increase in asset impairments.

G&A expense decreased $0.9 million primarily due to timing of prospecting costs associated with potential expansion projects.

Interest expense, net of interest income and interest capitalized, decreased $4.9 million due to lower outstanding borrowings in second quarter 2019 and a lower weighted-average interest rate. Our average outstanding debt decreased from $4.7 billion in second quarter 2018 to $4.4 billion in second quarter 2019, and our weighted-average interest rate decreased from 4.8% in second quarter 2018 to 4.6% in second quarter 2019.

Gain on disposition of assets was $4.6 million in second quarter 2019 primarily resulting from the sale of an inactive terminal along our refined products pipeline system.

Other (income) expense was $4.7 million unfavorable primarily due to higher pension settlement costs in the current quarter.

Six Months Ended June 30, 2018 compared to Six Months Ended June 30, 2019

	Six Months Ended June 30,		Variance Favorable (Unfavorable)	
	2018	**2019**	**$ Change**	**% Change**
Financial Highlights ($ in millions, except operating statistics)				
Transportation and terminals revenue:				
Refined products	$ 551.5	$ 573.2	$ 21.7	4
Crude oil	264.2	303.2	39.0	15
Marine storage	90.3	93.1	2.8	3
Intersegment eliminations	(1.8)	(2.3)	(0.5)	(28)
Total transportation and terminals revenue	904.2	967.2	63.0	7
Affiliate management fee revenue	10.3	10.5	0.2	2
Operating expenses:				
Refined products	207.4	205.5	1.9	1
Crude oil	64.8	81.0	(16.2)	(25)
Marine storage	35.7	33.5	2.2	6
Intersegment eliminations	(4.7)	(5.0)	0.3	6
Total operating expenses	303.2	315.0	(11.8)	(4)
Product margin:				
Product sales revenue	408.4	353.0	(55.4)	(14)
Cost of product sales	353.2	322.0	31.2	9
Product margin	55.2	31.0	(24.2)	(44)
Other operating income (expense)	—	1.9	1.9	n/a
Earnings of non-controlled entities	77.0	72.1	(4.9)	(6)
Operating margin	743.5	767.7	24.2	3
Depreciation, amortization and impairment expense	105.5	124.4	(18.9)	(18)
G&A expense	99.8	98.4	1.4	1
Operating profit	538.2	544.9	6.7	1
Interest expense (net of interest income and interest capitalized)	102.2	101.0	1.2	1
Gain on disposition of assets	—	(26.4)	26.4	n/a
Other expense	8.6	6.6	2.0	23
Income before provision for income taxes	427.4	463.7	36.3	8
Provision for income taxes	2.1	2.3	(0.2)	(10)
Net income	$ 425.3	$ 461.4	$ 36.1	8
Operating Statistics:				
Refined products:				
Transportation revenue per barrel shipped	$ 1.485	$ 1.590		
Volume shipped (million barrels):				
Gasoline	145.6	132.9		
Distillates	87.1	91.8		
Aviation fuel	13.2	18.7		
Liquefied petroleum gases	6.0	5.1		
Total volume shipped	251.9	248.5		
Crude oil:				
Magellan 100%-owned assets:				
Transportation revenue per barrel shipped	$ 1.360	$ 0.961		
Volume shipped (million barrels)	105.6	159.9		
Crude oil terminal average utilization (million barrels per month)	16.1	20.2		
Select joint venture pipelines:				
BridgeTex - volume shipped (million barrels)(1)	63.5	76.5		
Saddlehorn - volume shipped (million barrels)(2)	11.8	22.4		
Marine storage:				
Marine terminal average utilization (million barrels per month)	22.6	23.8		

(1) These volumes reflect the total shipments for the BridgeTex pipeline, which was owned 50% by us through September 28, 2018 and 30% thereafter.
(2) These volumes reflect the total shipments for the Saddlehorn pipeline, which is owned 40% by us.

Transportation and terminals revenue increased $63.0 million resulting from:

- an increase in refined products revenue of $21.7 million primarily due to a higher average transportation rate per barrel. The average rate per barrel in the current period was favorably impacted by the 2018 mid-year tariff adjustment as well as longer haul shipments on the Mid-Continent system, which move at a higher rate. Less short-haul movements on the South Texas pipelines resulted in overall lower shipments with these supply-driven barrels causing the fluctuations in product mix transported as well;
- an increase in crude oil revenue of $39.0 million primarily due to higher revenues from system storage and dock services that we provided to our customers in conjunction with capacity that we lease from the Seabrook export facility, as well as higher transportation volumes as a result of the favorable pricing differential between the Permian Basin and Houston and incremental shipments to Seabrook. Overall, the average crude oil rate per barrel decreased between periods due to significantly higher volumes on our Houston distribution system, which move at a lower rate; and
- an increase in marine storage revenue of $2.8 million primarily due to higher storage availability related to timing of maintenance work.

Operating expenses increased by $11.8 million primarily resulting from:

- a decrease in refined products expenses of $1.9 million primarily due to a pension valuation correction that negatively impacted 2018 results and lower environmental accruals in the current period, partially offset by less favorable product overages in 2019 (which reduce operating expenses);
- an increase in crude oil expenses of $16.2 million primarily due to fees we paid to Seabrook for leased storage and dock services and higher maintenance costs on our condensate splitter; and
- a decrease in marine storage expenses of $2.2 million primarily due to lower spending for asset integrity related to timing of maintenance work, partially offset by higher property taxes.

Product margin decreased $24.2 million primarily due to recognition of losses on futures contracts in 2019 compared to gains in 2018, partially offset by increased butane blending margins on physical sales.

Other operating income (expense) of $1.9 million relates to insurance proceeds received in first quarter 2019 related to Hurricane Harvey, partially offset by unrealized fair value adjustments associated with a basis derivative agreement (see Note 9 – Derivative Financial Instruments for more information regarding this derivative agreement), net of realized amounts received under this agreement.

Earnings of non-controlled entities decreased $4.9 million primarily due to lower earnings from BridgeTex following the sale of a portion of our investment and lower earnings from Powder Springs primarily attributable to recognition of losses on futures contracts, partially offset by higher earnings from Seabrook due to the initiation of export capabilities in August 2018 as well as higher earnings from Saddlehorn due to increased volume from a contractual step-up in committed shipments in September 2018, as well as recently implemented incentive tariff arrangements.

Depreciation, amortization and impairment expense increased $18.9 million primarily due to the commencement of depreciation on projects recently placed into service and an increase in asset impairments.

G&A expense was $1.4 million favorable as 2018 included expense related to a pension valuation correction.

Interest expense, net of interest income and interest capitalized, decreased $1.2 million primarily due to lower outstanding debt and a lower weighted average interest rate, partially offset by $8.3 million of debt prepayment costs in first quarter 2019 related to the early extinguishment of our 6.55% notes that were due July 2019. Our average outstanding debt decreased from $4.6 billion in 2018 to $4.4 billion in 2019, and our weighted-average interest rate decreased from 4.8% in 2018 to 4.7% in 2019.

Gain on disposition of assets was $26.4 million in 2019. We recognized an $11.0 million deferred gain on the sale of our investment in BridgeTex, $10.2 million related to our discontinued Delaware Basin pipeline construction project that was recently sold to a third party and $5.3 million resulting from the sale of an inactive terminal along our refined products pipeline system.

Other expense was $2.0 million favorable as 2018 included the impact of a pension valuation correction.

Distributable Cash Flow

We calculate the non-GAAP measures of distributable cash flow ("DCF") and adjusted EBITDA in the table below. Management uses DCF as a basis for recommending to our general partner's board of directors the amount of cash distributions to be paid to our limited partners each period. Management also uses DCF as a basis for determining the payouts for the performance-based awards issued under our equity-based compensation plan. Adjusted EBITDA is an important measure that we and the investment community use to assess the financial results of an entity. We believe that investors benefit from having access to the same financial measures utilized by management for these evaluations. A reconciliation of DCF and adjusted EBITDA for the six months ended June 30, 2018 and 2019 to net income, which is its nearest comparable GAAP financial measure, follows (in millions):

	Six Months Ended June 30,		Increase (Decrease)
	2018	2019	
Net income	$ 425.3	$ 461.4	$ 36.1
Interest expense, net	102.2	101.0	(1.2)
Depreciation, amortization and impairment(1)	110.1	118.9	8.8
Equity-based incentive compensation(2)	7.4	6.0	(1.4)
Gain on disposition of assets(3)	—	(16.3)	(16.3)
Commodity-related adjustments:			
Derivative (gains) losses recognized in the period associated with future transactions(4)	35.8	20.8	(15.0)
Derivative gains (losses) recognized in previous periods associated with transactions completed in the period(4)	(38.8)	71.2	110.0
Inventory valuation adjustments(5)	(0.3)	(9.4)	(9.1)
Total commodity-related adjustments	(3.3)	82.6	85.9
Distributions from operations of non-controlled entities in excess of earnings	17.6	11.1	(6.5)
Other(6)	3.7	—	(3.7)
Adjusted EBITDA	663.0	764.7	101.7
Interest expense, net, excluding debt issuance cost amortization(7)	(100.5)	(91.1)	9.4
Maintenance capital(8)	(36.9)	(40.8)	(3.9)
DCF	$ 525.6	$ 632.8	$ 107.2

(1) Prior year amounts have been reclassified to conform with the current year's presentation. Depreciation, amortization and impairment expense is excluded from DCF to the extent it represents a non-cash expense.

(2) Because we intend to satisfy vesting of unit awards under our equity-based long-term incentive compensation plan with the issuance of limited partner units, expenses related to this plan generally are deemed non-cash and added back for DCF purposes. The amounts above have been reduced by $9.3 million and $9.8 million, respectively, for cash payments associated with the plan, which are primarily related to tax withholdings.

(3) Gains on disposition of assets are excluded from DCF to the extent they are not related to our ongoing operations. The 2019 period includes a $10.2 million gain on the sale of residual assets related to the development of expansion projects which are considered ongoing in nature, and as such are included in DCF.

(4) Certain derivatives have not been designated as hedges for accounting purposes and the mark-to-market changes of these derivatives are recognized currently in net income. We exclude the net impact of these derivatives from our determination of DCF until the transactions are settled and, where applicable, the related products are sold. In the period in which these transactions are settled and any related products are sold, the net impact of the derivatives is included in DCF.

(5) We adjust DCF for lower of average cost or net realizable value adjustments related to inventory and firm purchase commitments as well as market valuation of short positions recognized each period as these are non-cash items. In subsequent periods when we physically sell or purchase the related products, we adjust DCF for the valuation adjustments previously recognized.

(6) Other adjustments in 2018 include a $3.6 million adjustment recorded to partners' capital as required by our adoption of Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*. The amount represents cash that we had previously received for deficiency payments, but did not yet recognize in net income under the previous revenue recognition standard.

(7) Interest expense in 2019 includes $8.3 million of debt prepayment costs which are excluded from DCF as they are financing activities and are not related to our ongoing operations.

(8) Maintenance capital expenditures maintain our existing assets and do not generate incremental DCF (i.e. incremental returns to our unitholders). For this reason, we deduct maintenance capital expenditures to determine DCF.

Liquidity and Capital Resources

Cash Flows and Capital Expenditures

Operating Activities. Operating cash flows consist of net income adjusted for certain non-cash items and changes in certain assets and liabilities.

Net cash provided by operating activities was $564.1 million and $570.6 million for the six months ended June 30, 2018 and 2019, respectively. The $6.5 million increase in 2019 was due to higher net income as previously described, mostly offset by changes in our working capital and adjustments for non-cash items.

Investing Activities. Investing cash flows consist primarily of capital expenditures and investments in non-controlled entities.

Net cash used by investing activities for the six months ended June 30, 2018 and 2019 was $322.5 million and $502.2 million, respectively. During the 2019 period, we incurred $514.8 million for capital expenditures, which included $40.8 million for maintenance capital, $411.2 million for our expansion capital projects and $62.8 million for undivided joint interest projects for which cash was received from a third party. Additionally, we contributed net capital of $104.8 million in conjunction with our joint ventures, which we account for as investments in non-controlled entities, of which $99.8 million related to capital projects. During the 2018 period, we incurred $219.8 million for capital expenditures, which included $37.0 million for maintenance capital, $169.0 million for our expansion capital projects and $13.8 million for undivided joint interest projects for which cash was received from a third party. Additionally, we contributed capital of $144.9 million in conjunction with our joint venture capital projects.

Financing Activities. Financing cash flows consist primarily of distributions to our unitholders and borrowings and repayments under our commercial paper program.

Net cash used by financing activities for the six months ended June 30, 2018 and 2019 was $313.6 million and $346.4 million, respectively. During the 2019 period, we paid cash distributions of $457.4 million to our unitholders. Additionally, we received net proceeds of $496.9 million from borrowings under long-term notes and had net commercial paper borrowings of $197.0 million, which were used to repay our $550.0 million of 6.55% notes due 2019. Also, in January 2019, our equity-based incentive compensation awards that vested December 31, 2018 were settled by issuing 208,268 limited partner units and distributing those units to the long-term incentive plan ("LTIP") participants, resulting in payments primarily associated with tax withholdings of $9.8 million. During the 2018 period, we paid cash distributions of $423.9 million to our unitholders. Additionally, net commercial paper borrowings during the 2018 period were $119.9 million. Also, in January 2018, our equity-based incentive compensation awards that vested December 31, 2017 were settled by issuing 168,913 limited partner units and distributing those units to the LTIP participants, resulting in payments primarily associated with tax withholdings of $9.3 million.

The quarterly distribution amount related to our second quarter 2019 financial results (to be paid in third quarter 2019) is $1.0125 per unit. If we are able to meet management's targeted distribution growth of 5% during 2019 and the number of outstanding limited partner units remains at 228.4 million, total cash distributions of approximately $928 million will be paid to our unitholders related to 2019 earnings. Management believes we will have sufficient DCF to fund these distributions.

Capital Requirements

Our businesses require continual investments to maintain, upgrade or enhance existing operations and to ensure compliance with safety and environmental regulations. Capital spending consists primarily of:

- Maintenance capital expenditures. These expenditures include costs required to maintain equipment reliability and safety and to address environmental or other regulatory requirements rather than to generate incremental DCF; and
- Expansion capital expenditures. These expenditures are undertaken primarily to generate incremental DCF and include costs to acquire additional assets to grow our business and to expand or upgrade our existing facilities, which we refer to as organic growth projects. Organic growth projects include, for example, capital expenditures that increase storage or throughput volumes or develop pipeline connections to new supply sources.

For the six months ended June 30, 2019, our maintenance capital spending was $40.8 million. For 2019, we expect to spend approximately $95 million on maintenance capital.

During the first six months of 2019, we spent $411.2 million for our expansion capital projects and contributed $99.8 million for capital projects in conjunction with our joint ventures. Based on the progress of expansion projects already underway, we expect to spend approximately $1.1 billion in 2019 and $150 million in 2020 to complete our current projects.

Liquidity

Cash generated from operations is our primary source of liquidity for funding debt service, maintenance capital expenditures and quarterly distributions to our unitholders. Additional liquidity for other purposes, such as expansion capital expenditures and debt repayments, is available through borrowings under our commercial paper program and revolving credit facility, as well as from other borrowings or issuances of debt or limited partner units (see Note 8 – *Debt* and Note 12 – *Partners' Capital and Distributions* of the consolidated financial statements included in Item 1 of Part I of this report for detail of our borrowings and changes in partners' capital). If capital markets do not permit us to issue additional debt and equity securities, our business may be adversely affected, and we may not be able to acquire additional assets and businesses, fund organic growth projects or continue paying cash distributions at the current level.

Off-Balance Sheet Arrangements

None.

Environmental

Our operations are subject to federal, state and local environmental laws and regulations. We have accrued liabilities for estimated costs at our facilities and properties. We record liabilities when environmental costs are probable and can be reasonably estimated. The determination of amounts recorded for environmental liabilities involves significant judgments and assumptions by management. Due to the inherent uncertainties involved in determining environmental liabilities, it is reasonably possible that the actual amounts required to extinguish these liabilities could be materially different from those we have recognized.

Other Items

Board of Director Election. On May 21, 2019, Chansoo Joung was elected to our general partner's board of directors as an independent director.

Executive Officer Promotions. Aaron Milford, who previously held the position of Chief Financial Officer and Senior Vice President, was elected by our general partner's board of directors as Chief Operating Officer effective May 1, 2019.

Jeff Holman, who previously held the position of Vice President, Finance and Treasurer, was elected by our general partner's board of directors as Chief Financial Officer and Senior Vice President, also effective May 1, 2019, filling the vacancy created by Mr. Milford's promotion.

Crude Oil Transportation Volumes. The volume of crude oil we transport partially depends upon the difference in commodity prices between our origin and destination points. When this differential is lower than our uncommitted (or spot) tariff rates, it is generally uneconomical for customers without contractual obligations to ship. We have benefited from these spot shipments over the last year on our Longhorn pipeline, Houston distribution system and BridgeTex pipeline, as the pricing differential between the Permian Basin and Houston has generally been above our spot tariff rates. However, the pricing differential can be volatile and is expected to decrease primarily due to the addition of new crude oil pipeline capacity in the region. As a result, we expect the level of spot shipments, and thus overall transportation volumes, on our Texas crude oil pipelines to decrease during late 2019. To ensure our crude oil pipelines remain fully utilized, we are considering the use of crude oil marketing activities, as needed, to facilitate intrastate shipments on our Texas crude oil pipelines.

Pipeline Tariff Changes. The Federal Energy Regulatory Commission ("FERC") regulates the rates charged on interstate common carrier pipelines primarily through an indexing methodology, which establishes the maximum amount by which tariff rates can be adjusted each year. Approximately 40% of our refined products tariffs are subject to this indexing methodology. The remaining 60% of our refined products tariffs are either subject to regulations by the states in which we operate or are approved for market-based rates by the FERC, and in both cases these rates can be adjusted at our discretion based on market factors. The current FERC-approved indexing method is the annual change in the producer price index for finished goods plus 1.23%. Based on this indexing methodology, we increased virtually all of our refined products pipeline rates by approximately 4.3% on July 1, 2019. Most of the tariffs on our crude oil pipelines are established at negotiated rates that generally provide for annual adjustments in line with changes in the FERC index, subject to certain modifications. We also increased the rates on the majority of our crude oil pipelines by approximately 4% in July 2019.

Collective Bargaining Agreement. Approximately 12% of our employees, which also constitutes 25% of the 921 employees assigned to our refined products segment, are represented by the United Steel Workers ("USW") and are covered by a collective bargaining agreement that was scheduled to expire in January 2019. We have been operating under a 24-hour rolling extension of the agreement since that time while negotiations for a new agreement have continued. We still expect that we will be able to successfully negotiate a new long-term agreement with the USW. If we are unable to reach an agreement and experience a prolonged work stoppage by these employees, it could have a material adverse effect on our business activities, results of operations and cash flows.

Commodity Derivative Agreements. Certain of the business activities in which we engage result in our owning various commodities, which exposes us to commodity price risk. We use forward physical commodity contracts and exchange-traded futures contracts to help manage this commodity price risk. We use forward physical contracts to purchase butane and sell refined products. We account for these forward physical contracts as normal purchase and sale contracts, using traditional accrual accounting. We use futures contracts to hedge against changes in prices of petroleum products that we expect to sell or purchase in future periods. We use and account for those futures contracts that qualify for hedge accounting treatment as either cash flow or fair value hedges, and we use and account for those futures contracts that do not qualify for hedge accounting treatment as economic hedges.

As of June 30, 2019, our open derivative contracts and the impact of the derivatives we settled during the period were comprised of futures contracts used to hedge sales and purchases of refined products, crude oil and butane related to our butane blending and fractionation activities, tender deductions and product overages. These contracts were accounted for as economic hedges, with the change in fair value of contracts that hedge future sales recorded to product sales, and the change in fair value of contracts that hedge future purchases recorded to cost of product sales.

For further information regarding the quantities of refined products and crude oil hedged at June 30, 2019 and the fair value of open hedge contracts at that date, please see *Item 3. Quantitative and Qualitative Disclosures about Market Risk*.

The following tables provide a summary of the impacts of the mark-to-market gains and losses associated with these futures contracts on our results of operations for the respective periods presented (in millions):

	Six Months Ended June 30, 2018		
	Product Sales Revenue	**Cost of Product Sales**	**Net Impact on Net Income**
Losses recorded on open futures contracts during the period	$ (32.7)	$ 7.3	$ (25.4)
Losses recognized on settled futures contracts during the period	(13.1)	(2.9)	(16.0)
Net impact of futures contracts	$ (45.8)	$ 4.4	$ (41.4)

	Six Months Ended June 30, 2019		
	Product Sales Revenue	**Cost of Product Sales**	**Net Impact on Net Income**
Losses recorded on open futures contracts during the period	$ (2.5)	$ (6.6)	$ (9.1)
Gains (losses) recognized on settled futures contracts during the period	(56.6)	2.7	(53.9)
Net impact of futures contracts	$ (59.1)	$ (3.9)	$ (63.0)

Related Party Transactions. See Note 14 – *Related Party Transactions* in Item 1 of Part I of this report for detail of our related party transactions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We may be exposed to market risk through changes in commodity prices and interest rates and have established policies to monitor and control these market risks. We use derivative agreements to help manage our exposure to commodity price and interest rate risks.

Commodity Price Risk

Our commodity price risk primarily arises from our butane blending and fractionation activities, and from managing product overages associated with our refined products and crude oil pipelines. We use derivatives such as forward physical contracts and exchange-traded futures contracts to help us manage commodity price risk.

Forward physical contracts that qualify for and are elected as normal purchases and sales are accounted for using traditional accrual accounting. As of June 30, 2019, we had commitments under forward purchase and sale contracts as follows (in millions):

	Total	2019	2020-2021
Forward purchase contracts – notional value	$ 96.1	$ 64.4	$ 31.7
Forward purchase contracts – barrels	3.0	2.1	0.9
Forward sales contracts – notional value	$ 15.5	$ 15.5	$ —
Forward sales contracts – barrels	0.2	0.2	—

We also use exchange-traded futures contracts to hedge against changes in the price of petroleum products we expect to sell or purchase. Virtually all of our open contracts did not qualify for hedge accounting treatment under ASC 815, *Derivatives and Hedging*, and we accounted for these contracts as economic hedges, with changes in fair value recognized currently in earnings. The fair value of these open futures contracts, representing 4.3 million barrels of petroleum products we expect to sell and 1.3 million barrels of butane we expect to purchase, was a net liability of $9.1 million. With respect to these contracts, a $10.00 per barrel increase (decrease) in the prices of petroleum products we expect to sell would result in a $43.0 million decrease (increase) in our operating profit, while a $10.00 per barrel increase (decrease) in the price of butane we expect to purchase would result in $13.0 million increase (decrease) in our operating profit. These increases or decreases in operating profit would be substantially offset by higher or lower product sales revenue or cost of product sales when the physical sale or purchase of those products occurs. These contracts may be for the purchase or sale of products in markets different from those in which we are attempting to hedge our exposure, and the resulting hedges may not eliminate all price risks.

During 2019, we entered into a basis derivative agreement with a joint venture co-owner’s affiliate, and, contemporaneously, that affiliate entered into an intrastate transportation services agreement with the joint venture. Settlements under the basis derivative agreement are determined based on the basis differential of crude oil prices at different market locations and a notional volume of 30,000 barrels per day. As a result, we are exposed to the differential in the forward price curves for crude oil in West Texas and the Houston Gulf Coast. With respect to this agreement, a $1.00 per barrel increase (decrease) in the differential would result in an approximately $10.0 million increase (decrease) in our operating profit.

Interest Rate Risk

Our use of variable rate debt and any forecasted issuances of fixed rate debt expose us to interest rate risk.

We have entered into $100.0 million of interest rate derivatives to protect against the risk of variability of interest payments on debt we anticipate issuing in the future. The fair value of these contracts at June 30, 2019 was a net liability of $11.1 million. We account for these agreements as cash flow hedges. A 0.125% decrease in interest rates would result in an increase in the fair value of this liability of approximately $2.8 million. A 0.125% increase in interest rates would result in a decrease in the fair value of this liability of approximately $2.7 million.

ITEM 4. CONTROLS AND PROCEDURES

We performed an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. We performed this evaluation under the supervision and with the participation of our management, including our general partner's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based upon that evaluation, our general partner's CEO and CFO concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include controls and procedures designed so that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure. There has been no change in our internal control over financial reporting that occurred during the quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Forward-Looking Statements

Certain matters discussed in this Quarterly Report on Form 10-Q include forward-looking statements within the meaning of the federal securities laws that discuss our expected future results based on current and pending business operations. Forward-looking statements can be identified by words such as "anticipates," "believes," "continue," "could," "estimates," "expects," "forecasts," "goal," "guidance," "intends," "may," "might," "plans," "potential," "projected," "scheduled," "should," "will" and other similar expressions. Although we believe our forward-looking statements are based on reasonable assumptions, statements made regarding future results are not guarantees of future performance and are subject to numerous assumptions, uncertainties and risks that are difficult to predict. Therefore, actual outcomes and results may be materially different from the results stated or implied in such forward-looking statements included in this report.

The following are among the important factors that could cause future results to differ materially from any expected, projected, forecasted, estimated or budgeted amounts, events or circumstances we have discussed in this report:

- overall demand for refined products, crude oil and liquefied petroleum gases in the U.S.;
- price fluctuations for refined products, crude oil and liquefied petroleum gases and expectations about future prices for these products;
- changes in the production of crude oil in the basins served by our pipelines;
- changes in general economic conditions, interest rates and price levels;
- changes in the financial condition of our customers, vendors, derivatives counterparties, lenders or joint venture co-owners;
- our ability to secure financing in the credit and capital markets in amounts and on terms that will allow us to execute our growth strategy, refinance our existing obligations when due and maintain adequate liquidity;
- development of alternative energy sources, including but not limited to natural gas, solar power, wind power, electric and battery-powered engines and geothermal energy, increased use of biofuels such as ethanol and biodiesel, increased conservation or fuel efficiency, increased use of electric vehicles, as well as regulatory developments or other trends that could affect demand for our services;
- population decreases in the markets served by our refined products pipeline system and changes in consumer preferences, driving patterns or rates of automobile ownership;
- changes in the throughput or interruption in service of refined products or crude oil pipelines owned and operated by third parties and connected to our assets;
- changes in demand for storage in our refined products, crude oil or marine terminals;
- changes in supply and demand patterns for our facilities due to geopolitical events, the activities of the Organization of the Petroleum Exporting Countries, changes in U.S. trade policies or in laws governing the importing and exporting of petroleum products, technological developments or other factors;
- our ability to manage interest rate and commodity price exposures;
- changes in our tariff rates or other terms of service implemented by the FERC or state regulatory agencies;
- shut-downs or cutbacks at refineries, oil wells, petrochemical plants or other customers or businesses that use or supply our services;
- the effect of weather patterns and other natural phenomena, including climate change, on our operations and demand for our services;
- an increase in the competition our operations encounter;
- the occurrence of natural disasters, terrorism, sabotage, protests or activism, operational hazards, equipment failures, system failures or unforeseen interruptions;
- our ability to obtain adequate levels of insurance at a reasonable cost, and the potential for losses to exceed the insurance coverage we do obtain;
- the treatment of us as a corporation for federal or state income tax purposes or if we become subject to significant forms of other taxation or more aggressive enforcement or increased assessments under existing forms of taxation;

- our ability to identify expansion projects with acceptable expected returns or to complete identified expansion projects on time and at projected costs;
- our ability to make and integrate accretive acquisitions and joint ventures and successfully execute our business strategy;
- uncertainty of estimates, including accruals and costs of environmental remediation;
- our ability to cooperate with and rely on our joint venture co-owners;
- actions by rating agencies concerning our credit ratings;
- our ability to timely obtain and maintain all necessary approvals, consents and permits required to operate our existing assets and to construct, acquire and operate any new or modified assets;
- our ability to promptly obtain all necessary services, materials, labor, supplies and rights-of-way required for construction of our growth projects, and to complete construction without significant delays, disputes or cost overruns;
- risks inherent in the use and security of information systems in our business and implementation of new software and hardware;
- changes in laws and regulations or the interpretations of such laws that govern our butane blending activities, including the potential applicability of the Carmack Amendment, which broadly covers claims for damage or loss incurred to goods transported by a carrier in interstate commerce, to such activities, or changes regarding product quality specifications or renewable fuel obligations that impact our ability to produce gasoline volumes through our butane blending activities or that require significant capital outlays for compliance;
- changes in laws and regulations to which we or our customers are or could become subject, including tax withholding requirements, safety, security, employment, hydraulic fracturing, derivatives transactions, trade and environmental laws and regulations, including laws and regulations designed to address climate change;
- the cost and effects of legal and administrative claims and proceedings against us, our subsidiaries or our joint ventures;
- the amount of our indebtedness, which could make us vulnerable to general adverse economic and industry conditions, limit our ability to borrow additional funds, place us at competitive disadvantages compared to our competitors that have less debt or have other adverse consequences;
- the effect of changes in accounting policies;
- the potential that our internal controls may not be adequate, weaknesses may be discovered or remediation of any identified weaknesses may not be successful;
- the ability and intent of our customers, vendors, lenders, joint venture co-owners or other third parties to perform on their contractual obligations to us;
- petroleum product supply disruptions;
- global and domestic repercussions from terrorist activities, including cyber attacks, and the government's response thereto; and
- other factors and uncertainties inherent in the transportation, storage and distribution of petroleum products and the operation, acquisition and construction of assets related to such activities.

This list of important factors is not exclusive. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changes in assumptions or otherwise.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Butane Blending Patent Infringement Proceeding. On October 4, 2017, Sunoco Partners Marketing & Terminals L.P. ("Sunoco") brought an action for patent infringement in the U.S. District Court for the District of Delaware alleging Magellan Midstream Partners, L.P. ("Magellan") and Powder Springs Logistics, LLC ("Powder Springs") have infringed patents relating to butane blending at the Powder Springs facility located in Powder Springs, Georgia. Sunoco has since submitted pleadings alleging that Magellan has also infringed various patents relating to butane blending at nine Magellan facilities, in addition to Powder Springs. Sunoco is seeking an undetermined amount of damages, attorneys' fees and a permanent injunction enjoining Magellan and Powder Springs from infringing on the subject patents. We deny and are vigorously defending against all claims asserted by Sunoco. Although it is not possible to predict the ultimate outcome, we believe, based on our current understanding of the applicable facts and law, that the ultimate resolution of this matter will not have a material adverse impact on our results of operations, financial position or cash flows.

Hurricane Harvey Enforcement Proceeding. On July 10, 2018, we received a Notice of Enforcement letter from the Texas Commission on Environmental Quality alleging two air emission violations at our Galena Park, Texas terminal that occurred during Hurricane Harvey in third quarter 2017. The penalties associated with these alleged violations could exceed $100,000. While the results cannot be predicted with certainty, we believe the ultimate resolution of this matter will not have a material impact on our results of operations, financial position or cash flows.

Clean Air Act Enforcement Proceeding. In June 2017, we received an enforcement letter from the U.S. Department of Justice ("DOJ") regarding a referral from the U.S. Environmental Protection Agency ("EPA") relating to alleged Clean Air Act violations at our terminals in Mason City, Iowa, Great Bend and Kansas City, Kansas and Omaha, Nebraska. In 2018, the DOJ and EPA notified us of their intent to impose penalties as a result of these alleged violations which could exceed $100,000. The DOJ has subsequently withdrawn from the proceeding. We have been in active settlement discussions with the EPA to settle these alleged violations on terms that are mutually agreeable. While the results cannot be predicted with certainty, we believe the ultimate resolution of this matter will not have a material impact on our results of operations, financial position or cash flows.

U.S. Oil Recovery, EPA ID No.: TXN000607093 Superfund Site. We have liability at the U.S. Oil Recovery Superfund Site in Pasadena, Texas as a potential responsible party ("PRP") under Section 107(a) of the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"). As a result of the EPA's Administrative Settlement Agreement and Order on Consent for Removal Action, filed August 25, 2011, EPA Region 6, CERCLA Docket No. 06-10-11, we voluntarily entered into the PRP group responsible for the site investigation, stabilization and subsequent site cleanup. We have paid approximately $42,000 associated with the assessment phase. Until this assessment phase has been completed, we cannot reasonably estimate our proportionate share of the remediation costs associated with this site. While the results cannot be reasonably estimated, we believe the ultimate resolution of this matter will not have a material impact on our results of operations, financial position or cash flows.

Lake Calumet Cluster Site, EPA ID No.: ILD000716852 Superfund Site. We have liability at the Lake Calumet Cluster Superfund Site in Chicago, Illinois as a PRP under Sections 107(a) and 113(f)(1) of CERCLA. As a result of the EPA's Administrative Settlement Agreement and Order for Remedial Investigation/Feasibility Study of June 2013, we voluntarily entered into the PRP group responsible for the investigation, cleanup and installation of an appropriate clay cap over the site. We have paid approximately $9,000 associated with the Remedial Investigation/Feasibility Study and cleanup costs to date. Our projected portion of the estimated cap installation is $55,000. While the results cannot be predicted with certainty, we believe the ultimate resolution of this matter will not have a material impact on our results of operations, financial position or cash flows.

We and the non-controlled entities in which we own an interest are a party to various other claims, legal actions and complaints. 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 future results of operations, financial position or cash flows.

ITEM 1A. RISK FACTORS

In addition to the information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not our only risks. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also could materially adversely affect our business, financial condition or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits listed below on the Index to Exhibits are filed or incorporated by reference as part of this report.

INDEX TO EXHIBITS

Exhibit Number		Description
Exhibit 10.1*	—	364-Day Credit Agreement, dated as of May 17, 2019, among Magellan Midstream Partners, L.P., as borrower, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto (filed as Exhibit 10.1 to Form 8-K filed May 22, 2019).
Exhibit 10.2*	—	First Amendment to Second Amended and Restated Credit Agreement, dated as of May 17, 2019, among Magellan Midstream Partners, L.P., as borrower, Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto (filed as Exhibit 10.2 to Form 8-K filed May 22, 2019).
Exhibit 31.1	—	Certification of Michael N. Mears, principal executive officer.
Exhibit 31.2	—	Certification of Jeff Holman, principal financial officer.
Exhibit 32.1	—	Section 1350 Certification of Michael N. Mears, Chief Executive Officer.
Exhibit 32.2	—	Section 1350 Certification of Jeff Holman, Chief Financial Officer.
Exhibit 101.INS	—	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
Exhibit 101.SCH	—	XBRL Taxonomy Extension Schema Document.
Exhibit 101.CAL	—	XBRL Taxonomy Extension Calculation Linkbase Document.
Exhibit 101.DEF	—	XBRL Taxonomy Extension Definition Linkbase Document.
Exhibit 101.LAB	—	XBRL Taxonomy Extension Label Linkbase Document.
Exhibit 101.PRE	—	XBRL Taxonomy Extension Presentation Linkbase Document.

*Such exhibit has heretofore been filed with the Securities and Exchange Commission as part of the filing indicated and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized in Tulsa, Oklahoma on August 1, 2019.

MAGELLAN MIDSTREAM PARTNERS, L.P.

By: Magellan GP, LLC,
its general partner

/s/ Jeff Holman

Jeff Holman
Chief Financial Officer
(Principal Accounting and Financial Officer)