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 September 30, 2021

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	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 November 1, 2021, there were 213,445,238 common units outstanding.

TABLE OF CONTENTS
PART I
FINANCIAL INFORMATION

PART II
OTHER INFORMATION

Forward-Looking Statements

Except for statements of historical fact, all statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements may be identified by words like "anticipates," "believes," "continue," "could," "estimates," "expects," "forecasts," "goal," "guidance," "intends," "may," "might," "plans," "potential," "projected," "scheduled," "should," "will" and other similar expressions. The absence of such words or expressions does not necessarily mean the statements are not forward-looking. Although we believe our forward-looking statements are reasonable, 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, including those described in Part II, Item 1A – *Risk Factors* of this Quarterly Report on Form 10-Q. Actual outcomes and results may be materially different from the results stated or implied in such forward-looking statements included in this report. You should not put any undue reliance on any forward-looking statement.

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:

- changes in overall demand for refined products, crude oil and liquefied petroleum gases;
- 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, including market and macro-economic disruptions resulting from pandemics and related governmental responses;
- 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 business strategy, refinance our existing obligations when due and maintain adequate liquidity;
- development and increasing use 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 renewable fuels such as ethanol, biodiesel and renewable diesel, increased conservation or fuel efficiency, increased use of electric vehicles, as well as regulatory developments, technological developments or other trends that could affect demand for our services;
- changes in population 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 product quality, 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 transportation and storage of refined products and crude oil services we provide;
- changes in supply and demand patterns for our facilities due to geopolitical events, the activities of the Organization of the Petroleum Exporting Countries ("OPEC") and other non-OPEC oil producing countries with large production capacity, changes in U.S. trade policies or in laws governing the importing and exporting of petroleum products;
- our ability to manage interest rate and commodity price exposures;
- changes in our tariff rates or other terms of service required by the Federal Energy Regulatory Commission or state regulatory agencies;
- shut-downs or cutbacks at refineries, oil fields, 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, including the effects of capacity over-build in the areas where we operate;
- the occurrence of natural disasters, epidemics, 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 interpretation or increased assessments under existing forms of taxation;
- our ability to identify expansion projects, accretive acquisitions and joint ventures with acceptable expected returns and to complete these projects on time and at projected costs;
- our ability to successfully execute our capital allocation priorities including unit repurchases with acceptable expected returns;
- the effect of changes in accounting policies and 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 maintenance and operation of our current assets and construction of our growth projects, 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 gas liquids blending activities or changes regarding product quality specifications or renewable fuel obligations that impact our ability to produce gasoline volumes through our gas liquids 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, 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 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 their contractual obligations to us;
- petroleum product supply disruptions;
- global and domestic repercussions from terrorist activities, including cyberattacks, 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 exhaustive. The forward-looking statements in this Quarterly Report speak only as of the date hereof, and 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, unless required by law.

PART I
FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Transportation and terminals revenue	$ 459,940	$ 464,910	$ 1,305,217	$ 1,332,271
Product sales revenue	111,220	168,815	443,127	575,575
Affiliate management fee revenue	5,288	5,329	15,895	15,925
Total revenue	576,448	639,054	1,764,239	1,923,771
Costs and expenses:				
Operating	157,716	146,556	446,102	422,907
Cost of product sales	89,375	145,855	364,916	488,614
Depreciation, amortization and impairment	68,439	61,401	183,226	168,304
General and administrative	37,497	46,632	115,480	148,671
Total costs and expenses	353,027	400,444	1,109,724	1,228,496
Other operating income (expense)	(2,863)	2,591	539	4,033
Earnings of non-controlled entities	39,135	36,466	116,484	116,107
Operating profit	259,693	277,667	771,538	815,415
Interest expense	54,212	57,016	179,371	170,976
Interest capitalized	(1,272)	(315)	(10,451)	(1,240)
Interest income	(260)	(138)	(903)	(439)
Gain on disposition of assets	—	(3,231)	(12,887)	(72,933)
Other (income) expense	1,455	2,224	3,708	18,111
Income from continuing operations before provision for income taxes	205,558	222,111	612,700	700,940
Provision for income taxes	824	821	2,169	2,044
Income from continuing operations	204,734	221,290	610,531	698,896
Income from discontinued operations	6,904	15,309	22,514	39,438
Net income	$ 211,638	$ 236,599	$ 633,045	$ 738,334
Basic and diluted income from continuing operations per common unit	$ 0.91	$ 1.01	$ 2.70	$ 3.15
Basic and diluted income from discontinued operations per common unit	0.03	0.07	0.10	0.18
Basic and diluted net income per common unit	$ 0.94	$ 1.08	$ 2.80	$ 3.33
Weighted average number of common units outstanding used for basic net income per unit calculation	225,222	218,637	226,045	221,637
Weighted average number of common units outstanding used for diluted net income per unit calculation	225,222	218,788	226,045	221,730

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2021**	**2020**	**2021**
Net income	$ 211,638	$ 236,599	$ 633,045	$ 738,334
Other comprehensive income (loss):				
Derivative activity:				
Net loss on cash flow hedges	—	—	(10,444)	—
Reclassification of net loss on cash flow hedges to income	896	887	2,552	2,662
Changes in employee benefit plan assets and benefit obligations recognized in other comprehensive income:				
Net actuarial gain (loss)	—	—	(333)	10,801
Curtailment gain	—	—	1,703	—
Recognition of prior service credit amortization in income	(46)	(46)	(136)	(136)
Recognition of actuarial loss amortization in income	1,473	1,433	4,462	4,536
Recognition of settlement cost in income	—	1,300	969	2,751
Total other comprehensive income (loss)	2,323	3,574	(1,227)	20,614
Comprehensive income	$ 213,961	$ 240,173	$ 631,818	$ 758,948

See notes to consolidated financial statements.

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

	December 31, 2020	September 30, 2021
ASSETS		(Unaudited)
Current assets:		
Cash and cash equivalents	$ 13,036	$ 12,593
Trade accounts receivable	103,568	134,281
Other accounts receivable	37,075	33,735
Inventory	158,204	222,567
Commodity derivatives contracts, net	—	4,469
Commodity derivatives deposits	34,165	47,609
Assets held for sale	15,059	299,304
Other current assets	44,086	44,738
Total current assets	405,193	799,296
Property, plant and equipment	7,943,760	8,021,353
Less: accumulated depreciation	1,956,926	2,088,990
Net property, plant and equipment	5,986,834	5,932,363
Investments in non-controlled entities	1,213,856	993,290
Right-of-use asset, operating leases	166,078	180,470
Long-term receivables	22,755	22,768
Goodwill	50,121	50,121
Other intangibles (less accumulated amortization of $9,228 and $11,186 at December 31, 2020 and September 30, 2021, respectively)	44,925	42,967
Restricted cash	9,411	7,847
Noncurrent assets held for sale	277,566	—
Other noncurrent assets	20,243	17,543
Total assets	$ 8,196,982	$ 8,046,665
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 97,988	$ 129,088
Accrued payroll and benefits	52,055	63,321
Accrued interest payable	58,998	49,992
Accrued taxes other than income	67,710	68,740
Deferred revenue	98,635	101,800
Accrued product liabilities	75,180	117,126
Commodity derivatives contracts, net	21,621	22,350
Current portion of operating lease liability	27,533	25,618
Liabilities held for sale	8,423	15,516
Other current liabilities	50,431	63,741
Total current liabilities	558,574	657,292
Long-term debt, net	4,978,691	5,103,226
Long-term operating lease liability	137,483	151,650
Long-term pension and benefits	163,776	151,922
Long-term liabilities held for sale	1,508	—
Other noncurrent liabilities	53,144	68,622
Commitments and contingencies		
Partners' capital:		
Common unitholders (223,120 units and 213,445 units outstanding at December 31, 2020 and September 30, 2021, respectively)	2,486,996	2,076,529
Accumulated other comprehensive loss	(183,190)	(162,576)
Total partners' capital	2,303,806	1,913,953
Total liabilities and partners' capital	$ 8,196,982	$ 8,046,665

See notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2021
Operating Activities:		
Net income	$ 633,045	$ 738,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(22,514)	(39,438)
Depreciation, amortization and impairment expense	183,226	168,304
Gain on disposition of assets	(13,330)	(72,933)
Earnings of non-controlled entities	(116,484)	(116,107)
Distributions from operations of non-controlled entities	152,645	140,616
Equity-based incentive compensation expense	5,580	15,686
Settlement cost, amortization of prior service credit and actuarial loss	3,953	7,151
Debt extinguishment costs	12,893	—
Changes in operating assets and liabilities:		
Trade accounts receivable and other accounts receivable	8,954	(24,245)
Inventory	49,802	(64,363)
Accounts payable	9,056	23,405
Accrued payroll and benefits	(34,239)	11,266
Accrued interest payable	(14,775)	(9,006)
Accrued product liabilities	(8,352)	41,946
Deferred revenue	(17,342)	3,165
Other current and noncurrent assets and liabilities	(23,523)	17,206
Net cash provided by operating activities of continuing operations	808,595	840,987
Net cash provided by operating activities of discontinued operations	31,510	38,090
Net cash provided by operating activities	840,105	879,077
Investing Activities:		
Additions to property, plant and equipment, net[1]	(357,093)	(106,458)
Proceeds from sale and disposition of assets	334,583	271,964
Investments in non-controlled entities	(73,678)	(5,616)
Net cash provided (used) by investing activities of continuing operations	(96,188)	159,890
Net cash provided (used) by investing activities of discontinued operations	(14,077)	254
Net cash provided (used) by investing activities	(110,265)	160,144
Financing Activities:		
Distributions paid	(697,264)	(685,018)
Repurchases of common units	(251,950)	(473,059)
Net commercial paper borrowings	248,000	123,000
Borrowings under long-term notes	499,400	—
Payments on notes	(550,000)	—
Debt placement costs	(4,255)	—
Net payment on financial derivatives	(10,444)	—
Payments associated with settlement of equity-based incentive compensation	(14,700)	(6,151)
Debt extinguishment costs	(12,893)	—
Net cash used by financing activities	(794,106)	(1,041,228)
Change in cash, cash equivalents and restricted cash	(64,266)	(2,007)
Cash, cash equivalents and restricted cash at beginning of period	84,599	22,447
Cash, cash equivalents and restricted cash at end of period	$ 20,333	$ 20,440
Supplemental non-cash investing activities:		
[1] Additions to property, plant and equipment	$ (304,321)	$ (110,505)
Changes in accounts payable and other current liabilities related to capital expenditures	(52,772)	4,047
Additions to property, plant and equipment, net	$ (357,093)	$ (106,458)

See notes to consolidated financial statements.

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

	Common Unitholders	Accumulated Other Comprehensive Loss	Total Partners' Capital
Balance, July 1, 2020	$ 2,620,365	$ (165,627)	$ 2,454,738
Comprehensive income:			
Net income	211,638	—	211,638
Total other comprehensive income	—	2,323	2,323
Total comprehensive income	211,638	2,323	213,961
Distributions	(231,245)	—	(231,245)
Equity-based incentive compensation expense	1,169	—	1,169
Repurchases of common units	(49,968)	—	(49,968)
Other	(211)	—	(211)
Three Months Ended September 30, 2020	$ 2,551,748	$ (163,304)	$ 2,388,444
Balance, July 1, 2021	$ 2,451,939	$ (166,150)	$ 2,285,789
Comprehensive income:			
Net income	236,599	—	236,599
Total other comprehensive income	—	3,574	3,574
Total comprehensive income	236,599	3,574	240,173
Distributions	(226,633)	—	(226,633)
Equity-based incentive compensation expense	5,626	—	5,626
Repurchases of common units	(390,735)	—	(390,735)
Other	(267)	—	(267)
Three Months Ended September 30, 2021	$ 2,076,529	$ (162,576)	$ 1,913,953

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

	Common Unitholders	Accumulated Other Comprehensive Loss	Total Partners' Capital
Balance, January 1, 2020	$ 2,877,105	$ (162,077)	$ 2,715,028
Comprehensive income:			
Net income	633,045	—	633,045
Total other comprehensive loss	—	(1,227)	(1,227)
Total comprehensive income (loss)	633,045	(1,227)	631,818
Distributions	(697,264)	—	(697,264)
Equity-based incentive compensation expense	5,580	—	5,580
Repurchases of common units	(251,950)	—	(251,950)
Issuance of common units in settlement of equity-based incentive plan awards	600	—	600
Payments associated with settlement of equity-based incentive compensation	(14,700)	—	(14,700)
Other	(668)	—	(668)
Nine Months Ended September 30, 2020	$ 2,551,748	$ (163,304)	$ 2,388,444
Balance, January 1, 2021	$ 2,486,996	$ (183,190)	$ 2,303,806
Comprehensive income:			
Net income	738,334	—	738,334
Total other comprehensive income	—	20,614	20,614
Total comprehensive income	738,334	20,614	758,948
Distributions	(685,018)	—	(685,018)
Equity-based incentive compensation expense	15,686	—	15,686
Repurchases of common units	(473,059)	—	(473,059)
Issuance of common units in settlement of equity-based incentive plan awards	520	—	520
Payments associated with settlement of equity-based incentive compensation	(6,151)	—	(6,151)
Other	(779)	—	(779)
Nine Months Ended September 30, 2021	$ 2,076,529	$ (162,576)	$ 1,913,953

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 common 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 September 30, 2021, our asset portfolio, excluding assets associated with discontinued operations, consisted of:

- our refined products segment, comprised of our approximately 9,800-mile refined petroleum products pipeline system with 54 connected terminals and two marine storage terminals (one of which is owned through a joint venture); and

- our crude oil segment, comprised of approximately 2,200 miles of crude oil pipelines, a condensate splitter and 37 million barrels of aggregate storage capacity, of which approximately 27 million barrels are used for contract storage. Approximately 1,000 miles of these pipelines, the condensate splitter and 30 million barrels of this storage capacity (including 24 million barrels used for contract storage) are wholly-owned, with the remainder owned through joint ventures.

The following terms are commonly used in our industry to describe products that we transport, store, distribute or otherwise handle through our petroleum pipelines and terminals:

- *refined products* are the output from crude oil refineries that are primarily used as fuels by consumers. Refined products include gasoline, diesel fuel, aviation fuel, kerosene and heating oil. Diesel fuel, kerosene and heating oil are also referred to as distillates;

- *transmix* is a mixture that forms when different refined products are transported in pipelines. Transmix is fractionated and blended into usable refined products;

- *liquefied petroleum gases, or LPGs,* are liquids produced as by-products of the crude oil refining process and in connection with natural gas production. LPGs include butane and propane;

- *blendstocks* are products 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;

- *crude oil*, which includes condensate, is a naturally occurring unrefined petroleum product recovered from underground that is used as feedstock by refineries, splitters and petrochemical facilities; and

- *renewable fuels*, such as ethanol, biodiesel and renewable diesel, are fuels derived from living materials and 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, 2020, which is derived from our audited financial statements, include all normal and recurring adjustments necessary to present fairly our financial position as of September 30, 2021, the results of operations for the three and nine months ended September 30, 2020 and 2021 and cash flows for the nine months ended September 30, 2020 and 2021. The results of operations for the nine months ended September 30, 2021 are not necessarily indicative of the results to be expected for the full year ending December 31, 2021 for several reasons. Profits from our gas liquids 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 have been prepared in accordance with generally accepted accounting principles ("GAAP") in the U.S. for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. 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, 2020.

Discontinued Operations

In June 2021, we entered into an agreement to sell our independent terminals network comprised of 26 refined petroleum products terminals with approximately six million barrels of storage located primarily in the southeastern United States. The sale is expected to close upon the receipt of required regulatory approvals. The related results of operations, financial position and cash flows have been classified as discontinued operations for all periods presented. See Note 2 - *Discontinued Operations and Assets Held for Sale* for further details.

Unless indicated otherwise, the information in the Notes to Consolidated Financial Statements relates to continuing operations.

Reclassifications

Certain prior period amounts have been reclassified to conform with the current period's presentation, including amounts related to our discontinued operations.

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

We evaluate Accounting Standards Updates issued by the Financial Accounting Standards Board on an ongoing basis. There are no new accounting pronouncements that we anticipate will have a material impact on our financial statements.

2. Discontinued Operations and Assets Held for Sale

On June 10, 2021, we announced an agreement to sell our independent terminals network comprised of 26 refined petroleum products terminals with approximately six million barrels of storage located primarily in the southeastern U.S. to Buckeye Partners, L.P. ("Buckeye") for $435 million. The sale is expected to close upon the receipt of required regulatory approvals. The related results of operations, which were previously included in our refined products segment, have been classified as discontinued operations.

Summarized Results of Discontinued Operations

The following table provides the summarized results that have been reclassified from continuing operations to discontinued operations on the consolidated statements of income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Transportation and terminals revenue	$ 13,591	$ 13,119	$ 38,524	$ 39,946
Product sales revenue	8,225	14,550	38,715	59,141
Total revenue	21,816	27,669	77,239	99,087
Costs and expenses:				
Operating	4,266	2,814	11,495	10,070
Cost of product sales	6,744	8,846	30,948	40,620
Depreciation, amortization and impairment	3,383	57	10,670	7,059
General and administrative	519	643	1,612	1,900
Total costs and expenses	14,912	12,360	54,725	59,649
Income from discontinued operations	$ 6,904	$ 15,309	$ 22,514	$ 39,438

Summarized Assets and Liabilities of Discontinued Operations

The following table provides the summarized assets and liabilities classified as held for sale on the consolidated balance sheets (in thousands):

	December 31, 2020	September 30, 2021
Assets:		
Trade accounts receivable	$ 5,568	$ 7,013
Inventory	9,185	12,641
Net property, plant and equipment	274,857	269,468
Goodwill	2,709	2,709
Other assets	306	7,473
Total assets classified as held for sale	$ 292,625	$ 299,304
Liabilities:		
Accounts payable	$ 2,034	$ 4,087
Accrued product liabilities	3,986	7,123
Other liabilities	3,911	4,306
Total liabilities classified as held for sale	$ 9,931	$ 15,516

3. Segment Disclosures

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

We believe that investors benefit from having access to the same financial measures used by management. Operating margin, which is presented in the following tables, is an important measure used by management to evaluate the economic performance of our core operations. Operating margin is not a GAAP measure, but the components of operating margin are computed using amounts that are determined in accordance with GAAP. A reconciliation of operating margin to operating profit, which is the 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 September 30, 2020			
	Refined Products	Crude Oil	Intersegment Eliminations	Total
Transportation and terminals revenue	$ 307,218	$ 154,652	$ (1,930)	$ 459,940
Product sales revenue	106,027	5,193	—	111,220
Affiliate management fee revenue	1,579	3,709	—	5,288
Total revenue	414,824	163,554	(1,930)	576,448
Operating expense	114,313	46,956	(3,553)	157,716
Cost of product sales	79,612	9,763	—	89,375
Other operating (income) expense	(193)	3,056	—	2,863
Earnings of non-controlled entities	(7,134)	(32,001)	—	(39,135)
Operating margin	228,226	135,780	1,623	365,629
Depreciation, amortization and impairment expense	38,237	28,579	1,623	68,439
G&A expense	26,968	10,529	—	37,497
Operating profit	$ 163,021	$ 96,672	$ —	$ 259,693

	Three Months Ended September 30, 2021			
	Refined Products	Crude Oil	Intersegment Eliminations	Total
Transportation and terminals revenue	$ 349,430	$ 116,920	$ (1,440)	$ 464,910
Product sales revenue	153,352	15,463	—	168,815
Affiliate management fee revenue	1,643	3,686	—	5,329
Total revenue	504,425	136,069	(1,440)	639,054
Operating expense	114,612	35,042	(3,098)	146,556
Cost of product sales	128,372	17,483	—	145,855
Other operating (income) expense	(2,873)	282	—	(2,591)
Earnings of non-controlled entities	(8,160)	(28,306)	—	(36,466)
Operating margin	272,474	111,568	1,658	385,700
Depreciation, amortization and impairment expense	42,552	17,191	1,658	61,401
G&A expense	33,478	13,154	—	46,632
Operating profit	$ 196,444	$ 81,223	$ —	$ 277,667

	Nine Months Ended September 30, 2020			
	Refined Products	Crude Oil	Intersegment Eliminations	Total
Transportation and terminals revenue	$ 876,363	$ 433,947	$ (5,093)	$ 1,305,217
Product sales revenue	422,986	20,141	—	443,127
Affiliate management fee revenue	4,676	11,219	—	15,895
Total revenue	1,304,025	465,307	(5,093)	1,764,239
Operating expense	316,371	139,645	(9,914)	446,102
Cost of product sales	334,366	30,550	—	364,916
Other operating (income) expense	(2,223)	1,684	—	(539)
Earnings of non-controlled entities	(25,946)	(90,538)	—	(116,484)
Operating margin	681,457	383,966	4,821	1,070,244
Depreciation, amortization and impairment expense	118,038	60,367	4,821	183,226
G&A expense	83,190	32,290	—	115,480
Operating profit	$ 480,229	$ 291,309	$ —	$ 771,538

	Nine Months Ended September 30, 2021			
	Refined Products	Crude Oil	Intersegment Eliminations	Total
Transportation and terminals revenue	$ 984,895	$ 351,817	$ (4,441)	$ 1,332,271
Product sales revenue	487,551	88,024	—	575,575
Affiliate management fee revenue	4,802	11,123	—	15,925
Total revenue	1,477,248	450,964	(4,441)	1,923,771
Operating expense	314,241	118,072	(9,406)	422,907
Cost of product sales	394,316	94,298	—	488,614
Other operating (income) expense	(6,279)	2,246	—	(4,033)
Earnings of non-controlled entities	(25,528)	(90,579)	—	(116,107)
Operating margin	800,498	326,927	4,965	1,132,390
Depreciation, amortization and impairment expense	112,754	50,585	4,965	168,304
G&A expense	106,749	41,922	—	148,671
Operating profit	$ 580,995	$ 234,420	$ —	$ 815,415

4. Revenue

Statement of Income Disclosures

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

	Three Months Ended September 30, 2020			
	Refined Products	Crude Oil	Intersegment Eliminations	Total
Transportation	$ 192,194	$ 90,156	$ —	$ 282,350
Terminalling	30,650	5,651	—	36,301
Storage	49,104	32,876	(1,930)	80,050
Ancillary services	29,955	6,828	—	36,783
Lease revenue	5,315	19,141	—	24,456
Transportation and terminals revenue	307,218	154,652	(1,930)	459,940
Product sales revenue	106,027	5,193	—	111,220
Affiliate management fee revenue	1,579	3,709	—	5,288
Total revenue	414,824	163,554	(1,930)	576,448
Revenue not under the guidance of ASC 606, *Revenue from Contracts with Customers:*				
Lease revenue(1)	(5,315)	(19,141)	—	(24,456)
(Gains) losses from futures contracts included in product sales revenue(2)	6,560	884	—	7,444
Affiliate management fee revenue	(1,579)	(3,709)	—	(5,288)
Total revenue from contracts with customers under ASC 606	$ 414,490	$ 141,588	$ (1,930)	$ 554,148

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

	Three Months Ended September 30, 2021			
	Refined Products	Crude Oil	Intersegment Eliminations	Total
Transportation	$ 241,685	$ 58,172	$ —	$ 299,857
Terminalling	26,468	3,280	—	29,748
Storage	42,316	28,199	(1,440)	69,075
Ancillary services	34,157	7,667	—	41,824
Lease revenue	4,804	19,602	—	24,406
Transportation and terminals revenue	349,430	116,920	(1,440)	464,910
Product sales revenue	153,352	15,463	—	168,815
Affiliate management fee revenue	1,643	3,686	—	5,329
Total revenue	504,425	136,069	(1,440)	639,054
Revenue not under the guidance of ASC 606, *Revenue from Contracts with Customers:*				
Lease revenue(1)	(4,804)	(19,602)	—	(24,406)
(Gains) losses from futures contracts included in product sales revenue(2)	26,992	2,634	—	29,626
Affiliate management fee revenue	(1,643)	(3,686)	—	(5,329)
Total revenue from contracts with customers under ASC 606	$ 524,970	$ 115,415	$ (1,440)	$ 638,945

(1) Lease revenue 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*.

	Nine Months Ended September 30, 2020			
	Refined Products	Crude Oil	Intersegment Eliminations	Total
Transportation	$ 533,451	$ 244,155	$ —	$ 777,606
Terminalling	88,038	14,702	—	102,740
Storage	152,186	97,103	(5,093)	244,196
Ancillary services	85,441	20,745	—	106,186
Lease revenue	17,247	57,242	—	74,489
Transportation and terminals revenue	876,363	433,947	(5,093)	1,305,217
Product sales revenue	422,986	20,141	—	443,127
Affiliate management fee revenue	4,676	11,219	—	15,895
Total revenue	1,304,025	465,307	(5,093)	1,764,239
Revenue not under the guidance of ASC 606, *Revenue from Contracts with Customers*:				
Lease revenue(1)	(17,247)	(57,242)	—	(74,489)
(Gains) losses from futures contracts included in product sales revenue(2)	(82,109)	483	—	(81,626)
Affiliate management fee revenue	(4,676)	(11,219)	—	(15,895)
Total revenue from contracts with customers under ASC 606	$ 1,199,993	$ 397,329	$ (5,093)	$ 1,592,229

(1) Lease revenue 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*.

	Nine Months Ended September 30, 2021			
	Refined Products	Crude Oil	Intersegment Eliminations	Total
Transportation	$ 667,148	$ 172,922		$ 840,070
Terminalling	74,223	12,615		86,838
Storage	135,938	87,237	(4,441)	218,734
Ancillary services	94,640	23,224		117,864
Lease revenue	12,946	55,819		68,765
Transportation and terminals revenue	984,895	351,817	(4,441)	1,332,271
Product sales revenue	487,551	88,024	—	575,575
Affiliate management fee revenue	4,802	11,123	—	15,925
Total revenue	1,477,248	450,964	(4,441)	1,923,771
Revenue not under the guidance of ASC 606, *Revenue from Contracts with Customers*:				
Lease revenue(1)	(12,946)	(55,819)	—	(68,765)
(Gains) losses from futures contracts included in product sales revenue(2)	108,595	14,165	—	122,760
Affiliate management fee revenue	(4,802)	(11,123)	—	(15,925)
Total revenue from contracts with customers under ASC 606	$ 1,568,095	$ 398,187	$ (4,441)	$ 1,961,841

(1) Lease revenue 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, 2020	September 30, 2021
Accounts receivable from contracts with customers	$ 103,275	$ 132,586
Contract assets	$ 12,220	$ 12,284
Contract liabilities	$ 102,702	$ 106,879

For the respective three and nine months ended September 30, 2021, we recognized $2.9 million and $76.7 million of transportation and terminals revenue that was recorded in deferred revenue as of December 31, 2020.

Unfulfilled Performance Obligations

The following table provides the aggregate amount of the transaction price allocated to our unfulfilled performance obligations ("UPOs") as of September 30, 2021 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	Total
Balances at September 30, 2021	$ 1,937,717	$ 1,111,166	$ 3,048,883
Remaining terms	1 - 17 years	1 - 10 years	
Estimated revenues from UPOs to be recognized in the next 12 months	$ 365,383	$ 263,798	$ 629,181

5. Investments in Non-Controlled Entities

Our equity investments in non-controlled entities at September 30, 2021 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")	25%
Powder Springs Logistics, LLC ("Powder Springs")	50%
Saddlehorn Pipeline Company, LLC ("Saddlehorn")	30%
Seabrook Logistics, LLC ("Seabrook")	50%
Texas Frontera, LLC ("Texas Frontera")	50%

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In April 2021, we sold nearly half of our membership interest in MVP. As a result of the sale, we received proceeds of $272.1 million and recorded a gain of $70.4 million on our consolidated statements of income. Following the sale, we own approximately 25% of MVP and remain the operator of the facility.

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 $0.7 million and $0.9 million during the three months ended September 30, 2020 and 2021, respectively, and $2.9 million and $2.1 million during the nine months ended September 30, 2020 and 2021, 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 September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Transportation and terminals revenue:				
BridgeTex, pipeline capacity and storage	$ 9,323	$ 10,669	$ 32,748	$ 34,367
Double Eagle, throughput revenue	$ 995	$ 631	$ 4,016	$ 2,464
Saddlehorn, storage revenue	$ 580	$ 594	$ 1,711	$ 1,753
Operating expense:				
Seabrook, storage lease and ancillary services	$ 7,175	$ 4,477	$ 21,553	$ 15,336
Other operating income:				
Seabrook, gain on sale of air emission credits	$ —	$ —	$ 1,410	$ 434

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

	December 31, 2020			
	Trade Accounts Receivable	Other Accounts Receivable	Other Accounts Payable	Long-Term Receivables
BridgeTex	$ 355	$ 27	$ 970	$ —
Double Eagle	$ 277	$ —	$ —	$ —
HoustonLink	$ —	$ —	$ 144	$ —
MVP	$ —	$ 467	$ 2,297	$ —
Powder Springs	$ —	$ —	$ —	$ 10,223
Saddlehorn	$ —	$ 121	$ —	$ —
Seabrook	$ —	$ —	$ 7,274	$ —

	September 30, 2021			
	Trade Accounts Receivable	Other Accounts Receivable	Other Accounts Payable	Long-Term Receivables
BridgeTex	$ 2,310	$ 15	$ —	$ —
Double Eagle	$ 213	$ —	$ —	$ —
HoustonLink	$ —	$ —	$ 96	$ —
MVP	$ —	$ 542	$ —	$ —
Powder Springs	$ 8	$ —	$ —	$ 12,429
Saddlehorn	$ —	$ 187	$ —	$ —
Seabrook	$ —	$ 11	$ 810	$ —

We entered into a long-term terminalling and storage contract with Seabrook for our 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 (see Note 8 – *Leases* for more details regarding this lease).

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

A summary of our investments in non-controlled entities (representing only our proportionate interest) follows (in thousands):

Investments at December 31, 2020	**$ 1,213,856**
Additional investment	5,616
Sale of ownership interest in MVP	(201,673)
Earnings of non-controlled entities:	
Proportionate share of earnings	117,413
Amortization of excess investment and capitalized interest	(1,306)
Earnings of non-controlled entities	116,107
Less:	
Distributions from operations of non-controlled entities	140,616
Investments at September 30, 2021	**$ 993,290**

6. Inventory

Inventory at December 31, 2020 and September 30, 2021 was as follows (in thousands):

	December 31, 2020	September 30, 2021
Refined products	$ 71,982	$ 86,362
Crude oil	32,431	28,269
Liquefied petroleum gases	25,040	54,604
Transmix	23,397	47,978
Additives	5,354	5,354
Total inventory	$ 158,204	$ 222,567

7. Debt

Long-term debt at December 31, 2020 and September 30, 2021 was as follows (in thousands):

	December 31, 2020	September 30, 2021
Commercial paper	$ —	$ 123,000
3.20% Notes due 2025	250,000	250,000
5.00% Notes due 2026	650,000	650,000
3.25% Notes due 2030	500,000	500,000
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	500,000
3.95% Notes due 2050	800,000	800,000
Face value of long-term debt	5,000,000	5,123,000
Unamortized debt issuance costs[(1)]	(40,143)	(38,419)
Net unamortized debt premium[(1)]	18,834	18,645
Long-term debt, net	$ 4,978,691	$ 5,103,226

(1) Debt issuance costs and note discounts and premiums 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.

Other Debt

Revolving Credit Facility. At September 30, 2021, 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 the 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 September 30, 2021. Borrowings under this facility may be used for general purposes, including capital expenditures. As of December 31, 2020 and September 30, 2021, there were no borrowings outstanding under this facility and $3.5 million was obligated for letters of credit. Amounts obligated for letters of credit are not reflected as debt on our consolidated balance sheets, but decrease our borrowing capacity under 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. Commercial paper borrowings outstanding at September 30, 2021 were $123.0 million. The weighted-average interest rate for commercial paper borrowings based on the number of days outstanding was 0.2% for the nine months ended September 30, 2021.

8. Leases

Operating Leases – Lessee

Related-Party Operating Lease. We entered into a long-term terminalling and storage contract with Seabrook for our 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.

The following tables provide information about our third-party and Seabrook operating leases (in thousands):

	Three Months Ended September 30, 2020			Three Months Ended September 30, 2021		
	Third-Party Leases	Seabrook Lease	All Leases	Third-Party Leases	Seabrook Lease	All Leases
Total lease expense	$ 6,474	$ 7,175	$ 13,649	$ 6,321	$ 4,288	$ 10,609

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2021		
	Third-Party Leases	Seabrook Lease	All Leases	Third-Party Leases	Seabrook Lease	All Leases
Total lease expense	$ 18,173	$ 21,553	$ 39,726	$ 20,266	$ 15,147	$ 35,413

	December 31, 2020			September 30, 2021		
	Third-Party Leases	Seabrook Lease	All Leases	Third-Party Leases	Seabrook Lease	All Leases
Current lease liability	$ 17,099	$ 10,434	$ 27,533	$ 17,733	$ 7,885	$ 25,618
Long-term lease liability	$ 84,982	$ 52,501	$ 137,483	$ 105,095	$ 46,555	$ 151,650
Right-of-use asset	$ 103,142	$ 62,936	$ 166,078	$ 126,029	$ 54,441	$ 180,470

9. 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, including expense related to discontinued operations, were $2.8 million and $2.7 million for the three months ended September 30, 2020 and 2021, respectively, and $9.7 million and $8.1 million for the nine months ended September 30, 2020 and 2021, respectively.

In addition, we sponsor two pension plans, including one for all non-union employees and one that covers union employees, and a postretirement benefit plan for certain employees. The following disclosures related to these plans include amounts related to discontinued operations. Net periodic benefit expense for the three and nine months ended September 30, 2020 and 2021 were as follows (in thousands):

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2021	
	Pension Benefits	**Other Postretirement Benefits**	**Pension Benefits**	**Other Postretirement Benefits**
Components of net periodic benefit costs:				
Service cost	$ 6,898	$ 64	$ 6,953	$ 75
Interest cost	2,738	121	2,395	103
Expected return on plan assets	(2,829)	—	(2,960)	—
Amortization of prior service credit	(46)	—	(46)	—
Amortization of actuarial loss	1,346	127	1,273	160
Settlement cost	—	—	1,300	—
Net periodic benefit cost	$ 8,107	$ 312	$ 8,915	$ 338

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2021	
	Pension Benefits	**Other Postretirement Benefits**	**Pension Benefits**	**Other Postretirement Benefits**
Components of net periodic benefit costs:				
Service cost	$ 20,836	$ 193	$ 21,269	$ 225
Interest cost	8,251	360	7,078	310
Expected return on plan assets	(8,524)	—	(8,927)	—
Amortization of prior service credit	(136)	—	(136)	—
Amortization of actuarial loss	4,080	382	4,058	478
Settlement cost	969	—	2,751	—
Settlement gain on disposition of assets	(1,342)	—	—	—
Net periodic benefit cost	$ 24,134	$ 935	$ 26,093	$ 1,013

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 nine months ended September 30, 2020 and 2021 were as follows (in thousands):

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2021	
Gains (Losses) Included in AOCL	**Pension Benefits**	**Other Postretirement Benefits**	**Pension Benefits**	**Other Postretirement Benefits**
Beginning balance	$ (98,610)	$ (9,269)	$ (101,270)	$ (11,656)
Recognition of prior service credit amortization in income	(46)	—	(46)	—
Recognition of actuarial loss amortization in income	1,346	127	1,273	160
Recognition of settlement cost in income	—	—	1,300	—
Ending balance	$ (97,310)	$ (9,142)	$ (98,743)	$ (11,496)

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2021	
Gains (Losses) Included in AOCL	**Pension Benefits**	**Other Postretirement Benefits**	**Pension Benefits**	**Other Postretirement Benefits**
Beginning balance	$ (104,739)	$ (8,378)	$ (117,782)	$ (10,409)
Net actuarial gain (loss)	813	(1,146)	12,366	(1,565)
Curtailment gain	1,703	—	—	—
Recognition of prior service credit amortization in income	(136)	—	(136)	—
Recognition of actuarial loss amortization in income	4,080	382	4,058	478
Recognition of settlement cost in income	969	—	2,751	—
Ending balance	$ (97,310)	$ (9,142)	$ (98,743)	$ (11,496)

Contributions estimated to be paid into the plans in 2021 are $27.6 million and $0.9 million for the pension plans and other postretirement benefit plan, respectively.

10. 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. In April 2021, our compensation committee and our limited partners approved an amendment to the LTIP increasing the number of common units available for issuance from 11.9 million to 13.7 million. The LTIP primarily consists of phantom units. The estimated units remaining available under the LTIP at September 30, 2021 totaled approximately 2.4 million.

Equity-based incentive compensation expense for the three and nine months ended September 30, 2020 and 2021, primarily recorded as G&A expense on our consolidated statements of income, was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2021	2020	2021
Performance-based awards	$ (1,121)	$ 3,053	$ (1,247)	$ 7,923
Time-based awards	2,290	2,573	6,827	7,763
Total	$ 1,169	$ 5,626	$ 5,580	$ 15,686

During 2020, LTIP expense related to performance-based awards was reduced due to the impacts of COVID-19 and the significant decline in commodity prices on our financial results.

On February 5, 2021, 558,516 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, 2023.

Basic and Diluted Net Income Per Common Unit

The difference between our actual common units outstanding and our weighted-average number of common 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 or repurchased during a period. The difference between the weighted-average number of common units outstanding used for basic and diluted net income per unit calculations on our consolidated statements of income is primarily due to the dilutive effect of unit awards associated with our LTIP that have not yet vested.

11. Derivative Financial Instruments

Commodity Derivatives

Our open futures contracts at September 30, 2021 were as follows:

Type of Contract/Accounting Methodology	Product Represented by the Contract and Associated Barrels	Maturity Dates
Futures - Economic Hedges	4.9 million barrels of refined products and crude oil	Between October 2021 and November 2022
Futures - Economic Hedges	1.2 million barrels of gas liquids	Between October 2021 and April 2022

Commodity Derivatives Contracts and Deposits Offsets

At December 31, 2020 and September 30, 2021, we had made margin deposits of $34.2 million and $47.6 million, respectively, for our futures contracts with our counterparties, which were recorded as current assets under 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, 2020 and September 30, 2021 (in thousands):

Description	Gross Amounts of Recognized Liabilities	Gross Amounts of Assets Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Margin Deposit Amounts Not Offset in the Consolidated Balance Sheets	Net Asset Amount[(1)]
As of December 31, 2020	$ (21,748)	$ 1,201	$ (20,547)	$ 34,165	$ 13,618
As of September 30, 2021	$ (44,605)	$ 22,325	$ (22,280)	$ 47,609	$ 25,329

(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 in other operating income (expense) in our consolidated statements of income. The liability for this agreement at December 31, 2020 and September 30, 2021 was $10.2 million and $3.1 million, respectively.

Impact of Derivatives on Our Financial Statements

Comprehensive Income

The changes in derivative activity included in AOCL for the three and nine months ended September 30, 2020 and 2021 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Losses Included in AOCL	2020	2021	2020	2021
Beginning balance	$ (57,748)	$ (53,224)	$ (48,960)	$ (54,999)
Net loss on cash flow hedges	—	—	(10,444)	—
Reclassification of net loss on cash flow hedges to income	896	887	2,552	2,662
Ending balance	$ (56,852)	$ (52,337)	$ (56,852)	$ (52,337)

The following is a summary of the effect on our consolidated statements of income for the three and nine months ended September 30, 2020 and 2021 of derivatives that were designated as cash flow hedges (in thousands):

	Interest Rate Contracts		
	Amount of 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 September 30, 2020	$ —	Interest expense	$ (896)
Three Months Ended September 30, 2021	$ —	Interest expense	$ (887)
Nine Months Ended September 30, 2020	$ (10,444)	Interest expense	$ (2,552)
Nine Months Ended September 30, 2021	$ —	Interest expense	$ (2,662)

As of September 30, 2021, the net loss estimated to be classified to interest expense over the next twelve months from AOCL is approximately $3.5 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 nine months ended September 30, 2020 and 2021 of derivatives that were not designated as hedging instruments (in thousands):

		Amount of Gain (Loss) Recognized on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Instrument	Location of Gain (Loss) Recognized on Derivatives	2020	2021	2020	2021
Futures contracts	Product sales revenue	$ (7,444)	$ (29,626)	$ 81,626	$ (122,760)
Futures contracts	Cost of product sales	1,261	19,303	(2,756)	26,910
Basis derivative agreement	Other operating income (expense)	(3,155)	(1,702)	(2,654)	(3,629)
	Total	$ (9,338)	$ (12,025)	$ 76,216	$ (99,479)

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 not designated as hedging instruments as of December 31, 2020 and September 30, 2021 (in thousands):

	December 31, 2020			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Futures contracts	Commodity derivatives contracts, net	$ 127	Commodity derivatives contracts, net	$ 21,748
Future contracts	Other noncurrent assets	1,074	Other noncurrent liabilities	—
Basis derivative agreement	Other current assets	—	Other current liabilities	8,774
Basis derivative agreement	Other noncurrent assets	—	Other noncurrent liabilities	1,468
	Total	$ 1,201	Total	$ 31,990

	September 30, 2021			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Futures contracts	Commodity derivatives contracts, net	$ 22,325	Commodity derivatives contracts, net	$ 40,206
Futures contracts	Other noncurrent assets	—	Other noncurrent liabilities	4,399
Basis derivative agreement	Other current assets	—	Other current liabilities	3,120
	Total	$ 22,325	Total	$ 47,725

12. 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:

- *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 11 – *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 11 - *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 include payments receivable under a sales-type leasing arrangement and cost reimbursement agreements. 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.

- *Contractual obligations.* At September 30, 2021, these primarily include a long-term contractual obligation we entered into in connection with the 2020 sale of three marine terminals to a subsidiary of Buckeye. This obligation requires us to perform certain environmental remediation work on Buckeye's behalf at the New Haven, Connecticut terminal. This contractual obligation was recorded at fair value on our consolidated balance sheets upon initial recognition and was calculated using our best estimate of potential outcome scenarios to determine our liability for the remediation costs required in this agreement.

- *Debt.* The fair value of our publicly traded notes was based on the prices of those notes at December 31, 2020 and September 30, 2021; 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, 2020 and September 30, 2021 based on the three levels established by ASC 820, *Fair Value Measurements and Disclosures* (in thousands):

			Fair Value Measurements as of December 31, 2020 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)**
Commodity derivatives contracts	$ (20,547)	$ (20,547)	$ (20,547)	$ —	$ —
Basis derivative agreement	$ (10,242)	$ (10,242)	$ —	$ (10,242)	
Long-term receivables	$ 22,755	$ 22,755	$ —	$ —	$ 22,755
Contractual obligations	$ (11,207)	$ (11,207)	$ —	$ —	$ (11,207)
Debt	$ (4,978,691)	$ (5,880,850)	$ —	$ (5,880,850)	$ —

			Fair Value Measurements as of September 30, 2021 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)**
Commodity derivatives contracts	$ (22,280)	$ (22,280)	$ (22,280)	$ —	$ —
Basis derivative agreement	$ (3,120)	$ (3,120)	$ —	$ (3,120)	$ —
Long-term receivables	$ 22,768	$ 22,768	$ —	$ —	$ 22,768
Contractual obligations	$ (9,806)	$ (9,806)	$ —	$ —	$ (9,806)
Debt	$ (5,103,226)	$ (5,786,692)	$ —	$ (5,786,692)	$ —

13. 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 related to butane blending at the Powder Springs facility located in Powder Springs, Georgia. Sunoco subsequently submitted pleadings alleging that Magellan is also infringing various patents related to butane blending at nine Magellan facilities, in addition to Powder Springs. Sunoco is seeking monetary damages, attorneys' fees and a permanent injunction enjoining Magellan and Powder Springs from infringing the subject patents. We deny and are vigorously defending against all claims asserted by Sunoco. The amounts we have accrued in relation to the claims are immaterial, and although it is not possible to predict the ultimate outcome, we believe 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 $14.3 million and $11.8 million at December 31, 2020 and September 30, 2021, respectively. We have classified environmental liabilities as other 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 included in operating expense on our consolidated statements of income. Environmental expenses were $0.1 million and $0.4 million for the three months ended September 30, 2020 and 2021, respectively, and $1.3 million and $2.4 million for the nine months ended September 30, 2020 and 2021, respectively.

Other

In first quarter 2020, we entered into a long-term contractual obligation in connection with the sale of three marine terminals to Buckeye. This obligation requires us to perform certain environmental remediation work on Buckeye's behalf at the New Haven, Connecticut terminal. At December 31, 2020 our balance sheet includes a current liability of $0.6 million and a noncurrent liability of $10.2 million, and as of September 30, 2021 our balance sheet includes a current liability of $0.5 million and a noncurrent liability of $8.9 million, reflecting the fair values of these obligations.

We have entered into an agreement to guarantee our 50% pro rata share, up to $25.0 million, of contractual obligations under the Powder Springs' credit facility. As of September 30, 2021, our consolidated balance sheets reflected a $0.4 million other current liability and a corresponding increase in investments in non-controlled entities 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.

14. Related Party Transactions

Stacy Methvin is an independent member of our general partner’s board of directors and also serves as a director of one of our customers. We received tariff, terminalling and other ancillary revenue from this customer of $8.6 million and $23.2 million for the three months ended September 30, 2020 and 2021, respectively, and $24.3 million and $51.6 million for the nine months ended September 30, 2020 and 2021, respectively. We occasionally have transmix settlements with this customer as well. We recorded receivables of $3.9 million and $2.3 million from this customer at December 31, 2020 and September 30, 2021, respectively.

See Note 5 – *Investments in Non-Controlled Entities* and Note 8 – *Leases* for details of transactions with our joint ventures.

15. Partners’ Capital and Distributions

Partners’ Capital

In 2020, we announced that our general partner’s board of directors had authorized the repurchase of up to $750 million of our common units through 2022. During the third quarter of 2021, we completed the repurchases authorized under this program (see Note 16 - *Subsequent Events* regarding a subsequent expansion of this program).

The following table details the changes in the number of our common units outstanding from December 31, 2020 through September 30, 2021:

Common units outstanding on December 31, 2020	223,119,811
Units repurchased during 2021	(9,837,580)
January 2021–Settlement of employee LTIP awards	150,435
During 2021–Other[(1)]	12,572
Common units outstanding on September 30, 2021	213,445,238

(1) Common units issued to settle the equity-based retainers paid to independent directors of our general partner.

Distributions

Distributions we paid during 2020 and 2021 were as follows (in thousands, except per unit amounts):

Payment Date	Per Unit Distribution Amount	Total Distribution
02/14/2020	$ 1.0275	$ 234,774
05/15/2020	1.0275	231,245
08/14/2020	1.0275	231,245
Through 09/30/2020	3.0825	697,264
11/13/2020	1.0275	229,853
Total	$ 4.1100	$ 927,117
02/12/2021	$ 1.0275	229,423
05/14/2021	1.0275	228,962
08/13/2021	1.0275	226,633
Through 09/30/2021	3.0825	685,018
11/12/2021[1]	1.0375	221,449
Total	$ 4.1200	$ 906,467

(1) Our general partner's board of directors declared this distribution in October 2021 to be paid on November 12, 2021 to unitholders of record at the close of business on November 5, 2021. The estimated total distribution is based upon the number of common units currently outstanding.

16. Subsequent Events

Recognizable events

No recognizable events occurred subsequent to September 30, 2021.

Non-recognizable events

Distribution. In October 2021, our general partner's board of directors declared a quarterly distribution of $1.0375 per unit for the period of July 1, 2021 through September 30, 2021. This quarterly distribution will be paid on November 12, 2021 to unitholders of record on November 5, 2021.

Unit Repurchase Program. Following the completion of the $750 million repurchase program announced in 2020, our general partner's board of directors in October 2021 authorized the expansion of our unit repurchase program by $750 million for a total of $1.5 billion and extended the program through 2024. The expanded program allows unit repurchases in compliance with Securities Exchange Act Rules 10b-18, 10b5-1 or both. Our unit repurchase program does not obligate us to acquire a specific number of units during any period, and our decision to commence, discontinue or resume repurchases in any period will depend on a number of factors, including our expected expansion capital spending needs, excess cash available, balance sheet metrics, legal and regulatory requirements, market conditions and the trading price of our units.

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

Introduction

We are a publicly traded limited partnership principally engaged in the transportation, storage and distribution of refined petroleum products and crude oil. As of September 30, 2021, our asset portfolio, excluding assets associated with discontinued operations, consisted of:

- our refined products segment, comprised of our approximately 9,800-mile refined petroleum products pipeline system with 54 connected terminals and two marine storage terminals (one of which is owned through a joint venture); and

- our crude oil segment, comprised of approximately 2,200 miles of crude oil pipelines, a condensate splitter and 37 million barrels of aggregate storage capacity, of which approximately 27 million barrels are used for contract storage. Approximately 1,000 miles of these pipelines, the condensate splitter and 30 million barrels of this storage capacity (including 24 million barrels used for contract storage) 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, 2020.

Recent Developments

Discontinued Operations. In June 2021, we entered into an agreement to sell our independent terminals network comprised of 26 refined petroleum products terminals with approximately six million barrels of storage located primarily in the southeastern United States. The sale is expected to close upon the receipt of required regulatory approvals. The related results of operations, financial position and cash flows have been classified as discontinued operations for all periods presented. See Note 2 - *Discontinued Operations and Assets Held for Sale* in Item 1 of Part I of this report for further details.

Sale of Partial Interest in MVP Terminalling, LLC. In April 2021, we sold nearly half of our membership interest in MVP and received proceeds of $272.1 million. Following the sale, we own approximately 25% of MVP and remain the operator of the facility.

Distribution. In October 2021, our general partner's board of directors declared a quarterly distribution of $1.0375 per unit for the period of July 1, 2021 through September 30, 2021. This quarterly distribution will be paid on November 12, 2021 to unitholders of record on November 5, 2021.

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 the 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 the components of product sales revenue and cost of product sales are determined in accordance with GAAP. Our gas liquids 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 the importance to our results of operations.

Three Months Ended September 30, 2020 compared to Three Months Ended September 30, 2021

	Three Months Ended September 30,		Variance Favorable (Unfavorable)	
	2020	**2021**	**$ Change**	**% Change**
Financial Highlights ($ in millions, except operating statistics)				
Transportation and terminals revenue:				
Refined products	$ 307.2	$ 349.4	$ 42.2	14
Crude oil	154.6	116.9	(37.7)	(24)
Intersegment eliminations	(1.9)	(1.4)	0.5	26
Total transportation and terminals revenue	459.9	464.9	5.0	1
Affiliate management fee revenue	5.3	5.3	—	—
Operating expenses:				
Refined products	114.2	114.6	(0.4)	—
Crude oil	47.0	35.1	11.9	25
Intersegment eliminations	(3.5)	(3.1)	(0.4)	(11)
Total operating expenses	157.7	146.6	11.1	7
Product margin:				
Product sales revenue	111.2	168.8	57.6	52
Cost of product sales	89.4	145.8	(56.4)	(63)
Product margin	21.8	23.0	1.2	6
Other operating income (expense)	(2.9)	2.6	5.5	n/a
Earnings of non-controlled entities	39.2	36.5	(2.7)	(7)
Operating margin	365.6	385.7	20.1	5
Depreciation, amortization and impairment expense	68.4	61.4	7.0	10
G&A expense	37.5	46.7	(9.2)	(25)
Operating profit	259.7	277.6	17.9	7
Interest expense (net of interest income and interest capitalized)	52.7	56.6	(3.9)	(7)
Gain on disposition of assets	—	(3.2)	3.2	—
Other (income) expense	1.4	2.1	(0.7)	(50)
Income from continuing operations before provision for income taxes	205.6	222.1	16.5	8
Provision for income taxes	0.9	0.8	0.1	11
Income from continuing operations	204.7	221.3	16.6	8
Income from discontinued operations	6.9	15.3	8.4	122
Net income	$ 211.6	$ 236.6	$ 25.0	12
Operating Statistics:				
Refined products:				
Transportation revenue per barrel shipped	$ 1.719	$ 1.724		
Volume shipped (million barrels):				
Gasoline	71.9	80.3		
Distillates	42.5	53.0		
Aviation fuel	4.7	8.4		
Liquefied petroleum gases	0.1	0.1		
Total volume shipped	119.2	141.8		
Crude oil:				
Magellan 100%-owned assets:				
Transportation revenue per barrel shipped	$ 1.401	$ 0.803		
Volume shipped (million barrels)(1)	45.1	49.2		
Terminal average utilization (million barrels per month)	25.9	24.9		
Select joint venture pipelines:				
BridgeTex - volume shipped (million barrels)(2)	30.6	29.1		
Saddlehorn - volume shipped (million barrels)(3)	15.1	19.9		

(1) Volume shipped includes shipments related to our crude oil marketing activities.
(2) These volumes reflect the total shipments for the BridgeTex pipeline, which is owned 30% by us.
(3) These volumes reflect the total shipments for the Saddlehorn pipeline, which is owned 30% by us.

Transportation and terminals revenue increased $5.0 million resulting from:

- an increase in refined products revenue of $42.2 million primarily due to increased transportation revenue as a result of higher volumes versus the pandemic levels of 2020 due to the recovery in travel, economic and drilling activity as well as additional contributions from our Texas pipeline expansion projects. Transportation revenues for the current period also benefited from our mid-year 2021 tariff increase. These favorable items were partially offset by lower storage revenues due to lower utilization and rates following recent contract expirations; and
- a decrease in crude oil revenue of $37.7 million primarily due to lower average tariff rates and reduced storage revenues. Average tariff rates decreased primarily as a result of the late 2020 expiration of several higher-priced contracts on our Longhorn pipeline, with much of this volume replaced by activities of our marketing affiliate. In addition, deficiency revenue recognized in the year-ago period did not recur in third quarter 2021. Storage revenues decreased primarily due to the 2020 period benefiting from increased short-term storage utilization at higher rates, with recent contract renewals at lower rates in the current period.

Operating expenses decreased by $11.1 million primarily resulting from:

- an increase in refined products expenses of $0.4 million. An increase in integrity spending related to the timing of maintenance work, higher power costs due to higher volume shipped and higher property taxes were mainly offset by favorable product overages (which reduce operating expenses); and
- a decrease in crude oil expenses of $11.9 million primarily due to a decrease in integrity spending related to the timing of maintenance work, lower fees paid to Seabrook for ancillary services and favorable product overages.

Product margin increased $1.2 million primarily due to recognition of losses on futures contracts in third quarter 2020 offset by lower margins and lower sales volumes on our gas liquids blending and fractionation activities in the current period.

Other operating income (expense) was $5.5 million favorable in part due to reduced estimates for retained liabilities related to our 2020 marine terminals sale and lower losses recognized on a basis derivative agreement during the current period.

Earnings of non-controlled entities decreased $2.7 million primarily due to the sale of a portion of our interest in MVP during second quarter 2021. We also earned less from Seabrook due to lower throughput fees and additional depreciation for recently-constructed assets and BridgeTex due to less favorable product overages. These decreases were partially offset by additional earnings from Powder Springs due to gains on futures contracts in the current quarter.

Depreciation, amortization and impairment expense decreased $7.0 million primarily due to the impairment in third quarter 2020 of certain terminalling assets.

G&A expense increased $9.2 million primarily due to higher incentive compensation costs as a result of improved financial results in 2021.

Interest expense, net of interest income and interest capitalized, increased $3.9 million due to lower capitalized interest as a result of reduced ongoing expansion capital spending and higher debt outstanding. Our weighted-average debt outstanding was $5.1 billion in third quarter 2021 compared to $4.9 billion in third quarter 2020. The weighted average interest rate was 4.4% in third quarter 2021 compared to 4.3% in third quarter 2020.

Gain on disposition of assets of $3.2 million in the current period resulted from true-ups for previous asset sales, including the final working capital adjustments related to the sale of a portion of our interest in MVP.

Income from discontinued operations increased by $8.4 million due to improved product margin for our independent terminals as a result of higher gas liquids blending volume sold at increased pricing and less depreciation now that the assets are classified as held for sale.

Nine Months Ended September 30, 2020 compared to Nine Months Ended September 30, 2021

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Variance Favorable (Unfavorable) $ Change	Variance Favorable (Unfavorable) % Change
Financial Highlights ($ in millions, except operating statistics)				
Transportation and terminals revenue:				
Refined products	$ 876.4	$ 984.9	$ 108.5	12
Crude oil	433.9	351.8	(82.1)	(19)
Intersegment eliminations	(5.1)	(4.4)	0.7	14
Total transportation and terminals revenue	1,305.2	1,332.3	27.1	2
Affiliate management fee revenue	15.9	15.9	—	—
Operating expenses:				
Refined products	316.3	314.2	2.1	1
Crude oil	139.7	118.1	21.6	15
Intersegment eliminations	(9.9)	(9.4)	(0.5)	(5)
Total operating expenses	446.1	422.9	23.2	5
Product margin:				
Product sales revenue	443.1	575.6	132.5	30
Cost of product sales	364.9	488.6	(123.7)	(34)
Product margin	78.2	87.0	8.8	11
Other operating income (expense)	0.5	4.0	3.5	700
Earnings of non-controlled entities	116.5	116.1	(0.4)	—
Operating margin	1,070.2	1,132.4	62.2	6
Depreciation, amortization and impairment expense	183.2	168.3	14.9	8
G&A expense	115.5	148.7	(33.2)	(29)
Operating profit	771.5	815.4	43.9	6
Interest expense (net of interest income and interest capitalized)	168.0	169.3	(1.3)	(1)
Gain on disposition of assets	(12.9)	(72.9)	60.0	465
Other (income) expense	3.7	18.1	(14.4)	(389)
Income from continuing operations before provision for income taxes	612.7	700.9	88.2	14
Provision for income taxes	2.2	2.0	0.2	9
Income from continuing operations	610.5	698.9	88.4	14
Income from discontinued operations	22.5	39.4	16.9	75
Net income	$ 633.0	$ 738.3	$ 105.3	17
Operating Statistics:				
Refined products:				
Transportation revenue per barrel shipped	$ 1.658	$ 1.697		
Volume shipped (million barrels):				
Gasoline	199.4	224.1		
Distillates	127.6	152.4		
Aviation fuel	16.8	21.7		
Liquefied petroleum gases	0.5	0.6		
Total volume shipped	344.3	398.8		
Crude oil:				
Magellan 100%-owned assets:				
Transportation revenue per barrel shipped	$ 1.145	$ 0.803		
Volume shipped (million barrels)(1)	167.9	145.3		
Terminal average utilization (million barrels per month)	24.7	25.1		
Select joint venture pipelines:				
BridgeTex - volume shipped (million barrels)(2)	99.9	84.6		
Saddlehorn - volume shipped (million barrels)(3)	46.5	56.0		

(1) Volume shipped includes shipments related to our crude oil marketing activities.
(2) These volumes reflect the total shipments for the BridgeTex pipeline, which is owned 30% by us.
(3) These volumes reflect the total shipments for the Saddlehorn pipeline, which was owned 40% by us through January 31, 2020 and 30% thereafter.

Transportation and terminals revenue increased $27.1 million resulting from:

- an increase in refined products revenue of $108.5 million primarily due to increased transportation revenue as a result of higher volumes versus the pandemic levels of 2020 due to the recovery in travel, economic and drilling activity as well as additional contributions from our Texas pipeline expansion projects. Revenues also benefited from an increase in the average tariff rate in the current period as a result of the 2020 and 2021 mid-year adjustments. These favorable items were partially offset by the absence of revenues in the current period associated with the three marine terminals we sold in March 2020 and lower storage revenues due to lower utilization and lower rates following recent contract expirations; and
- a decrease in crude oil revenue of $82.1 million primarily due to lower average tariff rates, less volume shipped and reduced storage revenues. Average tariff rates decreased primarily as a result of the late 2020 expiration of several higher-priced contracts on our Longhorn pipeline. In addition, deficiency revenue recognized in the year-ago period did not recur in 2021. Transportation volumes also declined partially due to those Longhorn contract expirations, with much of this volume replaced by activities of our marketing affiliate, as well as short-term supply disruptions caused by the 2021 winter storm that negatively impacted shipments mainly on our Houston distribution system. Storage revenues decreased primarily due to the 2020 period benefiting from increased short-term storage utilization at higher rates and contract renewals at lower rates in the current period.

Operating expenses decreased by $23.2 million primarily resulting from:

- a decrease in refined products expenses of $2.1 million. Favorable product overages and the absence of costs in the current period associated with the divested marine terminals were partially offset by higher compensation costs and more integrity spending due to timing of project work; and
- a decrease in crude oil expenses of $21.6 million primarily due to lower power costs as a result of our recent optimization efforts as well as gains on power hedges driven by the winter storm in first quarter 2021, lower fees paid to Seabrook for ancillary services and lower integrity spending.

Product margin increased $8.8 million primarily due to lower of cost or net realizable value adjustments that negatively impacted 2020 as a result of the significant decrease in commodity prices that year and higher margins on our fractionator and crude over/short activities, partially offset by reduced margins on our gas liquids blending activities in the current year.

Other operating income (expense) was $3.5 million favorable primarily due to sales of unused air emission credits and reduced estimates for retained liabilities related to our 2020 marine terminals sale.

Earnings of non-controlled entities decreased $0.4 million. Lower earnings from MVP following the sale of a portion of our interest during second quarter 2021 and from Powder Springs due to lower gains recognized in the current year on futures contracts were mostly offset by contributions from expansion projects at MVP and Saddlehorn.

Depreciation, amortization and impairment expense decreased $14.9 million primarily due to impairment losses recognized in 2020 related to certain terminalling assets.

G&A expense increased $33.2 million primarily due to higher incentive compensation costs as a result of improved financial results, as well as higher benefits costs in 2021.

Interest expense, net of interest income and interest capitalized, increased $1.3 million primarily due to lower capitalized interest in the current year as a result of reduced ongoing expansion capital spending. Our weighted-average debt outstanding was $5.1 billion in the 2021 period compared to $4.9 billion in 2020. The weighted average interest rate was 4.4% in 2021 compared to 4.5% in 2020.

Gain on disposition of assets of $72.9 million in 2021 was primarily the result of the sale of a portion of our interest in MVP and $12.9 million recognized in 2020 was due to the sale of a portion of our interest in Saddlehorn.

Other expense was $14.4 million unfavorable primarily due to amounts recognized in second quarter 2021 related to certain legal matters.

Income from discontinued operations increased by $16.9 million due to improved product margin for our independent terminals as a result of higher gas liquids blending volume sold at increased pricing and less depreciation now that the assets are classified as held for sale.

Adjusted EBITDA, Distributable Cash Flow and Free Cash Flow

We believe that investors benefit from having access to the same financial measures utilized by management. In the following tables, we present the financial measures of adjusted EBITDA, distributable cash flow ("DCF") and free cash flow ("FCF"), which are non-GAAP measures. These measures include the results of our discontinued operations.

Adjusted EBITDA is an important measure utilized by management and the investment community to assess the financial results of a company. A reconciliation of adjusted EBITDA to net income, the nearest comparable GAAP measure, is included in the table below.

Our partnership agreement requires that all of our available cash, less amounts reserved by our general partner's board of directors, be distributed to our unitholders. DCF is used by management to determine the amount of cash that our operations generated, after maintenance capital spending, that is available for distribution to our unitholders, as well as a basis for recommending to our general partner's board of directors the amount of distributions to be paid each period. We also use DCF as the basis for calculating our performance-based equity long-term incentive compensation. A reconciliation of DCF to net income, the nearest comparable GAAP measure, is included in the table below.

FCF is a financial metric used by many investors and others in the financial community to measure the amount of cash generated by a company during a period after accounting for all investing activities, including both maintenance and expansion capital spending, as well as proceeds from divestitures. We believe FCF is important to the financial community as it reflects the amount of cash available for distributions, unit repurchases, debt reduction, additional investments or other partnership uses. A reconciliation of FCF to net income and to net cash provided by operating activities, the nearest comparable GAAP measure, is included in the following tables.

Since the non-GAAP measures presented here include adjustments specific to us, they may not be comparable to similarly-titled measures of other companies.

Adjusted EBITDA, DCF and FCF are non-GAAP measures. A reconciliation of each of these measures to net income for the nine months ended September 30, 2020 and 2021 is as follows (in millions):

	Nine Months Ended September 30,	
	2020	2021
Net income	$ 633.0	$ 738.3
Interest expense, net	168.0	169.3
Depreciation, amortization and impairment(1)	193.4	174.4
Equity-based incentive compensation(2)	(9.1)	9.5
Gain on disposition of assets(3)	(10.5)	(68.5)
Commodity-related adjustments:		
Derivative (gains) losses recognized in the period associated with future transactions(4)	6.7	21.1
Derivative gains (losses) recognized in previous periods associated with transactions completed in the period(4)	(18.9)	(32.2)
Inventory valuation adjustments(5)	9.6	2.4
Total commodity-related adjustments	(2.6)	(8.7)
Distributions from operations of non-controlled entities in excess of earnings	36.2	24.5
Adjusted EBITDA	1,008.4	1,038.8
Interest expense, net, excluding debt issuance cost amortization(6)	(152.4)	(167.0)
Maintenance capital(7)	(81.2)	(50.2)
Distributable cash flow	774.8	821.6
Expansion capital(8)	(310.0)	(67.6)
Proceeds from asset sales	334.6	270.7
Free cash flow	799.4	1,024.7
Distributions paid	(697.3)	(685.0)
Free cash flow after distributions	$ 102.1	$ 339.7

(1) 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 common units, expenses related to this plan generally are deemed non-cash and excluded for DCF purposes. The amounts above have been reduced by 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.

(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) Interest expense includes debt prepayment costs of $12.9 million in the nine months ended September 30, 2020, which are excluded from DCF as they are financing activities and not related to our ongoing operations.

(7) 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.

(8) Includes additions to property, plant and equipment (excluding maintenance capital and capital-related changes in accounts payable and other current liabilities), acquisitions and investments in non-controlled entities, net of distributions from returns of investments in non-controlled entities and deposits from undivided joint interest third parties.

A reconciliation of FCF to net cash provided by operating activities for the nine months ended September 30, 2020 and 2021 is as follows (in millions):

	Nine Months Ended September 30,	
	2020	2021
Net cash provided by operating activities	$ 840.1	$ 879.1
Changes in operating assets and liabilities	30.4	0.6
Net cash provided (used) in investing activities	(110.3)	160.1
Payments associated with settlement of equity-based incentive compensation	(14.7)	(6.2)
Settlement gain, amortization of prior service credit and actuarial loss	(4.0)	(7.2)
Changes in accrued capital items	52.8	(4.0)
Commodity-related adjustments(1)	(2.6)	(8.7)
Other	7.7	11.0
Free cash flow	799.4	1,024.7
Distributions paid	(697.3)	(685.0)
Free cash flow after distributions	$ 102.1	$ 339.7

(1) Please refer to the preceding table for a description of these commodity-related adjustments.

Liquidity and Capital Resources

Cash Flows and Capital Expenditures

Operating Activities. Net cash provided by operating activities was $840.1 million and $879.1 million for the nine months ended September 30, 2020 and 2021, respectively. The $39.0 million increase in 2021 was due to higher net income as previously described and changes in our working capital, partially offset by adjustments for non-cash items and distributions in excess of earnings of our non-controlled entities.

Investing Activities. Net cash used by investing activities for the nine months ended September 30, 2020 was $110.3 million and net cash provided by investing activities for the nine months ended September 30, 2021 was $160.1 million. During the 2021 period, we used $106.5 million for capital expenditures. Also, during 2021, we sold a portion of our interest in MVP for cash proceeds of $271.0 million. During the 2020 period, we used $357.1 million for capital expenditures. Also during 2020, we sold three marine terminals for cash proceeds of $251.8 million and sold a portion of our interest in Saddlehorn for cash proceeds of $79.9 million. Additionally, we contributed capital of $73.7 million in conjunction with our joint venture capital projects, which we account for as investments in non-controlled entities.

Financing Activities. Net cash used by financing activities for the nine months ended September 30, 2020 and 2021 was $794.1 million and $1,041.2 million, respectively. During the 2021 period, we paid distributions of $685.0 million to our unitholders and repurchased common units for $473.1 million. Additionally, we had net commercial paper borrowings of $123.0 million. Also, in January 2021, our equity-based incentive compensation awards that vested December 31, 2020 were settled by issuing 163,007 common units and distributing those units to the long-term incentive plan ("LTIP") participants, resulting in payments primarily associated with tax withholdings of $6.2 million. During the 2020 period, we paid distributions of $697.3 million to our unitholders and repurchased common units for $252.0 million. Additionally, we received net proceeds of $499.4 million from the issuance of long-term senior notes and had net commercial paper borrowings of $248.0 million, which collectively were used to repay our $550.0 million of 4.25% notes due 2021. Also, in January 2020, our equity-based incentive compensation awards that vested December 31, 2019 were settled by issuing 284,643 common units and distributing those units to the LTIP participants, resulting in payments primarily associated with tax withholdings of $14.7 million.

The quarterly distribution amount related to third quarter 2021 earnings is $1.0375 per unit (to be paid in fourth quarter 2021). If we were to continue paying distributions at this level on the number of common units currently outstanding, total distributions of approximately $898 million would be paid to our unitholders related to 2021 earnings. Management believes we will have sufficient DCF to fund these distributions.

Capital Requirements

Capital spending for our business 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 and to construct new assets, which we refer to collectively 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 nine months ended September 30, 2021, our maintenance capital spending was $50.2 million, including $1.5 million for discontinued operations. For 2021, we expect to spend approximately $80 million on maintenance capital.

During the first nine months of 2021, we spent $62.0 million for our expansion capital projects, including $0.2 million for discontinued operations, and contributed $5.6 million for expansion capital projects in conjunction with our joint ventures. Based on the progress of expansion projects already underway, we expect to spend approximately $80 million in 2021 and $20 million in 2022 to complete our current slate of expansion capital projects.

In addition, we may repurchase our common units through our unit repurchase program (see Item 2 – *Unregistered Sales of Equity Securities and Use of Proceeds* of Part II of this report for additional details). We may also repurchase portions of our existing long-term debt from time-to-time through open market transactions, tender offers or privately-negotiated transactions.

Liquidity

Cash generated from operations is a key source of liquidity for funding debt service, maintenance capital expenditures, quarterly distributions and repurchases of our common units. Additional liquidity for purposes other than quarterly distributions, such as expansion capital expenditures, is available through borrowings under our commercial paper program and revolving credit facility, as well as from other borrowings or issuances of debt or common units (see Note 7 – *Debt* and Note 15 – *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).

Off-Balance Sheet Arrangements

None.

Other Items

Executive Officer Promotions. Mark B. Roles, who previously held the position of Vice President, Business Optimization, was elected by our general partner's board of directors as Senior Vice President, Commercial - Refined Products effective May 22, 2021. He has served in various positions of increasing responsibilities in commercial and operations since joining us and our predecessor company in 1998.

Pipeline Tariff Changes. Historically, the tariff rates on approximately 40% of our refined products shipments have been regulated by the Federal Energy Regulatory Commission ("FERC") primarily through an annual index methodology, and nearly all the remaining rates are adjustable at our discretion based on market factors. Due to the recent expansion of our Texas refined products pipeline system, for which rates are not regulated by the FERC, we expect a smaller percent of our total refined products shipments to be subject to the index methodology in the future. The new 5-year FERC index beginning July 2021 is based on the change in the producer price index for finished goods plus 0.78%. Based on this methodology, we decreased our index rates by approximately 0.6% on July 1, 2021, with an average increase of more than 4% on the remainder of our refined products tariff rates, resulting in an overall average refined products mid-year tariff increase of nearly 3%. Most of the tariffs on our long-haul 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. As a result, we also changed the rates on our crude oil pipelines between 0% and 2% in July 2021.

Commodity Derivative Agreements. Certain of our business activities result in our owning various commodities, which exposes us to commodity price risk. We generally use forward physical commodity contracts and exchange-traded futures contracts to hedge against changes in prices of the commodities that we expect to sell or purchase in future periods. We are a party to a basis derivative agreement for which settlements are determined based on the basis differential of crude oil prices at different market locations.

See Item 3. *Quantitative and Qualitative Disclosures about Market Risk* for further information regarding the quantities of refined products and crude oil hedged at September 30, 2021 and the fair value of open hedge and basis derivative contracts at that date.

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 mitigate 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 gas liquids blending and fractionation activities, and from managing product overages and shortages associated with our refined products and crude oil pipelines and terminals. We generally use derivatives such as forward physical contracts and exchange-traded futures contracts to help us manage our 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 September 30, 2021, we had commitments under forward purchase and sale contracts as follows (in millions):

	Total	2021	2022-2025	Beyond 2025
Forward purchase contracts – notional value	$ 516.8	$ 172.2	$ 205.0	$ 139.6
Forward purchase contracts – barrels	11.4	2.6	4.3	4.5
Forward sales contracts – notional value	$ 78.2	$ 72.5	$ 5.7	$ —
Forward sales contracts – barrels	0.9	0.8	0.1	—

We generally use exchange-traded futures contracts to hedge against changes in the price of the petroleum products we expect to sell or purchase. We did not elect hedge accounting treatment under ASC 815, *Derivatives* *and Hedging*, for our open contracts and as a result 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 4.9 million barrels of petroleum products we expect to sell and 1.2 million barrels of gas liquids we expect to purchase, was a net liability of $22.3 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 $49.0 million decrease (increase) in our operating profit, while a $10.00 per barrel increase (decrease) in the price of gas liquids we expect to purchase would result in a $12.0 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, respectively. 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 related hedges may not eliminate all price risks.

Interest Rate Risk

Our use of variable rate debt and any future issuances of fixed rate debt expose us to interest rate risk. As of September 30, 2021, we did not have any variable rate debt outstanding.

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 September 30, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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") are infringing patents related to butane blending at the Powder Springs facility located in Powder Springs, Georgia. Sunoco subsequently submitted pleadings alleging that Magellan is also infringing various patents related to butane blending at nine Magellan facilities, in addition to Powder Springs. Sunoco is seeking monetary damages, attorneys' fees and a permanent injunction enjoining Magellan and Powder Springs from infringing 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 the ultimate resolution of this matter will not have a material adverse 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, 2020, 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

In 2020, we initiated a $750 million common unit repurchase program, which allowed us to repurchase units through 2022. We completed the repurchases authorized under this program in September 2021. In October 2021, this program was expanded by $750 million to allow unit repurchases totaling $1.5 billion through December 31, 2024. We intend to purchase our units from time-to-time through a variety of methods, including open market purchases and negotiated transactions, all in compliance with Securities Exchange Act Rules 10b-18, 10b5-1 or both and other applicable legal requirements. The timing, price and actual number of units repurchased will depend on a number of factors including our expected expansion capital spending, excess cash available, balance sheet metrics, legal and regulatory requirements, market conditions and the trading price of our units. The program does not obligate us to acquire any particular amount of units, and the repurchase program may be suspended or discontinued at any time.

The following table provides details of our unit repurchases in 2021 under our initial $750 million program:

Period	Total Number of Common Units Purchased	Average Price Paid Per Unit	Total Number of Units Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Units That May Yet Be Purchased under the Program (in millions)
Year Ended 2020	5,568,260	$ 49.74	5,568,260	$ 473.1
January 1-31, 2021	—		—	$ 473.1
February 1-28, 2021	—		—	$ 473.1
March 1-31, 2021	—		—	$ 473.1
First Quarter 2021	—		—	
April 1-30, 2021	—		—	$ 473.1
May 1-31, 2021	1,723,188	$ 47.77	1,723,188	$ 390.7
June 1-30, 2021	—		—	$ 390.7
Second Quarter 2021	1,723,188	$ 47.77	1,723,188	
July 1-31, 2021	251,947	$ 47.24	251,947	$ 378.8
August 1-31, 2021	6,289,504	$ 47.94	6,289,504	$ 77.3
September 1-30, 2021	1,572,941	$ 49.14	1,572,941	$ —
Third Quarter 2021	8,114,392	$ 48.15	8,114,392	
Year-to-Date 2021	9,837,580	$ 48.09	9,837,580	
Total Inception-to-Date	15,405,840	$ 48.68	15,405,840	$ —

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 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.

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 November 2, 2021.

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)