

MAGELLAN MIDSTREAM PARTNERS LP
Form 10-Q
May 05, 2015

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 March 31, 2015

OR

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

For the transition period from _____ to _____
Commission File No.: 1-16335

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

Delaware
(State or other jurisdiction of
incorporation or organization)

73-1599053
(IRS Employer
Identification No.)

One Williams Center, P.O. Box 22186, Tulsa, Oklahoma 74121-2186
(Address of principal executive offices and zip code)
(918) 574-7000

(Registrant's telephone number, including area code)

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

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

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

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

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

As of May 4, 2015, there were 227,426,329 outstanding limited partner units of Magellan Midstream Partners, L.P. that trade on the New York Stock Exchange under the ticker symbol "MMP."

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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	
	March 31,	
	2014	2015
Transportation and terminals revenue	\$317,637	\$345,600
Product sales revenue	296,063	173,127
Affiliate management fee revenue	4,906	3,363
Total revenue	618,606	522,090
Costs and expenses:		
Operating	73,497	98,495
Cost of product sales	198,040	136,179
Depreciation and amortization	37,511	41,697
General and administrative	34,935	35,498
Total costs and expenses	343,983	311,869
Earnings of non-controlled entities	466	9,590
Operating profit	275,089	219,811
Interest expense	36,416	36,607
Interest income	(391)	(349)
Interest capitalized	(5,310)	(2,107)
Debt placement fee amortization expense	599	587
Other expense	—	279
Income before provision for income taxes	243,775	184,794
Provision for income taxes	1,221	1,158
Net income	\$242,554	\$183,636
Basic and diluted net income per limited partner unit	\$1.07	\$0.81
Weighted average number of limited partner units outstanding used for basic and diluted net income per unit calculation	227,141	227,525

See notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2015
Net income	\$242,554	\$183,636
Other comprehensive income:		
Derivative activity:		
Net loss on cash flow hedges ⁽¹⁾	(3,613	) (15,465
Reclassification of net loss (gain) on cash flow hedges to income ⁽¹⁾	(26	) 200
Changes in employee benefit plan assets and benefit obligations recognized in other comprehensive income:		
Amortization of prior service credit ⁽²⁾	(895	) (928
Amortization of actuarial loss ⁽²⁾	824	1,572
Total other comprehensive loss	(3,710	) (14,621
Comprehensive income	\$238,844	\$169,015

(1) See Note 8—Derivative Financial Instruments for details of the amount of gain/loss recognized in accumulated other comprehensive loss ("AOCL") on derivatives and the amount of gain/loss reclassified from AOCL into income.

(2) See Note 6—Employee Benefit Plans for details of the changes in employee benefit plan assets and benefit obligations recognized in AOCL.

See notes to consolidated financial statements.

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

	December 31, 2014	March 31, 2015 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$17,063	\$52,813
Trade accounts receivable (less allowance for doubtful accounts of \$0 and \$20 at December 31, 2014 and March 31, 2015, respectively)	84,465	96,700
Other accounts receivable	15,711	15,744
Inventory	157,762	160,949
Energy commodity derivatives contracts, net	87,151	36,725
Energy commodity derivatives deposits	6,184	1,100
Other current assets	34,331	31,619
Total current assets	402,667	395,650
Property, plant and equipment	5,533,935	5,642,904
Less: Accumulated depreciation	1,204,601	1,243,310
Net property, plant and equipment	4,329,334	4,399,594
Investments in non-controlled entities	613,867	636,618
Long-term receivables	28,611	27,116
Goodwill	53,260	53,260
Other intangibles (less accumulated amortization of \$11,526 and \$12,206 at December 31, 2014 and March 31, 2015, respectively)	4,573	3,893
Debt placement costs (less accumulated amortization of \$8,952 and \$9,539 at December 31, 2014 and March 31, 2015, respectively)	18,084	22,158
Tank bottoms and linefill	42,585	38,361
Other noncurrent assets	24,304	28,467
Total assets	\$5,517,285	\$5,605,117
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	\$97,131	\$91,022
Accrued payroll and benefits	48,298	31,719
Accrued interest payable	45,973	45,800
Accrued taxes other than income	47,888	42,087
Environmental liabilities	10,564	11,926
Deferred revenue	71,142	75,920
Accrued product purchases	44,355	37,953
Energy commodity derivatives contracts, net	5,413	814
Energy commodity derivatives deposits	84,463	31,512
Other current liabilities	80,928	50,134
Total current liabilities	536,155	418,887
Long-term debt	2,982,895	3,183,750
Long-term pension and benefits	75,155	80,741
Other noncurrent liabilities	29,069	23,427
Environmental liabilities	25,778	24,431
Commitments and contingencies		

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Partners' capital:

Limited partner unitholders (227,068 units and 227,426 units outstanding at December 31, 2014 and March 31, 2015, respectively)	1,949,773	1,970,042
Accumulated other comprehensive loss	(81,540	) (96,161)
Total partners' capital	1,868,233	1,873,881
Total liabilities and partners' capital	\$5,517,285	\$5,605,117

See notes to consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2014	2015
Operating Activities:		
Net income	\$242,554	\$183,636
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	37,511	41,697
Debt placement fee amortization expense	599	587
Loss on sale and retirement of assets	1,205	(3
Earnings of non-controlled entities	(466	) (9,590
Distributions from investments in non-controlled entities	384	9,229
Equity-based incentive compensation expense	5,088	4,751
Amortization of prior service credit and actuarial loss	(71	) 644
Changes in operating assets and liabilities:		
Trade accounts receivable and other accounts receivable	15,022	(12,194
Inventory	(23,011	) (3,187
Energy commodity derivatives contracts, net of derivatives deposits	(529	) (5,804
Accounts payable	2,960	(4,351
Accrued payroll and benefits	(14,552	) (16,579
Accrued interest payable	5,194	(173
Accrued taxes other than income	(7,479	) (5,801
Accrued product purchases	(19,978	) (6,402
Deferred revenue	1,448	4,778
Current and noncurrent environmental liabilities	(1,393	) 15
Other current and noncurrent assets and liabilities	25,588	9,830
Net cash provided by operating activities	270,074	191,083
Investing Activities:		
Additions to property, plant and equipment, net ⁽¹⁾	(75,514	) (128,517
Proceeds from sale and disposition of assets	42	3,089
Investments in non-controlled entities	(127,698	) (13,751
Distributions in excess of earnings of non-controlled entities	687	4,613
Net cash used by investing activities	(202,483	) (134,566
Financing Activities:		
Distributions paid	(132,835	) (158,061
Net commercial paper repayments	—	(296,942
Borrowings under long-term notes	257,713	499,589
Debt placement costs	(2,648	) (4,661
Net payment on financial derivatives	(3,613	) (42,908
Settlement of tax withholdings on long-term incentive compensation	(14,813	) (17,784
Net cash provided (used) by financing activities	103,804	(20,767
Change in cash and cash equivalents	171,395	35,750
Cash and cash equivalents at beginning of period	25,235	17,063
Cash and cash equivalents at end of period	\$196,630	\$52,813

Supplemental non-cash investing and financing activities:

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Contribution of property, plant and equipment to a non-controlled entity	\$—	\$13,252
Issuance of limited partner units in settlement of equity-based incentive plan awards	\$7,315	\$8,045
(1) Additions to property, plant and equipment	\$(70,295)	\$(127,709)
Changes in accounts payable and other current liabilities related to capital expenditures	(5,219)	(808)
Additions to property, plant and equipment, net	\$(75,514)	\$(128,517)

See notes to consolidated financial statements.

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

1. Organization, Description of Business and Basis of Presentation

Organization

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

Description of Business

We are principally engaged in the transportation, storage and distribution of refined petroleum products and crude oil. As of March 31, 2015, our asset portfolio, including the assets of our joint ventures, consisted of:

• our refined products segment, comprised of our 9,500-mile refined products pipeline system with 52 terminals as well as 27 independent terminals not connected to our pipeline system and our 1,100-mile ammonia pipeline system;

• our crude oil segment, comprised of approximately 1,600 miles of crude oil pipelines and storage facilities with an aggregate storage capacity of approximately 21 million barrels, of which 12 million barrels are used for leased storage; and

• our marine storage segment, consisting of five marine terminals located along coastal waterways with an aggregate storage capacity of approximately 26 million barrels.

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

• refined products are the output from refineries and are primarily used as fuels by consumers. Refined products include gasoline, diesel fuel, aviation fuel, kerosene and heating oil. Collectively, diesel fuel and heating oil are referred to as distillates;

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

• blendstocks are blended with refined products to change or enhance their characteristics such as increasing a gasoline's octane or oxygen content. Blendstocks include alkylates, oxygenates and natural gasoline;

• heavy oils and feedstocks are used as burner fuels or feedstocks for further processing by refineries and petrochemical facilities. Heavy oils and feedstocks include No. 6 fuel oil and vacuum gas oil;

• crude oil and condensate are used as feedstocks by refineries and petrochemical facilities;

• biofuels, such as ethanol and biodiesel, are increasingly required by government mandates; and

• ammonia is primarily used as a nitrogen fertilizer.

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

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

Basis of Presentation