MAGELLAN MIDSTREAM PARTNERS LP
Form 10-Q
November 02, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from to

Commission File No.: 1-16335

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

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

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

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

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

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

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

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

As of November 1, 2016, there were 227,783,916 outstanding limited partner units of Magellan Midstream Partners, L.P. that trade on the New York Stock Exchange under the ticker symbol “MMP.”

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PART I
FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Transportation and terminals revenue	$410,387	$413,433	$1,149,100	$1,175,748
Product sales revenue	172,731	133,356	455,827	403,607
Affiliate management fee revenue	3,557	4,993	10,478	11,140
Total revenue	586,675	551,782	1,615,405	1,590,495
Costs and expenses:				
Operating	147,349	135,286	396,374	392,681
Cost of product sales	85,522	118,242	316,208	327,530
Depreciation and amortization	42,043	47,081	124,180	134,137
General and administrative	37,612	35,800	111,052	111,216
Total costs and expenses	312,526	336,409	947,814	965,564
Earnings of non-controlled entities	15,521	18,576	49,653	51,543
Operating profit	289,670	233,949	717,244	676,474
Interest expense	40,419	50,163	118,009	142,573
Interest income	(310)	(302)	(993)	(1,067)
Interest capitalized	(3,984)	(7,877)	(9,037)	(21,143)
Gain on exchange of interest in non-controlled entity	—	—	—	(28,144)
Other expense (income)	1,706	(3,324)	(4,554)	(7,519)
Income before provision for income taxes	251,839	195,289	613,819	591,774
Provision for income taxes	867	738	1,820	2,294
Net income	$250,972	$194,551	$611,999	$589,480
Basic net income per limited partner unit	$1.10	$0.85	$2.69	$2.59
Diluted net income per limited partner unit	$1.10	$0.85	$2.69	$2.59
Weighted average number of limited partner units outstanding used for basic net income per unit calculation(1)	227,580	227,960	227,540	227,913
Weighted average number of limited partner units outstanding used for diluted net income per unit calculation(1)	227,945	227,999	227,702	227,947

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

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Net income	$250,972	$194,551	$611,999	$589,480
Other comprehensive income:				
Derivative activity:				
Net loss on cash flow hedges(1)	(3,410)	(3,169)	(16,939)	(24,278)
Reclassification of net loss on cash flow hedges to income(1)	388	512	976	1,288
Changes in employee benefit plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of prior service credit(2)	(928)	(973)	(2,784)	(2,920)
Amortization of actuarial loss(2)	1,798	1,452	5,393	4,145
Settlement cost(2)	—	202	—	202
Total other comprehensive loss	(2,152)	(1,976)	(13,354)	(21,563)
Comprehensive income	$248,820	$192,575	$598,645	$567,917

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

See notes to consolidated financial statements.

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

	December 31, 2015	September 30, 2016
ASSETS		(Unaudited)
Current assets:		
Cash and cash equivalents	$ 28,731	$ 291,097
Trade accounts receivable	83,893	126,141
Other accounts receivable	12,701	24,867
Inventory	130,868	123,011
Energy commodity derivatives contracts, net	39,243	—
Energy commodity derivatives deposits	—	30,559
Other current assets	43,418	52,600
Total current assets	338,854	648,275
Property, plant and equipment	6,166,766	6,657,305
Less: Accumulated depreciation	1,347,537	1,471,263
Net property, plant and equipment	4,819,229	5,186,042
Investments in non-controlled entities	765,628	912,419
Long-term receivables	20,374	22,101
Goodwill	53,260	53,260
Other intangibles (less accumulated amortization of $13,709 and $2,010 at December 31, 2015 and September 30, 2016, respectively)	1,856	52,102
Tank bottoms	27,533	35,429
Other noncurrent assets	14,833	10,157
Total assets	$ 6,041,567	$ 6,919,785
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 104,094	$ 101,012
Accrued payroll and benefits	51,764	39,039
Accrued interest payable	51,296	48,903
Accrued taxes other than income	51,587	53,702
Environmental liabilities	15,679	11,711
Deferred revenue	81,627	98,818
Accrued product purchases	31,339	25,156
Energy commodity derivatives contracts, net	—	12,430
Energy commodity derivatives deposits	24,252	—
Current portion of long-term debt, net	250,335	250,020
Other current liabilities	51,099	43,058
Total current liabilities	713,072	683,849
Long-term debt, net	3,189,287	4,073,502
Long-term pension and benefits	77,551	70,416
Other noncurrent liabilities	24,162	29,408
Environmental liabilities	15,759	14,078
Commitments and contingencies		
Partners' capital:		

Limited partner unitholders (227,427 units and 227,784 units outstanding at December 31, 2015 and September 30, 2016, respectively)	2,118,086	2,166,445
Accumulated other comprehensive loss	(96,350)	(117,913)
Total partners’ capital	2,021,736	2,048,532
Total liabilities and partners’ capital	$ 6,041,567	$ 6,919,785

See notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2016
Operating Activities:		
Net income	$611,999	$589,480
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	124,180	134,137
Loss on sale and retirement of assets	4,378	5,397
Earnings of non-controlled entities	(49,653)	(51,543)
Distributions of earnings from investments in non-controlled entities	47,236	50,047
Equity-based incentive compensation expense	15,226	14,737
Settlement cost, amortization of prior service credit and actuarial loss	2,609	1,427
Gain on exchange of interest in non-controlled entity	—	(28,144)
Changes in operating assets and liabilities:		
Trade accounts receivable and other accounts receivable	(24,601)	(49,014)
Inventory	22,581	7,857
Energy commodity derivatives contracts, net of derivatives deposits	(11,402)	637
Accounts payable	12,226	5,850
Accrued payroll and benefits	452	(12,725)
Accrued interest payable	(841)	(2,393)
Accrued taxes other than income	6,334	2,115
Accrued product purchases	(23,947)	(6,183)
Deferred revenue	4,141	17,191
Current and noncurrent environmental liabilities	(4,864)	(5,649)
Other current and noncurrent assets and liabilities	(11,950)	(34,229)
Net cash provided by operating activities	724,104	638,995
Investing Activities:		
Additions to property, plant and equipment, net[1]	(431,260)	(517,810)
Proceeds from sale and disposition of assets	3,178	6,098
Acquisition of business	(54,678)	—
Investments in non-controlled entities	(133,373)	(174,900)
Distributions in excess of earnings of non-controlled entities	9,341	4,500
Net cash used by investing activities	(606,792)	(682,112)
Financing Activities:		
Distributions paid	(489,535)	(548,388)
Net commercial paper repayments	(69,976)	(244,963)
Borrowings under long-term notes	499,589	1,142,997
Debt placement costs	(4,754)	(10,500)
Net payment on financial derivatives	(42,908)	(19,287)
Settlement of tax withholdings on long-term incentive compensation	(17,784)	(14,376)
Net cash provided (used) by financing activities	(125,368)	305,483
Change in cash and cash equivalents	(8,056)	262,366
Cash and cash equivalents at beginning of period	17,063	28,731
Cash and cash equivalents at end of period	$9,007	$291,097

Supplemental non-cash investing and financing activities:		
Contribution of property, plant and equipment to a non-controlled entity	$13,252	$—
Issuance of limited partner units in settlement of equity-based incentive plan awards	$8,045	$7,092

(1) Additions to property, plant and equipment	$(439,721)	$(514,205)
Changes in accounts payable and other current liabilities related to capital expenditures	8,461	(3,605)
Additions to property, plant and equipment, net	$(431,260)	$(517,810)

See notes to consolidated financial statements.

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

1. Organization, Description of Business and Basis of Presentation

Organization

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

Description of Business

We are principally engaged in the transportation, storage and distribution of refined petroleum products and crude oil. As of September 30, 2016, our asset portfolio, including the assets of our joint ventures, consisted of:

- our refined products segment, comprised of our 9,700-mile refined products pipeline system with 53 terminals as well as 26 independent terminals not connected to our pipeline system and our 1,100-mile ammonia pipeline system;
- our crude oil segment, comprised of approximately 2,100 miles of crude oil pipelines and storage facilities with an aggregate storage capacity of approximately 23 million barrels, of which approximately 15 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.

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

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

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

Basis of Presentation

In the opinion of management, our accompanying consolidated financial statements which are unaudited, except for the consolidated balance sheet as of December 31, 2015, 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, 2016, the results of operations for the three and nine months ended September 30, 2015 and 2016 and cash flows for the nine months ended September 30, 2015 and 2016. The results of operations for the nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016 for several reasons. Profits from our butane blending activities are realized largely during the first and fourth quarters of each year. Additionally, gasoline demand, which drives transportation volumes and revenues on our pipeline systems, generally trends higher during the summer driving months. Further, the volatility of commodity prices impacts the profits from our commodity activities and, to a lesser extent, the volume of petroleum products we transport on our pipelines.

Pursuant to the rules and regulations of the Securities and Exchange Commission, the financial statements in this report do not include all of the information and notes normally included with financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is part of the FASB's initiative to simplify accounting standards. The guidance requires an entity to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur, and allows equity classification for awards where employees elect to withhold up to the maximum statutory tax rates in the applicable jurisdictions. The new standard also requires cash paid by employers when directly withholding shares for tax withholding purposes to be classified as a financing activity in the statement of cash flows.

We elected to early adopt ASU 2016-09 during the first quarter of 2016, and this adoption did not have a material impact on our consolidated financial statements. In conjunction with our adoption of this new accounting standard, we have elected to account for equity-based compensation forfeitures as they occur. Additionally, and consistent with our prior accounting policy, we continue to show cash paid when directly withholding shares for tax withholding purposes as a financing activity in our statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This ASU requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases, with the exception of short-term leases. The new accounting model for lessors remains largely the same, although some changes have been made to align it with the new lessee model and the new revenue recognition guidance. This update also requires companies to include additional disclosures regarding their lessee and lessor agreements. Public companies are required to adopt the

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

standard for financial reporting periods that start after December 15, 2018, although early adoption is permitted. We are currently in the process of evaluating the impact this new standard will have on our financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which eliminates the industry-specific guidance in U.S. GAAP and produces a single, principles-based method for companies to report revenue in their financial statements. This standard requires companies to make more estimates and use more judgment than under current guidance. In addition, all companies must compile more extensive footnote disclosures about how the revenue numbers were derived. This ASU requires full retrospective, modified retrospective or use of the cumulative effect method during the period of adoption. In July 2015, the FASB extended the effective date of this standard from January 1, 2017 to January 1, 2018. We are currently in the process of evaluating the impact this new standard will have on our financial statements.

2. Product Sales Revenue

The amounts reported as product sales revenue on our consolidated statements of income include revenue from the physical sale of petroleum products and mark-to-market adjustments from New York Mercantile Exchange (“NYMEX”) contracts. See Note 8 – Derivative Financial Instruments for a discussion of our commodity hedging strategies and how our NYMEX contracts impact product sales revenue. All of the petroleum products inventory we physically sell associated with our butane blending and fractionation activities, as well as the barrels from product gains we obtain from our operations, are reported as product sales revenue on our consolidated statements of income.
For the three and nine months ended September 30, 2015 and 2016, product sales revenue included the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Physical sale of petroleum products	$100,829	$146,006	$403,395	$412,045
Change in value of NYMEX contracts	71,902	(12,650)	52,432	(8,438)
Total product sales revenue	$172,731	$133,356	$455,827	$403,607

3. Segment Disclosures

Our reportable segments are strategic business units that offer different products and services. Our segments are managed separately as each segment requires different marketing strategies and business knowledge. Management evaluates performance based on segment operating margin, which includes revenue from affiliates and external customers, operating expenses, cost of product sales and earnings of non-controlled entities.
We believe that investors benefit from having access to the same financial measures used by management. Operating margin, which is presented in the following tables, is an important measure used by management to evaluate the economic performance of our core operations. Operating margin is not a GAAP measure, but the components of operating margin are computed using amounts that are determined in accordance with GAAP. A reconciliation of operating margin to operating profit, which is its nearest comparable GAAP financial measure, is included in the

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

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

	Three Months Ended September 30, 2015 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$264,156	$101,122	$45,109	$ —	$410,387
Product sales revenue	171,775	—	956	—	172,731
Affiliate management fee revenue	—	3,211	346	—	3,557
Total revenue	435,931	104,333	46,411	—	586,675
Operating expenses	108,972	24,572	14,700	(895)	147,349
Cost of product sales	85,341	—	181	—	85,522
Losses (earnings) of non-controlled entities	48	(14,906)	(663)	—	(15,521)
Operating margin	241,570	94,667	32,193	895	369,325
Depreciation and amortization expense	24,333	9,502	7,313	895	42,043
G&A expenses	22,238	9,818	5,556	—	37,612
Operating profit	$194,999	$75,347	$19,324	$ —	$289,670

	Three Months Ended September 30, 2016 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$267,339	$100,113	$46,182	$ (201)	$413,433
Product sales revenue	105,834	24,750	2,772	—	133,356
Affiliate management fee revenue	218	4,416	359	—	4,993
Total revenue	373,391	129,279	49,313	(201)	551,782
Operating expenses	95,776	24,628	16,374	(1,492)	135,286
Cost of product sales	93,761	24,108	373	—	118,242
Losses (earnings) of non-controlled entities	272	(18,180)	(668)	—	(18,576)
Operating margin	183,582	98,723	33,234	1,291	316,830
Depreciation and amortization expense	28,432	9,333	8,025	1,291	47,081
G&A expenses	22,993	8,493	4,314	—	35,800
Operating profit	$132,157	$80,897	$20,895	$ —	$233,949

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

	Nine Months Ended September 30, 2015 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$723,156	$294,023	$131,921	$ —	$1,149,100
Product sales revenue	453,737	—	2,090	—	455,827
Affiliate management fee revenue	—	9,449	1,029	—	10,478
Total revenue	1,176,893	303,472	135,040	—	1,615,405
Operating expenses	288,265	65,032	45,916	(2,839)	396,374
Cost of product sales	315,301	—	907	—	316,208
Losses (earnings) of non-controlled entities	146	(47,735)	(2,064)	—	(49,653)
Operating margin	573,181	286,175	90,281	2,839	952,476
Depreciation and amortization expense	71,742	25,995	23,604	2,839	124,180
G&A expenses	68,730	26,935	15,387	—	111,052
Operating profit	$432,709	$233,245	$51,290	$ —	$717,244

	Nine Months Ended September 30, 2016 (in thousands)				
	Refined Products	Crude Oil	Marine Storage	Intersegment Eliminations	Total
Transportation and terminals revenue	$739,931	$303,181	$132,837	$ (201)	$1,175,748
Product sales revenue	372,061	26,465	5,081	—	403,607
Affiliate management fee revenue	422	9,686	1,032	—	11,140
Total revenue	1,112,414	339,332	138,950	(201)	1,590,495
Operating expenses	280,261	66,370	49,897	(3,847)	392,681
Cost of product sales	300,009	26,469	1,052	—	327,530
Losses (earnings) of non-controlled entities	352	(49,870)	(2,025)	—	(51,543)
Operating margin	531,792	296,363	90,026	3,646	921,827
Depreciation and amortization expense	78,523	28,264	23,704	3,646	134,137
G&A expenses	68,852	27,419	14,945	—	111,216
Operating profit	$384,417	$240,680	$51,377	$ —	$676,474

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

4. Investments in Non-Controlled Entities

Our investments in non-controlled entities at September 30, 2016 were comprised of:

Entity	Ownership Interest
BridgeTex Pipeline Company, LLC (“BridgeTex”)	50%
Double Eagle Pipeline LLC (“Double Eagle”)	50%
HoustonLink Pipeline Company, LLC (“HoustonLink”)	50%
Powder Springs Logistics, LLC (“Powder Springs”)	50%
Saddlehorn Pipeline Company, LLC (“Saddlehorn”)	40%
Seabrook Logistics, LLC (“Seabrook”)	50%
Texas Frontera, LLC (“Texas Frontera”)	50%

In February 2016, we transferred our 50% membership interest in Osage Pipe Line Company, LLC (“Osage”) to an affiliate of HollyFrontier Corporation. In conjunction with this transaction, we entered into several commercial agreements with affiliates of HollyFrontier Corporation. We recorded these commercial agreements as $43.7 million of intangible assets and $8.3 million of other receivables in our consolidated balance sheets. The intangible assets will be amortized over the 20-year life of the contracts received. The total gain recorded in 2016 was $28.1 million.

The management fees we have recognized from BridgeTex, Osage, Powder Springs, Saddlehorn and Texas Frontera are reported as affiliate management fee revenue on our consolidated statements of income. In addition, we receive reimbursement from certain of our joint ventures for costs incurred during construction, which we included as reductions to costs and expenses on our consolidated statements of income. These construction cost reimbursements totaled $1.2 million and $2.7 million during the three and nine months ended September 30, 2016, respectively.

We recognized pipeline capacity lease revenue from BridgeTex of $8.9 million and $8.9 million for the three months ended September 30, 2015 and 2016, respectively, and $25.8 million and $26.6 million for the nine months ended September 30, 2015 and 2016, respectively, which we included in transportation and terminals revenue on our consolidated statements of income.

We recognized throughput revenue from Double Eagle of $0.8 million and $0.9 million for the three months ended September 30, 2015 and 2016, respectively, and $2.6 million and $2.5 million for the nine months ended September 30, 2015 and 2016, respectively, which we included in transportation and terminals revenue on our consolidated statements of income. At December 31, 2015 and September 30, 2016, respectively, we recognized a $0.2 million and $0.3 million trade accounts receivable from Double Eagle.

At September 30, 2016, we recognized $2.9 million, $1.4 million and $0.5 million of other receivables from Saddlehorn, BridgeTex and Powder Springs, respectively, related to the activities detailed above and miscellaneous cost reimbursements. These receivables are reported in our balance sheets as other accounts receivable.

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

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

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

	BridgeTex	All Others	Consolidated
Investments at December 31, 2015	$495,267	$270,361	$ 765,628
Additional investment	31,503	143,397	174,900
Exchange of investment in non-controlled entity	—	(25,105)	(25,105)
Earnings of non-controlled entities:			
Proportionate share of earnings	45,990	7,256	53,246
Amortization of excess investment and capitalized interest	(1,529)	(174)	(1,703)
Earnings of non-controlled entities	44,461	7,082	51,543
Less:			
Distributions of earnings from investments in non-controlled entities	44,461	5,586	50,047
Distributions in excess of earnings of non-controlled entities	3,333	1,167	4,500
Investments at September 30, 2016	$523,437	$388,982	$ 912,419

Summarized financial information of our non-controlled entities for the three and nine months ended September 30, 2015 and 2016 follows (in thousands):

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2016		
	BridgeTex	All Others	Consolidated	BridgeTex	All Others	Consolidated
Revenue	$47,555	$12,530	$ 60,085	$55,843	$14,022	$ 69,865
Net income	$28,150	$4,151	$ 32,301	$33,514	$5,149	$ 38,663

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2016		
	BridgeTex	All Others	Consolidated	BridgeTex	All Others	Consolidated
Revenue	$146,320	$33,677	$ 179,997	$155,067	$35,451	$ 190,518
Net income	$91,806	$11,525	$ 103,331	$91,981	$14,907	$ 106,888

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

5. Inventory

Inventory at December 31, 2015 and September 30, 2016 was as follows (in thousands):

	December 31, 2015	September 30, 2016
Refined products	$ 57,455	$ 23,028
Crude oil	28,385	20,475
Transmix	21,297	33,108
Liquefied petroleum gases	17,954	40,684
Additives	5,777	5,716
Total inventory	$ 130,868	$ 123,011

6. Employee Benefit Plans

We sponsor two pension plans for certain union employees and a pension plan primarily for non-union employees, a postretirement benefit plan for selected employees and a defined contribution plan. The following tables present our consolidated net periodic benefit costs related to the pension and postretirement benefit plans for the three and nine months ended September 30, 2015 and 2016 (in thousands):

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2016	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Components of net periodic benefit costs:				
Service cost	$4,723	$ 61	$4,555	$ 53
Interest cost	1,938	109	1,992	148
Expected return on plan assets	(2,009)	—	(2,235)	—
Amortization of prior service credit	—	(928)	(45)	(928)
Amortization of actuarial loss	1,577	221	1,161	291
Settlement cost	—	—	202	—
Net periodic benefit cost (credit)	$6,229	$ (537)	$5,630	$ (436)

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

	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2016	
	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Components of net periodic benefit costs:				
Service cost	$14,168	$ 183	$13,648	$ 176
Interest cost	5,815	328	5,970	368
Expected return on plan assets	(6,028)	—	(6,694)	—
Amortization of prior service credit	—	(2,784)	(135)	(2,785)
Amortization of actuarial loss	4,730	663	3,485	660
Settlement cost	—	—	202	—
Net periodic benefit cost (credit)	$18,685	$ (1,610)	$16,476	$ (1,581)

Contributions estimated to be paid into the plans in 2016 are $26.0 million and $0.5 million for the pension and other postretirement benefit plans, respectively.

We match our employees' qualifying contributions to our defined contribution plan, resulting in expense to us. Expenses related to the defined contribution plan were $1.8 million and $2.4 million, respectively, for the three months ended September 30, 2015 and 2016 and $6.8 million and $7.8 million, respectively, for the nine months ended September 30, 2015 and 2016.

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

Amounts Included in AOCL

The changes in AOCL related to employee benefit plan assets and benefit obligations for the three and nine months ended September 30, 2015 and 2016 were as follows (in thousands):

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2016	
Gains (Losses) Included in AOCL	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Beginning balance	$(60,104)	$ (3,110)	$(60,045)	$ (5,433)
Amortization of prior service credit	—	(928)	(45)	(928)
Amortization of actuarial loss	1,577	221	1,161	291
Settlement cost	—	—	202	—
Ending balance	$(58,527)	$ (3,817)	$(58,727)	$ (6,070)

	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2016	
Gains (Losses) Included in AOCL	Pension Benefits	Other Postretirement Benefits	Pension Benefits	Other Postretirement Benefits
Beginning balance	$(63,257)	$ (1,696)	$(62,279)	$ (3,945)
Amortization of prior service credit	—	(2,784)	(135)	(2,785)
Amortization of actuarial loss	4,730	663	3,485	660
Settlement cost	—	—	202	—
Ending balance	$(58,527)	$ (3,817)	$(58,727)	$ (6,070)

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

7. Debt

The carrying amount of our consolidated debt at December 31, 2015 and September 30, 2016 was as follows (in thousands, except as otherwise noted):

	December 31, 2015	September 30, 2016	Weighted-Average Interest Rate for the Nine Months Ended September 30, 2016 (1)
Commercial paper(2)	$ 279,801	$ 34,880	0.8%
$250.0 million of 5.65% Notes due 2016(3)	250,208	250,020	5.7%
$250.0 million of 6.40% Notes due 2018	254,694	253,298	5.5%
$550.0 million of 6.55% Notes due 2019	562,600	560,042	5.7%
$550.0 million of 4.25% Notes due 2021	553,002	552,620	4.1%
$250.0 million of 3.20% Notes due 2025	247,788	247,967	3.2%
$650.0 million of 5.00% Notes due 2026(2)	—	644,129	5.1%
$250.0 million of 6.40% Notes due 2037	247,230	247,312	6.4%
$250.0 million of 4.20% Notes due 2042	246,142	246,230	4.3%
$550.0 million of 5.15% Notes due 2043	550,819	550,885	5.1%
$250.0 million of 4.20% Notes due 2045	247,338	247,408	4.7%
$500.0 million of 4.25% Notes due 2046(2)	—	488,731	4.8%
Total debt	3,439,622	4,323,522	4.9%
Less: current portion of long-term debt, net	250,335	250,020	
Long-term debt, net(4)	$ 3,189,287	$ 4,073,502	

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

(2) These borrowings were outstanding for only a portion of the nine-month period ending September 30, 2016. The weighted-average interest rate for these borrowings was calculated based on the number of days the borrowings were outstanding during the noted period.

(3) These borrowings will mature in October 2016 and are reflected in current debt on our consolidated balance sheets at December 31, 2015 and September 30, 2016.

(4) Long-term debt is presented net of unamortized debt issuance costs of $18.7 million and $27.4 million at December 31, 2015 and September 30, 2016, respectively.

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

The face value of our debt at December 31, 2015 and September 30, 2016 was $3.4 billion and $4.3 billion, respectively. The difference between the face value and carrying value of our debt outstanding is the unamortized portion of terminated fair value hedges and the unamortized discounts and premiums on debt issuances. Realized gains and losses on fair value hedges and note discounts and premiums are being amortized or accreted to the applicable notes over the respective lives of those notes.

2016 Debt Offering

In September 2016, we issued $500.0 million of our 4.25% notes due 2046 in an underwritten public offering. The notes were issued at 98.762% of par. Net proceeds from this offering were approximately $488.7 million, after underwriting discounts and offering expenses of $5.1 million. The net proceeds from this offering were used to repay our 5.65% senior notes when due in October 2016 and to repay borrowings outstanding under our commercial paper program. The remaining proceeds may be used for general partnership purposes, which may include capital expenditures.

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

In February 2016, we issued $650.0 million of our 5.00% notes due 2026 in an underwritten public offering. The notes were issued at 99.875% of par. Net proceeds from this offering were approximately $643.8 million, after underwriting discounts and offering expenses of $5.4 million. The net proceeds from this offering were used to repay borrowings outstanding under our commercial paper program and for general partnership purposes, including expansion capital.

Other Debt

Revolving Credit Facilities. At September 30, 2016, the total borrowing capacity under our revolving credit facility with a maturity date of October 27, 2020 was $1.0 billion. Any borrowings outstanding under this facility are classified as long-term debt on our consolidated balance sheets. Borrowings under this facility are unsecured and bear interest at LIBOR plus a spread ranging from 1.000% to 1.625% based on our credit ratings. Additionally, an unused commitment fee is assessed at a rate between 0.100% and 0.275% depending on our credit ratings. The unused commitment fee was 0.125% at September 30, 2016. Borrowings under this facility may be used for general partnership purposes, including capital expenditures. As of December 31, 2015 and September 30, 2016, respectively, there were no borrowings outstanding under this facility, with $6.3 million 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.

At September 30, 2016, the total borrowing capacity under our 364-day credit facility was $250.0 million. The maturity date of this credit facility is October 25, 2016. See Note 14 – Subsequent Events for recent information about this credit facility. Any borrowings under this credit facility are classified as current debt on our consolidated balance sheets. Borrowings under this facility are unsecured and bear interest at LIBOR plus a spread ranging from 1.000% to 1.625% based on our credit ratings. Additionally, an unused commitment fee is assessed at a rate between 0.080% and 0.225% depending on our credit ratings. The unused commitment fee was 0.100% at September 30, 2016. Borrowings under this facility may be used for general partnership purposes, including capital expenditures. As of December 31, 2015 and September 30, 2016, respectively, there were no borrowings outstanding under this facility.

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

8. Derivative Financial Instruments

Interest Rate Derivatives

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

During 2016, we entered into $100.0 million of forward-starting interest rate swap agreements to hedge against the risk of variability of future interest payments on a portion of debt we anticipate issuing in 2018. The fair values of these contracts at September 30, 2016 were recorded on our balance sheets as an other noncurrent liability of $3.5 million, with the offset recorded to other comprehensive income. We account for these agreements as cash flow hedges.

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During 2015 and 2016, we entered into $250.0 million of forward-starting interest rate swap agreements to hedge against the risk of variability of future interest payments on a portion of debt we anticipated issuing in 2016. We accounted for these agreements as cash flow hedges. When we issued $500.0 million of 4.25% notes due 2046 in September 2016, we settled the associated interest rate swap agreements for a loss of $19.3 million. The loss was recorded to other comprehensive income and will be recognized into earnings as an adjustment to our periodic interest expense accruals over the first ten-year payment period of the associated notes. This loss was also reported as a net payment on financial derivatives in the financing activities of our consolidated statements of cash flows in 2016.

Commodity Derivatives

Hedging Strategies

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

We account for the forward physical purchase and sale contracts we use in our butane blending and fractionation activities as normal purchases and sales. Forward contracts that qualify for and are elected as normal purchases and sales are accounted for using traditional accrual accounting.

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

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

accounting treatment under Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging.

During the three and nine months ended September 30, 2015 and 2016, none of the commodity hedging contracts we entered into qualified for or were designated as cash flow hedges.

Period changes in the fair value of NYMEX agreements that are accounted for as economic hedges (other than those economic hedges of our butane purchases and our pipeline product overages as discussed below), the effective portion of changes in the fair value of cash flow hedges that are reclassified from AOCL and any ineffectiveness

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associated with hedges related to our commodity activities are recognized currently in earnings as adjustments to product sales.

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

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

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

As outlined in the table below, our open NYMEX contracts at September 30, 2016 were as follows:

Type of Contract/Accounting Methodology	Product Represented by the Contract and Associated Barrels	Maturity Dates
NYMEX - Fair Value Hedges	0.7 million barrels of crude oil	November 2017
NYMEX - Economic Hedges	5.1 million barrels of refined products and crude oil	Between October 2016 and April 2017
NYMEX - Economic Hedges	1.3 million barrels of future purchases of butane	Between October 2016 and April 2017

Energy Commodity Derivatives Contracts and Deposits Offsets

At September 30, 2016, we had made margin deposits of $30.6 million for our NYMEX contracts with our counterparties, which were recorded as a current asset under energy commodity derivatives deposits on our consolidated balance sheets. We have the right to offset the combined fair values of our open NYMEX contracts against our margin deposits under a master netting arrangement for each counterparty; however, we have elected to present the combined fair values of our open NYMEX contracts separately from the related margin deposits on our consolidated balance sheets. Additionally, we have the right to offset the fair values of our NYMEX agreements together for each counterparty, which we have elected to do, and we report the combined net balances on our consolidated balance sheets. A schedule of the derivative amounts we have offset and the deposit amounts we could offset under a master netting arrangement are provided below as of December 31, 2015 and September 30, 2016 (in thousands):

	December 31, 2015
Description	

	Gross Amounts of Recognized Assets	Gross Amounts of Liabilities Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets(1)	Margin Deposit Amounts Not Offset in the Consolidated Balance Sheets	Net Asset Amount(3)
Energy commodity derivatives	$48,367	$ (5,646)	$ 42,721	$ (24,252)	$ 18,469

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

Description	September 30, 2016 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(2)	Margin Deposit Amounts Not Offset in the Consolidated Balance Sheets	Net Asset Amount(3)
Energy commodity derivatives	$(15,576)	$ 3,247	$ (12,329)	$ 30,559	$ 18,230

(1) Net amount includes energy commodity derivative contracts classified as current assets, net, of $39,243 and noncurrent assets of $3,478.
(2) Net amount includes energy commodity derivative contracts classified as current liabilities, net, of $12,430 and noncurrent assets of $101.
(3) Amount represents the maximum loss we would incur if all of our counterparties failed to perform on their derivative contracts.

Impact of Derivatives on Our Financial Statements

Comprehensive Income

The changes in derivative activity included in AOCL for the three and nine months ended September 30, 2015 and 2016 were as follows (in thousands):

Derivative Losses Included in AOCL	Three Months Ended September 30, 2015	2016	Nine Months Ended September 30, 2015	2016
Beginning balance	$(29,528)	$(50,459)	$(16,587)	$(30,126)
Net loss on cash flow hedges	(3,410)	(3,169)	(16,939)	(24,278)
Reclassification of net loss on cash flow hedges to income	388	512	976	1,288
Ending balance	$(32,550)	$(53,116)	$(32,550)	$(53,116)

Income Statements

The following tables provide a summary of the effect on our consolidated statements of income for the three and nine months ended September 30, 2015 and 2016 of derivatives accounted for under ASC 815-30, Derivatives and Hedging—Cash Flow Hedges, that were designated as hedging instruments (in thousands):

	Three Months Ended September 30, 2015 Amount of Loss Recognized in	Location of Loss Reclassified from AOCL into Income	Amount of Loss Reclassified from AOCL into Income

Derivative Instrument	AOCL on Derivative		Effective Portion	Ineffective Portion
Interest rate contracts	$(3,410)	Interest expense	$ (388)	$ —

	Three Months Ended September 30, 2016			
Derivative Instrument	Amount of Loss Recognized in AOCL on Derivative	Location of Loss Reclassified from AOCL into Income	Amount of Loss Reclassified from AOCL into Income Effective Portion	Ineffective Portion
Interest rate contracts	$(3,169)	Interest expense	$ (512)	$ —

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

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

	Nine Months Ended September 30, 2016			
Derivative Instrument	Amount of Loss Recognized in AOCL on Derivative	Location of Loss Reclassified from AOCL into Income	Amount of Loss Reclassified from AOCL into Income Effective Portion	Ineffective Portion
Interest rate contracts	$(24,278)	Interest expense	$ (1,288)	$ —

As of September 30, 2016, the net loss estimated to be classified to interest expense over the next twelve months from AOCL is approximately $3.0 million.

During 2015 and 2016, we had open NYMEX contracts on 0.7 million barrels of crude oil that were designated as fair value hedges. Because there was no ineffectiveness recognized on these hedges, the cumulative gains at December 31, 2015 and September 30, 2016 of $27.9 million and $17.6 million, respectively, from these agreements were offset by a cumulative decrease to tank bottoms. The differential between the current spot price and forward price is excluded from the assessment of hedge effectiveness for these fair value hedges. For the three months ended September 30, 2015 and 2016, we recognized a gain (loss) of $(1.7) million and $0.3 million, respectively, and for the nine months ended September 30, 2015 and 2016, we recognized a gain of $4.6 million and $4.5 million, respectively, for the amounts we excluded from the assessment of effectiveness of these fair value hedges, which we reported as other income/expense on our consolidated statements of income.
The following table provides a summary of the effect on our consolidated statements of income for the three and nine months ended September 30, 2015 and 2016 of derivatives accounted for under ASC 815, Derivatives and Hedging, that were not designated as hedging instruments (in thousands):

		Amount of Gain (Loss) Recognized on Derivatives			
		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivative Instrument	Location of Gain (Loss) Recognized on Derivatives	2015	2016	2015	2016
NYMEX commodity contracts	Product sales revenue	$71,902	$(12,650)	$52,432	$(8,438)
NYMEX commodity contracts	Operating expenses	14,761	4,212	7,181	(1,192)
NYMEX commodity contracts	Cost of product sales	(3,767)	831	(5,847)	3,643

Total	$82,896	$(7,607)	$53,766	$(5,987)

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

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

Balance Sheets

The following tables provide a summary of the fair value of derivatives accounted for under ASC 815, Derivatives and Hedging, which are presented on a net basis in our consolidated balance sheets, that were designated as hedging instruments as of December 31, 2015 and September 30, 2016 (in thousands):

	December 31, 2015			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
NYMEX commodity contracts	Energy commodity derivatives contracts, net	$60	Energy commodity derivatives contracts, net	$ —
NYMEX commodity contracts	Other noncurrent assets	3,478	Other noncurrent liabilities	—
Interest rate contracts	Other current assets	2,179	Other current liabilities	653
	Total	$5,717	Total	$ 653

	September 30, 2016			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
NYMEX commodity contracts	Other noncurrent assets	$ 101	Other noncurrent liabilities	$—
Interest rate contracts	Other noncurrent assets	—	Other noncurrent liabilities	3,465
	Total	$ 101	Total	$3,465

The following tables provide a summary of the fair value of derivatives accounted for under ASC 815, Derivatives and Hedging, which are presented on a net basis in our consolidated balance sheets, that were not designated as hedging instruments as of December 31, 2015 and September 30, 2016 (in thousands):

	December 31, 2015			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
NYMEX commodity contracts	Energy commodity derivatives contracts, net	$ 44,829	Energy commodity derivatives contracts, net	$ 5,646

	September 30, 2016			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
NYMEX commodity contracts	Energy commodity derivatives contracts, net	$ 3,146	Energy commodity derivatives contracts, net	$ 15,576

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

9. Commitments and Contingencies

Environmental Liabilities

Liabilities recognized for estimated environmental costs were $31.4 million and $25.8 million at December 31, 2015 and September 30, 2016, respectively. We have classified environmental liabilities as current or noncurrent based on management's estimates regarding the timing of actual payments. Management estimates that expenditures associated with these environmental liabilities will be substantially paid over the next 9 years. Environmental expense recognized as a result of changes in our environmental liabilities are generally included in operating expenses on our consolidated statements of income. Environmental expenses were $1.3 million and $0.3 million for the three months ended September 30, 2015 and 2016, respectively, and $5.6 million and $4.6 million for the nine months ended September 30, 2015 and 2016, respectively.

Environmental Receivables

Receivables from insurance carriers and other third parties related to environmental matters were $2.6 million at December 31, 2015, of which $0.7 million and $1.9 million were recorded to other accounts receivable and long-term receivables, respectively, on our consolidated balance sheets. Receivables from insurance carriers and other third parties related to environmental matters were $2.0 million at September 30, 2016, of which $0.8 million and $1.2 million were recorded to other accounts receivable and long-term receivables, respectively, on our consolidated balance sheets.

Other

We are a party to various other claims, legal actions and complaints arising in the ordinary course of business, including without limitation those disclosed in Item 1, Legal Proceedings of Part II of this report on Form 10-Q. While the results cannot be predicted with certainty, management believes the ultimate resolution of these claims, legal actions and complaints after consideration of amounts accrued, insurance coverage or other indemnification arrangements will not have a material adverse effect on our results of operations, financial position or cash flows. See Note 14 – Subsequent Events for additional information about a recent event.

10. Long-Term Incentive Plan

We have a long-term incentive plan ("LTIP") for certain of our employees and directors of our general partner. The LTIP primarily consists of phantom units and permits the grant of awards covering an aggregate payout of 11.9 million of our limited partner units. The compensation committee of our general partner's board of directors administers our LTIP. The estimated units remaining available under the LTIP at September 30, 2016 total 3.0 million.

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

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

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