MAGELLAN MIDSTREAM PARTNERS LP
Form 424B3
October 01, 2004

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We will amend and complete the information in this prospectus supplement. This preliminary prospectus supplement and the prospectus are part of an effective registration statement filed with the Securities and Exchange Commission. This preliminary prospectus supplement and the prospectus are not offers to sell nor solicitations of offers to buy these securities in any jurisdiction where such offer or sale is not permitted.

Filed Pursuant to Rule No.: 424(b)(3)

Registration No.: 333-83952

Subject to Completion, dated October 1, 2004

PROSPECTUS SUPPLEMENT

(To Prospectus dated May 16, 2002)

2,600,000 Common Units

Representing Limited Partner Interests

We are selling 2,600,000 common units representing limited partner interests in Magellan Midstream Partners, L.P. Our common units trade on the New York Stock Exchange under the symbol MMP. The last reported sales price of our common units on the New York Stock Exchange on September 30, 2004 was $54.98 per common unit.

Investing in our common units involves risk. Please read Risk Factors beginning on page S-11 of this prospectus supplement and on page 2 of the accompanying prospectus.

	Per Common Unit	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us (before expenses)	$	$

We have granted the underwriters a 30-day option to purchase up to 390,000 common units on the same terms and conditions as set forth above to cover over-allotments of common units, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the common units on or about October , 2004.

Joint Book-Running Managers

LEHMAN BROTHERS **CITIGROUP**

GOLDMAN, SACHS & CO.

UBS INVESTMENT BANK

WACHOVIA SECURITIES

October , 2004

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This document is in two parts. The first part is this prospectus supplement, which describes the terms of this common unit offering. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this common unit offering.

If the information about the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the dates shown in these documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since such dates.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer for a more complete understanding of this offering. Please read Risk Factors beginning on page S-11 of this prospectus supplement and page 2 of the accompanying prospectus for more information about important factors that you should consider before buying common units in this offering. Unless we indicate otherwise, the information we present in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option. As used in this prospectus supplement and the accompanying prospectus, unless we indicate otherwise, the terms our, we, us and similar terms refer to Magellan Midstream Partners, L.P., together with our subsidiaries.

Magellan Midstream Partners, L.P.

We are a publicly traded Delaware limited partnership that owns and operates a diversified portfolio of complementary energy assets. We are principally engaged in the transportation, storage and distribution of refined petroleum products. For the year ended December 31, 2003, we had revenues of $485.2 million, EBITDA of $161.6 million and net income of $88.2 million. For the six months ended June 30, 2004, we had revenues of $275.4 million, EBITDA of $85.7 million and net income of $44.3 million. For a reconciliation of EBITDA to net income and a discussion of EBITDA as a performance measure, please read Summary Selected Financial and Operating Data.

We completed the initial public offering of our common units in February 2001 at an initial offering price of $21.50 per common unit. Since our initial public offering, we have increased our quarterly cash distribution for 13 consecutive quarters, resulting in an aggregate increase of approximately 65.7% from $0.525 per unit, or $2.10 per unit on an annualized basis, to $0.87 per unit, or $3.48 per unit on an annualized basis. Since February 2001, we have completed nine acquisitions, including the Shell acquisition described below, for an aggregate purchase price of approximately $1.7 billion, and we intend to continue pursuing an asset acquisition strategy.

On October 1, 2004, we acquired more than 2,000 miles of refined petroleum products pipeline system assets from Shell Pipeline Company LP and Equilon Enterprises LLC, which had operated these assets under the name Shell Oil Products US, or Shell, for approximately $489.7 million. For more information about this acquisition, please read Recent Developments Acquisition of Shell Refined Petroleum Products Pipeline Systems.

In addition to the assets that we recently acquired from Shell, our other assets consist of:

- a 6,700-mile petroleum products pipeline system, including 39 petroleum products terminals, serving the mid-continent region of the United States, referred to as our 6,700-mile petroleum products pipeline system ;
- five petroleum products terminal facilities located along the U.S. Gulf Coast and near the New York harbor, referred to as marine terminal facilities ;
- 29 petroleum products terminals located principally in the southeastern United States, referred to as inland terminals ; and

an 1,100-mile ammonia pipeline system, including six ammonia terminals, serving the mid-continent region of the United States.

Our 6,700-mile petroleum products pipeline system is a common carrier pipeline that provides transportation, storage and distribution services for petroleum products and liquefied petroleum gases, or LPGs, in 11 states from Oklahoma through the Midwest to North Dakota, Minnesota, Wisconsin and Illinois. This system generates revenues principally from tariffs regulated by the Federal Energy Regulatory Commission, or the FERC, based on the volumes transported and also from storage and other ancillary fees. Through direct refinery connections and interconnections with other pipelines, this system can access approximately 41% of the refinery capacity in the United States and is well-positioned to adapt to shifts in product supply or demand. For each of the year ended December 31, 2003 and the six months ended June 30, 2004, our 6,700-mile petroleum products pipeline system generated approximately 80% of our total revenues.

Our inland terminals and marine terminal facilities, which we refer to collectively as our petroleum products terminals, store and distribute gasoline and other petroleum products throughout 11 states. Our inland terminals are part of a distribution network located primarily throughout the southeastern United States and used by retail suppliers, wholesalers and marketers to receive gasoline and other petroleum products from large, interstate pipelines and to transfer these products to trucks, railcars or barges for delivery to their final destination. Our marine terminal facilities are large storage terminals that principally serve refiners, marketers and large end-users of petroleum products and are strategically located near major refining hubs along the U.S. Gulf Coast and near the New York harbor. Our petroleum products terminals generate revenues principally from volume-based fees charged for the storage and delivery of gasoline and other petroleum products handled by these terminals. For each of the year ended December 31, 2003 and the six months ended June 30, 2004, our petroleum products terminals generated approximately 17% and 18%, respectively, of our total revenues.

Our ammonia pipeline system transports and distributes ammonia from production facilities in Texas and Oklahoma to various distribution points in the Midwest for use as an agricultural fertilizer. Our ammonia pipeline system generates revenues principally from volume-based fees charged for the transportation of ammonia on the pipeline system. For each of the year ended December 31, 2003 and the six months ended June 30, 2004, our ammonia pipeline system generated approximately 3% and 2%, respectively, of our total revenues.

Business Strategies

Our primary business strategies are to:

- grow through strategic acquisitions and expansion projects that increase per unit cash flow;
- generate stable cash flows to make quarterly cash distributions; and
- conduct safe and efficient operations.

Competitive Strengths

We believe we are well-positioned to execute our business strategies successfully because of the following competitive strengths:

- our assets are strategically located in areas with high demand for our services;

we have little direct commodity price exposure;

we have long-term relationships with many of our customers that utilize our pipeline and terminal assets;

we have a strong financial position that allows us to make acquisitions and complete expansion projects; and

our senior management has extensive industry experience.

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Recent Developments

Distribution Increase. On July 22, 2004, the board of directors of our general partner declared a quarterly cash distribution of $0.87 per common and subordinated unit for the period of April 1 through June 30, 2004. This distribution represents an 11.5% increase over the distribution for the second quarter of 2003 of $0.78 per unit and an approximate 65.7% increase in our distribution since our initial public offering in February 2001. The distribution was paid on August 13, 2004 to unitholders of record at the close of business on August 3, 2004.

Acquisition of Shell Refined Petroleum Products Pipeline Systems. On October 1, 2004, we acquired more than 2,000 miles of refined petroleum products pipeline system assets from Shell for approximately $489.7 million. In addition to the purchase price, we paid approximately $30.0 million for inventory related to a third-party supply agreement under which we received a security interest in a related $14.0 million cash collateral account, assumed approximately $25.7 million of existing liabilities and expect to incur approximately $9.6 million for transaction costs. These assets are located in Colorado, Kansas, Oklahoma and Texas and primarily comprise the following four refined petroleum products pipeline systems, which include six active terminals and six system storage facilities that have a combined storage capacity of approximately 6.4 million barrels:

- *Orion refined products system:* an approximate 1,000-mile pipeline originating at the East Houston terminal in Houston, Texas that we acquired as part of this acquisition that delivers refined products to (i) a terminal in Odessa, Texas that we acquired as part of this acquisition, (ii) a third-party terminal in El Paso, Texas, (iii) third-party facilities in central Texas and (iv) the mid-continent region of the United States through an interconnection with our 6,700-mile petroleum products pipeline system at Duncan, Oklahoma;

- *Hearne refined products system:* an approximate 145-mile pipeline originating in Hearne, Texas that delivers refined products to third-party terminals in Waco and Dallas, Texas and to our existing terminal in Dallas;

- *Chase refined products system:* an approximate 700-mile pipeline originating in El Dorado, Kansas that delivers refined products to (i) two terminals that we acquired as part of this acquisition and one third-party terminal in Kansas, (ii) a terminal near Denver, Colorado that we acquired as part of this acquisition and (iii) the Denver International Airport; and

- *Cimarron refined products system*: an approximate 175-mile pipeline with origin points in Glenpool and Cushing, Oklahoma that delivers refined products to the Chase pipeline connection at El Dorado, Kansas. Our 6,700-mile petroleum products pipeline system serves as an interconnect between the Orion pipeline at Duncan, Oklahoma and the Cimarron pipeline at Cushing, Oklahoma.

The acquisition of the Shell refined petroleum products pipeline system assets provides us with a direct connection to the U.S. Gulf Coast, which is the primary refining region of the United States and a major point of entry for foreign imports of refined petroleum products. The acquisition also extends the reach of our 6,700-mile petroleum products pipeline system into key markets in Colorado and western and northern Texas, including the growing metropolitan centers of Denver, Dallas/Fort Worth and El Paso.

The Orion, Chase and Cimarron refined products systems already have connections to our 6,700-mile petroleum products pipeline system. Given the strategic importance of these assets to us and their connections to our existing assets, we believe that opportunities exist for several expansion projects to improve the utilization of, and integrate the acquired assets into, our existing operations.

Giving effect to the anticipated expansion projects and our marketing of these assets to third parties, including Shell, we expect annual operating profit from the acquired assets to be between $40.0 and $45.0 million by 2007 and to average approximately $37.0 million for the period 2005 to

2007. We expect the related book depreciation to average approximately $18.0 million per year for the period 2005 to 2007, and the maintenance capital for the acquired assets to be approximately $2.0 million annually. For information about

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certain factors that could cause the actual operating results attributable to the acquired assets to materially differ from that which we expect, please read Information Regarding Forward-Looking Statements in this prospectus supplement and Risk Factors included in and incorporated by reference into this prospectus supplement and the accompanying prospectus.

In connection with this acquisition, we amended our partnership agreement to reduce the incentive cash distributions to be paid to our general partner by $5.0 million and $3.0 million for 2005 and 2006, respectively. In addition, the amended partnership agreement reduces the incentive cash distributions to be paid to our general partner for the fourth quarter of 2004 by $1.25 million. These reductions will accelerate the accretion attributable to the acquisition and increase the cash available for distribution to our limited partners.

At the time this acquisition closed on October 1, 2004, we financed the acquisition with cash on hand of approximately $179.3 million, including net proceeds of approximately $87.3 million from our August 2004 equity offering and net of an escrow payment of approximately $24.6 million to Shell in June 2004, $300.0 million of borrowings under our short-term acquisition facility and $50.0 million of borrowings under our revolving credit facility. Affiliates of each of the underwriters participating in this offering are lenders under our $300.0 million short-term acquisition facility. We intend to use the net proceeds from this offering to repay a portion of the borrowings under our short-term acquisition facility. We expect to repay the remaining borrowings under our short-term acquisition facility with net proceeds from a future issuance of long-term debt.

For more information about the acquisition and our related financing plan, please read Overview of the Shell Acquisition, Use of Proceeds and Underwriting.

Partnership Structure and Management

Our operations are conducted through, and our operating assets are owned by, our subsidiaries. After giving effect to this offering of our common units:

- There will be 25,795,000 publicly held common units outstanding, representing a 77.1% limited partner interest in us;
- Magellan Midstream Holdings, L.P. will own 2,735,541 common units and 4,259,771 subordinated units, representing an aggregate 20.9% limited partner interest in us; and
- Magellan GP, LLC, our general partner, will continue to own a 2.0% general partner interest in us and all of the incentive distribution rights.

Our general partner has sole responsibility for conducting our business and managing our operations. Our general partner does not receive any management fee or other compensation in connection with its management of our business, but it is reimbursed for direct and indirect expenses incurred on our behalf.

The chart on the following page depicts our organizational and ownership structure after giving effect to this offering. The percentages reflected in the organizational chart represent the approximate ownership interests in us and our operating subsidiaries.

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Ownership of Magellan Midstream Partners, L.P.	**Percentage Interest**
Public common units	77.1%
Magellan Midstream Holdings, L.P. common units	8.2%
Magellan Midstream Holdings, L.P. subordinated units	12.7%
Magellan GP, LLC general partner interest	2.0%
Total	100.0%

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The Offering

Common units offered	2,600,000 common units; 2,990,000 common units if the underwriters exercise their over-allotment option in full.
Units outstanding after this offering	28,530,541 common units if the underwriters do not exercise their over-allotment option and 28,920,541 common units if the underwriters exercise their over-allotment option in full; and 4,259,771 subordinated units.
Use of proceeds	We intend to use the net proceeds from this offering, including any net proceeds from the exercise of the underwriters over-allotment option, and our general partner s related capital contribution to repay a portion of the indebtedness and accrued interest outstanding under our short-term acquisition facility that we used to finance the acquisition from Shell. Affiliates of each of the underwriters participating in this offering are lenders under our $300.0 million short-term acquisition facility.
Cash distributions	Under our partnership agreement, we must distribute all of our cash on hand as of the end of each quarter, less reserves established by our general partner. We refer to this cash as available cash, and we define it in our partnership agreement.

We declared a quarterly cash distribution for the second quarter of 2004 of $0.87 per common and subordinated unit, or $3.48 per unit on an annualized basis. We paid this cash distribution on August 13, 2004 to unitholders of record at the close of business on August 3, 2004.

When our quarterly cash distributions exceed $0.578 per unit in any given quarter, our general partner receives a higher percentage of the cash distributed in excess of that amount, in increasing percentages up to 50% if the quarterly cash distributions exceed $0.788 per unit. For a description of our cash distribution policy, please read Cash Distributions in the accompanying prospectus. In connection with the Shell acquisition, we have amended our partnership agreement to reduce the incentive cash distributions to our general partner as described in Overview of the Shell Acquisition Overview.

Subordination period	The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before December 31, 2005.

When the subordination period ends, all remaining subordinated units will convert into common units, and the common units will no longer be entitled to arrearages.

Early conversion of subordinated units	We met the financial tests in our partnership agreement for the quarter ended December 31, 2003 for the early conversion of a portion of our subordinated units. As a result, in February 2004, 25%, or 1,419,923,

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	of our subordinated units converted into common units. If we meet these tests for any quarter ending on or after December 31, 2004, an additional 25% of the subordinated units will convert into common units. The early conversion of the second 25% of the subordinated units may not occur until at least one year after the early conversion of the first 25% of the subordinated units.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through the record date for the distribution for the fourth calendar quarter of 2006, then you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be less than 20% of the cash distributed with respect to that period. Please read Tax Considerations in this prospectus supplement for the basis of this estimate.
New York Stock Exchange symbol	MMP

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Summary Selected Financial and Operating Data

We have derived the summary selected historical financial data as of and for the years ended December 31, 2001, 2002 and 2003 from our audited consolidated financial statements and related notes. We have derived the summary selected historical financial data as of and for the six months ended June 30, 2003 and 2004 from our unaudited financial statements, which, in the opinion of our management, include all adjustments necessary for a fair presentation of the data. This financial data is an integral part of, and should be read in conjunction with, the consolidated financial statements and notes thereto, which are incorporated by reference and have been filed with the Securities and Exchange Commission, or SEC. All other amounts have been prepared from our financial records. Information concerning significant trends in our financial condition and results of operations is contained in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations, which has been filed with the SEC and is incorporated by reference.

The non-generally accepted accounting principle financial measures of EBITDA and operating margin are presented in the summary selected historical financial data. We have presented these financial measures because we believe that investors benefit from having access to the same financial measures utilized by management.

EBITDA is defined as net income plus provision for income taxes, debt placement fee amortization, write-off of unamortized debt placement fees, interest expense (net of interest income) and depreciation and amortization. EBITDA should not be considered an alternative to net income, operating income, cash flow from operations or any other measure of financial performance presented in accordance with generally accepted accounting principles, or GAAP. EBITDA is not intended to represent cash flow. Because EBITDA excludes some but not all items that affect net income and these measures may vary among other companies, the EBITDA data presented may not be comparable to similarly titled measures of other companies. Our management uses EBITDA as a performance measure to assess the viability of projects and to determine overall rates of return on alternative investment opportunities. We believe investors can use EBITDA as a simplified means of measuring cash generated by operations before maintenance capital and fluctuations in working capital. The reconciliation of EBITDA to net income, which is its nearest comparable GAAP measure, is included under the heading Other Data presented on the following page.

The components of operating margin are computed by using amounts that are determined in accordance with GAAP. The reconciliation of operating margin to operating profit, which is its nearest comparable GAAP financial measure, is included under the heading Income Statement Data presented on the following page. Operating profit includes expense items, such as depreciation and amortization and general and administrative expenses, that management does not consider when evaluating the core profitability of an operation. Our management uses operating margin in deciding how to allocate capital resources between our business segments. We believe that operating margin is an important measure for investors of the economic performance of our core operations.

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	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
	($ in thousands, except per unit amounts)				
Income Statement Data:					
Transportation and terminals revenues	$ 339,412	$ 363,740	$ 372,848	$ 183,430	$ 192,629
Product sales revenues	108,169	70,527	112,312	44,210	82,735
Affiliate construction and management fee revenues	1,018	210			
Total revenues	448,599	434,477	485,160	227,640	275,364
Operating expenses including environmental expenses net of indemnifications	160,880	155,146	166,883	76,402	80,915
Product purchases	95,268	63,982	99,907	39,851	70,881
Equity earnings(a)					(268)
Operating margin	192,451	215,349	218,370	111,387	123,836
Depreciation and amortization	35,767	35,096	36,081	18,262	19,344
General and administrative	47,365	43,182	56,846	26,923	26,394
Operating profit	109,319	137,071	125,443	66,202	78,098
Interest expense, net	12,113	21,758	34,536	16,976	15,773
Debt placement fee amortization	253	9,950	2,830	1,309	1,338
Debt prepayment premium					12,666
Write-off of unamortized debt placement fees					5,002
Gain on derivative					(953)
Other income, net	(431)	(2,112)	(92)		
Income before income taxes	97,384	107,475	88,169	47,917	44,272
Provision for income taxes(b)	29,512	8,322			
Net income	$ 67,872	$ 99,153	$ 88,169	$ 47,917	$ 44,272
Basic net income per limited partner unit	$ 1.87	$ 3.68	$ 3.32	$ 1.75	$ 1.50
Diluted net income per limited partner unit	$ 1.87	$ 3.67	$ 3.31	$ 1.74	$ 1.50
Balance Sheet Data:					
Working capital (deficit)	$ (2,211)	$ 47,328	$ 77,438	$ 64,523	$ 70,261
Total assets	1,104,559	1,120,359	1,194,930	1,147,999	1,248,680
Total debt	139,500	570,000	570,000	570,000	551,690
Affiliate long-term note payable(c)	138,172				
Partners capital	589,682	451,757	498,149	484,742	547,242
Cash Flow Data:					
Cash distributions declared per unit(d)	$ 2.02	$ 2.71	$ 3.17	$ 1.53	$ 1.72
Other Data:					
Operating margin:					
Petroleum products pipeline system	$ 143,711	$ 163,233	$ 162,494	$ 81,583	$ 89,711
Petroleum products terminals	38,240	43,844	46,909	26,890	28,517
Ammonia pipeline system	10,500	8,272	8,094	2,914	4,160
Allocated partnership depreciation costs			873		1,448

Operating margin	$ 192,451	$ 215,349	$ 218,370	$ 111,387	$ 123,836
EBITDA:					
Net income	$ 67,872	$ 99,153	$ 88,169	$ 47,917	$ 44,272
Income taxes(b)	29,512	8,322			
Debt placement fee amortization	253	9,950	2,830	1,309	1,338
Write-off of unamortized debt placement fees					5,002
Interest expense, net	12,113	21,758	34,536	16,976	15,773
Depreciation and amortization	35,767	35,096	36,081	18,262	19,344
EBITDA(e)	$ 145,517	$ 174,279	$ 161,616	$ 84,464	$ 85,729

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	Year Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
Operating Statistics:					
Petroleum products pipeline system:					
Transportation revenue per barrel shipped (cents per barrel)	90.8	94.9	96.4	98.9	99.1
Transportation barrels shipped (millions)	236.1	234.6	237.6	111.7	115.4
Barrel miles (billions)	70.5	71.0	70.5	33.3	32.1
Petroleum products terminals:					
Marine terminal average storage capacity utilized per month (million barrels)	15.7	16.2	15.2	15.7	15.6
Marine terminal throughput (million barrels)(f)	11.5	20.5	22.2	10.4	11.2
Inland terminal throughput (million barrels)	56.7	57.3	61.2	28.3	46.6
Ammonia pipeline system:					
Volume shipped (thousand tons)	763	712	614	236	381

(a) Represents equity earnings related to our 50% ownership interest in Osage Pipe Line Company, LLC.

(b) Prior to our initial public offering on February 9, 2001, our petroleum products terminals and ammonia pipeline system operations were subject to income taxes. Prior to our acquisition of Magellan Pipeline Company, which primarily comprises our 6,700-mile petroleum products pipeline system, on April 11, 2002, Magellan Pipeline Company was also subject to income taxes. Because we are a partnership, the petroleum products terminals and ammonia pipeline system were no longer subject to income taxes after our initial public offering, and Magellan Pipeline Company was no longer subject to income taxes following our acquisition of it.

(c) At the closing of our acquisition of Magellan Pipeline Company, its affiliate note payable was contributed to us as a capital contribution by an affiliate of The Williams Companies, Inc., or Williams.

(d) Represents cash distributions declared associated with each respective calendar year. Cash distributions were declared and paid within 45 days following the close of each quarter. Cash distributions declared for 2001 include a prorated distribution for the first quarter, which included the period from February 10, 2001 through March 31, 2001.

(e) Includes $5.9 million and $3.6 million of reimbursable general and administrative expenses and $10.8 million and $0.8 million of transition costs for the year ended December 31, 2003 and the six months ended June 30, 2004, respectively.

(f) For the year ended December 31, 2001, represents a full year of activity for the New Haven facility (9.3 million barrels) and two months of activity for the Gibson facility (2.2 million barrels), which was acquired in October 2001.

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RISK FACTORS

An investment in our common units involves risk. You should carefully read the risk factors set forth below, the risk factors included under the caption Risk Factors beginning on page 2 of the accompanying prospectus, and those risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2003, which is incorporated by reference into this prospectus supplement and the accompanying prospectus.

The sale or exchange of 50% or more of our capital and profit interests will result in the termination of our partnership for federal income tax purposes.

Since December 2003, Magellan Midstream Holdings, L.P. has sold common units that represented an approximate 28% interest in our capital and profits for tax purposes. We will be considered to have been terminated for federal income tax purposes if the common units sold by Magellan Midstream Holdings, L.P., together with all common units sold within a 12-month period, represent a sale or exchange of 50% or more of our capital and profits interests. Our termination for tax purposes would, among other things, result in a significant deferral of the depreciation deductions allowable in computing our taxable income for the year in which the termination occurs. For a discussion of the consequences of our termination for federal income tax purposes, please read Material Tax Consequences Dispositions of Common Units Constructive Termination in the accompanying prospectus.

Our general partner and its affiliates may have conflicts with our partnership.

The directors and officers of our general partner and its affiliates have duties to manage our general partner in a manner that is beneficial to Magellan Midstream Holdings, L.P., its sole member. At the same time, our general partner has duties to manage us in a manner that is beneficial to us. Therefore, our general partner s duties to us may conflict with the duties of its officers and directors to Magellan Midstream Holdings, L.P.

Such conflicts may include, among others, the following:

- decisions of our general partner regarding the amount and timing of cash expenditures, borrowings and issuances of additional limited partnership units or other securities can affect the amount of incentive distribution payments we make to our general partner;
- under our partnership agreement, we reimburse our general partner for the costs of managing and operating us; and
- under our partnership agreement, it is not a breach of our general partner s fiduciary duties for affiliates of our general partner to engage in activities that compete with us. Specifically, our general partner is owned by an affiliate of the Carlyle/Riverstone Global Energy and Power Fund II, L.P. which also owns, through affiliates, an interest in the general partner of Buckeye Partners, L.P. Although we do not have extensive operations in the geographic areas primarily served by Buckeye Partners, we will compete directly with Buckeye Partners and perhaps other entities in which the Carlyle/Riverstone Fund has an interest for acquisition opportunities throughout the United States and potentially will compete with Buckeye Partners and these other entities for new business or extensions of the existing services provided by our operating partnerships, creating actual and potential conflicts of interest between us and affiliates of our general partner.

The assets acquired from Shell are subject to ongoing remediation obligations, and we may incur substantial environmental costs and liabilities that are not covered by Shell s indemnification of us.

Some of the assets acquired from Shell have been used for many years to distribute, store or transport petroleum products, and releases may have occurred from terminals or along pipeline rights-of-way that require remediation. In addition, past releases may have occurred but have not yet been discovered, which could require costly future remediation. As part of the acquisition, Shell agreed to retain liabilities and expenses related to active environmental remediation projects, other than those relating to the consent decree discussed in the paragraph below. In addition, Shell agreed to indemnify us for certain environmental liabilities arising from pre-closing conditions so long as we provide notice of those conditions no later than October 1, 2006. Shell s indemnification obligation is subject to a $250,000 per-claim deductible and a $30.0 million aggregate cap.

In 2003, Shell entered into a consent decree with the United States Environmental Protection Agency arising out of a June 1999 incident unrelated to the assets we acquired from Shell. In order to resolve Shell s civil

liability for the incident, Shell agreed to pay civil penalties of $10.0 million and to comply with certain terms set out in the consent decree. These terms include requirements for testing and maintenance of a number of Shell s pipelines, including the Chase and Orion pipelines, the creation of a damage prevention program, submission to independent monitoring and various reporting requirements. The consent decree imposes penalties for non-compliance for a period of at least five years from the date of the consent decree. Under our purchase agreement with Shell, we agreed, at our own expense, to complete any remaining remediation work required under the consent decree with respect to the Chase and Orion pipelines and have assumed a liability of approximately $8.1 million for this remediation work. Shell has agreed to retain responsibility under the consent decree for the ongoing independent monitoring obligations related to the Chase pipeline.

If a significant accident or event occurred in the past for which indemnification is not available or if the costs of performing any remediation significantly exceed our expectations, it could adversely affect our financial position, results of operations and our ability to make distributions to our unitholders.

Rate regulation or a successful challenge to the rates we charge on our petroleum products pipelines may reduce the amount of cash we generate.

The FERC regulates the tariff rates for interstate movements on our petroleum products pipelines. Shippers may protest our pipeline tariff filings, and the FERC may investigate new or changed tariff rates and order refunds of amounts collected under rates that were in excess of a just and reasonable level. In addition, shippers may challenge the lawfulness of tariff rates that have become final and effective. The FERC may also investigate such rates absent shipper complaint.

The FERC s ratemaking methodologies may limit our ability to set rates based on our true costs or may delay the use of rates that reflect increased costs. The FERC s primary ratemaking methodology is price indexing. We use this methodology to establish our rates in approximately one-third of our interstate markets. The indexing method allows a pipeline to increase its rates by a percentage equal to the change in the producer price index, or PPI. If the PPI falls, we could be required to reduce our rates that are based on the FERC s price indexing methodology if they exceed the new maximum allowable rate. In addition, changes in the PPI might not be large enough to fully reflect actual increases in the costs associated with the pipelines subject to indexing.

The potential for a challenge to our indexed rates creates the risk that the FERC might find some of our indexed rates to be in excess of a just and reasonable level that is, a level justified by our cost of service. In such an event, the FERC would order us to reduce any such rates and, could require the payment of reparations to complaining shippers for up to two years prior to the complaint.

On July 20, 2004, the United States Court of Appeals for the District of Columbia Circuit issued its opinion in *BP West Coast Products, LLC v. FERC*, which vacated the FERC s application of its *Lakehead* policy. Under that policy, the FERC allowed a regulated entity organized as a master limited partnership to include in its cost of service an income tax allowance to the extent that its unitholders, or limited partners, were corporations subject to income tax. Because the court s ruling on the FERC s *Lakehead* policy in *BP West Coast* appears to focus on the facts and record presented to it in that case, it is not clear what impact, if any, the opinion will have on our indexed rates. Moreover, it is not clear what action the FERC will take in response to *BP West Coast*, to what extent such action will be challenged and, if so, whether it will withstand further FERC or judicial review. Nevertheless, a shipper might rely on this decision to challenge our indexed rates and claim that our income tax allowance should be eliminated. If the FERC were to disallow our income tax allowance, it may be somewhat more difficult to justify our indexed rates on a cost of service basis. However, because of the relatively small percentage of our unitholders that are corporations, which results in our including only a small income tax allowance in our cost of service, we do not believe that a challenge to our indexed rates based solely on an elimination of our income tax allowance would be likely to succeed.

We establish rates in approximately two-thirds of our markets using the FERC s market-based ratemaking regulations. These regulations allow us to establish rates based on conditions in individual markets without regard to the index or our cost of service. If successfully challenged, the FERC could take away our ability to establish market-based rates. We would then have to establish rates that would be justified on some other basis such as our cost of service.

Any reduction in the indexed rates, removal of our ability to establish market-based rates, or payment of reparations could have a material adverse effect on our operations and reduce the amount of cash we generate.

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USE OF PROCEEDS

We expect to receive net proceeds of approximately $139.5 million from the sale of the 2,600,000 common units we are offering (based upon the last reported sales price of our common units on the New York Stock Exchange on September 30, 2004 of $54.98 per common unit) and our general partner s related capital contribution, after deducting the underwriting discounts and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering, including the net proceeds from the exercise of the underwriters over-allotment option, if any, and our general partner s related capital contribution to repay a portion of the indebtedness and accrued interest outstanding under our short-term acquisition facility that we used to finance the acquisition from Shell. Affiliates of each of the underwriters participating in this offering are lenders under our $300.0 million short-term acquisition facility. Please read Overview of the Shell Acquisition for more information regarding this acquisition. As of October 1, 2004, this short-term acquisition facility has a weighted average interest rate of 2.8% per year and matures in September 2005.

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CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2004:

- on a historical basis;
- as adjusted to give effect to the sale of 1,800,000 common units sold by us in August 2004, our general partner s related capital contribution and the application of the net proceeds from both;
- as adjusted to give effect to the consummation of the Shell acquisition and the financing of a portion of the purchase price with borrowings under our short-term acquisition facility and our revolving credit facility; and
- as adjusted to give effect to the sale of 2,600,000 common units offered by us pursuant to this prospectus supplement, our general partner s related capital contribution and the application of the net proceeds therefrom in the manner described under Use of Proceeds.

We expect the net proceeds from the common units offered by us and our general partner s related capital contribution to be approximately $139.5 million (based upon the last reported sales price of our common units on the New York Stock Exchange on September 30, 2004 of $54.98 per common unit), after deducting the underwriting discounts and estimated offering expenses payable by us.

This table should be read together with our historical financial statements and the accompanying notes incorporated by reference into this prospectus supplement and the accompanying prospectus. This table does not reflect the issuance of up to 390,000 common units that we may sell to the underwriters upon exercise of their over-allotment option, the proceeds of which, together with our general partner s related capital contribution, will be used to repay a portion of the indebtedness and accrued interest outstanding under our short-term acquisition facility that we used to finance the acquisition from Shell. Please read Use of Proceeds.

	As of June 30, 2004			
	Historical	As Adjusted for August 2004 Offering	As Adjusted for Shell Acquisition Financing	As Adjusted for this Offering
	(unaudited) ($ in thousands)			
Cash and cash equivalents	$ 51,951(a)	$ 174,258(b)	$ 19,640	$ 20,130
Debt:				
Short-term acquisition facility			$ 300,000	$ 161,000
Revolving credit facility			50,000	50,000
	$ 302,202	$ 302,202	302,202	302,202

Magellan Pipeline Company Series B senior notes due 2007(c)				
Magellan Midstream Partners 6.45% senior notes due 2014(d)	249,488	249,488	249,488	249,488
Total debt	$ 551,690	$ 551,690	$ 901,690	$ 762,690
Total partners capital	547,242	634,549	634,549	774,039
Total capitalization	$ 1,098,932	$ 1,186,239	$ 1,536,239	$ 1,536,729

(a) Net of a $24.6 million escrow payment made to Shell in June 2004 in connection with the acquisition.

(b) Reflects a $35.0 million cash receipt on July 1, 2004 in connection with our indemnification settlement with Williams.

(c) Reflects a $0.2 million change in the fair value of these notes between May 25, 2004 and June 30, 2004 in connection with the fair value hedges associated with these notes.

(d) Reflects $0.5 million of original issue discount.

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PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

As of September 30, 2004, there were 25,930,541 common units outstanding, held by approximately 29,000 holders, including common units held in street name and units held by Magellan Midstream Holdings, L.P. Our common units are traded on the New York Stock Exchange under the symbol MMP.

As of September 30, 2004, 4,259,771 subordinated units were outstanding. These subordinated units are held by Magellan Midstream Holdings, L.P. and are not publicly traded.

The following table sets forth, for the periods indicated, the high and low closing sales prices for our common units, as reported on the New York Stock Exchange Composite Transaction Tape, and quarterly declared cash distributions per common unit. The closing sales price of our common units on the New York Stock Exchange on September 30, 2004 was $54.98 per common unit.

	Price Ranges		Cash Distributions
	High	**Low**	**Per Unit(a)**
2004			
Third Quarter	$ 55.00	$ 49.77	N/A(b)
Second Quarter	55.50	46.89	$ 0.8700
First Quarter	55.35	50.05	0.8500
2003			
Fourth Quarter	$ 55.03	$ 45.80	$ 0.8300
Third Quarter	48.55	42.40	0.8100
Second Quarter	48.20	37.54	0.7800
First Quarter	37.19	33.30	0.7500
2002			
Fourth Quarter	$ 34.70	$ 29.50	$ 0.7250
Third Quarter	36.40	25.20	0.7000
Second Quarter	42.35	30.75	0.6750
First Quarter	43.30	32.85	0.6125
2001			
Fourth Quarter	$ 44.00	$ 37.00	$ 0.5900
Third Quarter	40.40	29.40	0.5775
Second Quarter	33.42	28.45	0.5625
First Quarter	31.00	24.00	0.2920

(a) Cash distributions declared for each respective quarter. Cash distributions were declared and paid within 45 days following the close of each quarter. The cash distribution for the first quarter of 2001 was prorated for the period from February 10, 2001 through March 31, 2001.

(b) We expect to declare and pay a cash distribution for the third quarter of 2004 within 45 days following the end of the quarter.

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OVERVIEW OF THE SHELL ACQUISITION

Substantially all of the information presented below related to the Shell assets is based on information provided to us by Shell in connection with our acquisition of Shell s refined petroleum products pipeline system assets.

Overview

On October 1, 2004, we acquired more than 2,000 miles of refined petroleum products pipeline system assets from Shell for approximately $489.7 million. In addition to the purchase price, we paid approximately $30.0 million for inventory related to a third-party supply agreement under which we received a security interest in a related $14.0 million cash collateral account, assumed approximately $25.7 million of existing liabilities and expect to incur approximately $9.6 million for transaction costs. These assets are located in Colorado, Kansas, Oklahoma and Texas and primarily comprise the following four refined products pipeline systems, which include six active terminals and six system storage facilities that have a combined storage capacity of approximately 6.4 million barrels:

- *Orion refined products system:* an approximate 1,000-mile pipeline originating at the East Houston terminal in Houston, Texas that we acquired as part of this acquisition that delivers refined products to (i) a terminal in Odessa, Texas that we acquired as part of this acquisition, (ii) a third-party terminal in El Paso, Texas, (iii) third-party facilities in central Texas and (iv) the mid-continent region of the United States through an interconnection with our 6,700-mile petroleum products pipeline system at Duncan, Oklahoma;

- *Hearne refined products system:* an approximate 145-mile pipeline originating in Hearne, Texas that delivers refined products to third-party terminals in Waco and Dallas, Texas and to our existing terminal in Dallas;

- *Chase refined products system:* an approximate 700-mile pipeline originating in El Dorado, Kansas that delivers refined products to (i) two terminals that we acquired as part of this acquisition and one third-party terminal in Kansas, (ii) a terminal near Denver, Colorado that we acquired as part of this acquisition and (iii) the Denver International Airport; and

- *Cimarron refined products system*: an approximate 175-mile pipeline with origin points in Glenpool and Cushing, Oklahoma that delivers refined products to the Chase pipeline connection at El Dorado, Kansas. Our 6,700-mile petroleum products pipeline system serves as an interconnect between the Orion pipeline at Duncan, Oklahoma and the Cimarron pipeline at Cushing, Oklahoma.

Giving effect to anticipated expansion projects discussed below under Strategic Rationale and our marketing of these assets to third parties, including Shell, we expect annual operating profit from the acquired assets to be between $40.0 and $45.0 million by 2007 and to average approximately $37.0 million for the period 2005 to 2007. We expect the related book depreciation to average approximately $18.0 million per year for the period 2005 to 2007, and the maintenance capital for the acquired assets to be approximately $2.0 million annually. For information about certain factors that could cause the actual operating results attributable to the acquired assets to materially differ from that which we expect, please read Information Regarding Forward-Looking Statements in this prospectus supplement and Risk Factors included in and incorporated by reference into this prospectus supplement and the accompanying prospectus.

In connection with this acquisition, we amended our partnership agreement to reduce the incentive cash distributions to be paid to our general partner by $5.0 million and $3.0 million for 2005 and 2006, respectively. In addition, the amended partnership agreement reduces the incentive cash distributions to be paid to our general partner for the fourth quarter of 2004 by $1.25 million. These reductions will accelerate the accretion attributable to the acquisition and increase the cash available for distribution to our limited partners.

At the time this acquisition closed on October 1, 2004, we financed the acquisition with cash on hand of approximately $179.3 million, including net proceeds of approximately $87.3 million from our August 2004 equity offering and net of an escrow payment of approximately $24.6 million to Shell in June 2004, $300.0

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million of borrowings under our short-term acquisition facility and $50.0 million of borrowings under our revolving credit facility. Affiliates of each of the underwriters participating in this offering are lenders under our short-term acquisition facility. We intend to use the net proceeds from this offering to repay a portion of the borrowings under our short-term acquisition facility. We expect to repay the remaining borrowings under our short-term acquisition facility with net proceeds from a future issuance of long-term debt.

Strategic Rationale

The acquisition of the Shell refined petroleum products pipeline system assets provides us with a direct connection to the U.S. Gulf Coast, which is the primary refining region of the United States and a major point of entry for foreign imports of refined petroleum products. The acquisition also extends the reach of our 6,700-mile petroleum products pipeline system into key markets in Colorado and western and northern Texas, including the growing metropolitan centers of Denver, Colorado, Dallas/Fort Worth, Texas and El Paso, Texas. According to the U.S. Census Bureau, the annual population growth in these areas has exceeded the national average over the past ten years. The compound annual growth in population for the Dallas/Fort Worth, Denver and El Paso markets was approximately 2.6%, 2.6% and 1.4%, respectively, from 1990 to 2000 compared to the compound annual growth of approximately 1.2% for the nation on average. Based on this historical trend, we believe that demand for refined products in these markets will also increase more than the national average. Further, statistics from the Energy Information Administration indicate the demand for refined petroleum products in the market areas served by our 6,700-mile petroleum products pipeline system is also expected to grow at an average compound annual rate of approximately 1.7% per year over the next ten years. We believe that a substantial part of this growth in demand will be satisfied by shipments of refined products from the U.S. Gulf Coast region. The integration of the acquired assets into our 6,700-mile petroleum products pipeline system will provide us with the ability to efficiently connect these growing markets with the U.S. Gulf Coast as a source of supply.

The Orion, Chase and Cimarron refined products systems already have connections to our 6,700-mile petroleum products pipeline system. For example, the Orion refined products system currently serves markets in the mid-continent region through a connection with our 6,700-mile petroleum products pipeline system, and the Chase refined products system can be supplied with refined products from the U.S. Gulf Coast region through our 6,700-mile petroleum products pipeline system. In addition, prior to the acquisition, we leased and operated a portion of the Cimarron pipeline. Given the strategic importance of these assets to us, we believe that opportunities exist for several projects to expand our 6,700-mile petroleum products pipeline system, our existing terminal network and the Orion refined products system s point of origin at the East Houston terminal, thereby enhancing our connectivity to U.S. Gulf Coast refineries.

Description of the Assets

Orion Refined Products System

The Orion refined products system, or Orion, comprises three main segments which total approximately 1,000 miles:

- the South segment, which extends from its East Houston terminal located near Houston, Texas to its Frost storage facility located approximately 50 miles south of Dallas, Texas, both of which we acquired as part of this acquisition;

- the North segment, which extends from the Frost storage facility to Duncan, Oklahoma, where it interconnects with our 6,700-mile petroleum products pipeline system; and

the West segment, which extends from the Frost storage facility to El Paso, Texas.

Orion s three segments are linked at the Frost storage facility and form a system capable of transporting approximately 100,000 barrels per day, or bpd. Orion also includes one active terminal located in Odessa, Texas, which has an aggregate storage capacity of approximately 709,000 barrels, and one idle terminal located in El Paso. The East Houston terminal includes a number of crude oil storage tanks that we are leasing to Shell under a long-term lease agreement.

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Orion receives all of the refined products it transports from the East Houston terminal, which receives the majority of its supply from Shell s Deer Park, Texas refinery. The remainder of the refined products received by the East Houston terminal originate from Kinder Morgan Energy Partners L.P. s terminals located in Galena Park and Pasadena, Texas.

Orion is a common-carrier pipeline, and its tariffs are regulated by the FERC and the Texas Railroad Commission.