MAGELLAN MIDSTREAM PARTNERS LP
Form DEF 14A
February 28, 2007

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

MAGELLAN MIDSTREAM PARTNERS, L.P.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Notes:

One Williams Center

Tulsa, Oklahoma 74172

February 28, 2007

To Our Limited Partners:

You are cordially invited to attend the 2007 annual meeting of limited partners of Magellan Midstream Partners, L.P. to be held on Wednesday, April 25, 2007 in the Williams Resource Center at One Williams Center, Tulsa, Oklahoma, commencing at 10:00 a.m. Central Time. A notice of the annual meeting, a proxy statement and a proxy card are enclosed. We also have enclosed our 2006 Annual Report and Form 10-K for the fiscal year ended December 31, 2006.

The board of directors of our general partner has called this annual meeting for you to consider and act upon (i) the election of three Class II directors to our general partner s board of directors to serve until the 2010 annual meeting of limited partners and (ii) the amendment of the Magellan Midstream Partners Long-Term Incentive Plan, as amended and restated, to increase the total number of common units authorized to be issued under the plan. The board of directors of our general partner unanimously recommends that you approve these proposals. I urge you to read the accompanying proxy statement for further details about the proposals.

Your vote is important. Whether or not you plan to attend the annual meeting, please cast your vote by completing, signing and dating the enclosed proxy card and returning it promptly in the accompanying envelope. You also may vote by following the internet or telephone voting instructions on the proxy card. If for any reason you desire to revoke your proxy, you may do so at any time before the vote is held at the annual meeting by following the procedures described in the accompanying proxy statement.

Sincerely,

Don R. Wellendorf

Chairman of the Board, President and

Chief Executive Officer of Magellan GP, LLC,

general partner of Magellan Midstream Partners, L.P.

MAGELLAN MIDSTREAM PARTNERS, L.P.

One Williams Center

Tulsa, Oklahoma 74172

NOTICE OF ANNUAL MEETING OF LIMITED PARTNERS

TO BE HELD ON APRIL 25, 2007

To the Unitholders of Magellan Midstream Partners, L.P.:

The annual meeting of limited partners of Magellan Midstream Partners, L.P. will be held in the Williams Resource Center at One Williams Center, Tulsa, Oklahoma, on April 25, 2007 at 10:00 a.m. Central Time to consider the following matters:

1. The election of three Class II directors to our general partner s board of directors to serve until the 2010 annual meeting of limited partners;

2. The amendment of the Magellan Midstream Partners Long-Term Incentive Plan, as amended and restated, to increase the total number of common units authorized to be issued under the plan; and

3. The transaction of any other business as may properly come before the annual meeting or any adjournments thereof, including, without limitation, the adjournment of the annual meeting in order to solicit additional votes from unitholders with respect to the foregoing proposals.

Only unitholders of record at the close of business on February 23, 2007 are entitled to attend or vote at the annual meeting or any adjournments thereof.

Your vote is important! For your convenience, internet and telephone voting are available. The instructions for voting by internet or telephone are set forth on your proxy card. If you prefer, you may vote by mail by completing your proxy card and returning it in the enclosed postage-paid envelope.

By Order of the Board of Directors of Magellan

GP, LLC, as general partner of Magellan Midstream

Partners, L.P.

Suzanne H. Costin

Secretary

Tulsa, Oklahoma

February 28, 2007

MAGELLAN MIDSTREAM PARTNERS, L.P.

Proxy Statement

For

Annual Meeting of Limited Partners

To Be Held on April 25, 2007

These proxy materials, which we will begin mailing to our unitholders on or about March 7, 2007, are being furnished to you in connection with the solicitation of proxies by and on behalf of the board of directors of Magellan GP, LLC, a Delaware limited liability company, acting in its capacity as the general partner of Magellan Midstream Partners, L.P., a Delaware limited partnership, for use at our 2007 annual meeting of limited partners or at any adjournments thereof. The meeting will be held in the Williams Resource Center on April 25, 2007 at 10:00 a.m. Central Time at One Williams Center, Tulsa, Oklahoma. Holders of record of common units at the close of business on February 23, 2007 were entitled to notice of, and are entitled to vote at, the annual meeting and any adjournments thereof, unless such adjournment is for more than 45 days, in which event our general partner s board of directors is required to set a new record date. Unless otherwise indicated, the terms Partnership, our, we, us and similar terms refer to Magellan Midstream Partners, L.P., together with our subsidiaries.

Proposals

At our 2007 annual meeting of limited partners, we are asking our unitholders to consider and act upon the election of three Class II directors to serve until our 2010 annual meeting (the Class II Director Election Proposal) and the amendment of the Magellan Midstream Partners Long-Term Incentive Plan, as amended and restated (the LTIP), to increase the total number of common units authorized to be issued under the LTIP (the LTIP Amendment Proposal).

Quorum Required

The presence, in person or by proxy, of the holders as of the record date of a majority of our outstanding common units is necessary to constitute a quorum for purposes of voting on the proposals at the annual meeting. Withheld votes will count as present for purposes of establishing a quorum on the proposals.

Vote Required

Class II Director Election Proposal

Directors on our general partner s board of directors are elected by a plurality of the votes cast by the holders of our outstanding common units. A plurality occurs when more votes are cast for a candidate than those cast for an opposing candidate. Each common unit entitles the holder thereof as of the record date to one vote. Unitholders are not entitled to cumulative voting. Cumulative voting is a system for electing directors whereby a security holder is entitled to multiply his number of securities by the number of directors to be elected and cast the total number of votes for a single candidate or a select few candidates.

A unitholder eligible to vote on the Class II Director Election Proposal may: (1) vote for the election of all of the nominees named herein; (2) withhold authority to vote for all of the nominees; or (3) vote for the election of one or two of the nominees and withhold authority to vote for the other nominee(s). Under the applicable rules of the New York Stock Exchange (NYSE), brokers that are members of the NYSE are permitted to vote a client s proxy in their own discretion as to the election of directors to the board of directors of our general partner if the broker has not received instructions from the unitholder on this proposal.

LTIP Amendment Proposal

According to the NYSE rules, adoption of the LTIP Amendment Proposal requires the affirmative vote of a majority of the votes cast at the annual meeting by unitholders, provided that the total votes cast represent over

1

50% in interest of all units entitled to vote on the proposal at the annual meeting. A unitholder entitled to vote may, with respect to the LTIP Amendment Proposal: (1) vote for the proposal; (2) vote against the proposal; or (3) abstain from voting on the proposal. Assuming the presence of a quorum, abstentions will not affect the determination of whether the required vote is obtained because this determination is based on the votes cast, not on the number of outstanding units.

How to Vote

You may vote in person at the annual meeting, by telephone, by internet or by proxy. Even if you plan to attend the annual meeting, we encourage you to complete, sign and return your proxy card or vote by following the telephone or internet voting instructions on the proxy card in advance of the annual meeting.

In Person

If you plan to attend the annual meeting and wish to vote in person, we will give you a ballot at the meeting. However, if your units are held in the name of a broker, you must obtain from the brokerage firm an account statement, letter or other evidence satisfactory to us of your beneficial ownership of the units.

Telephone

Please dial the toll-free telephone number set forth on the proxy card and follow the audio instructions. You will need the control number contained on your proxy card.

Internet

Go to the website set forth on the proxy card and follow the on-screen instructions. You will need the control number contained on your proxy card.

Proxy

Please mail your completed, signed and dated proxy card in the enclosed postage-paid return envelope as soon as possible so that your units may be represented at the annual meeting.

Revoking Your Proxy or Changing Your Telephone or Internet Vote

You may revoke your proxy before it is voted at the annual meeting as follows:

- by delivering, before or at the annual meeting, a new proxy with a later date;
- by delivering, on or before the business day prior to the annual meeting, a notice of revocation to the Secretary of our general partner at the address set forth in the notice of the annual meeting;
- by attending the annual meeting in person and voting, although your attendance at the annual meeting, without actually voting, will not by itself revoke a previously granted proxy; or
- if you have instructed a broker to vote your units, you must follow the directions received from your broker to change those instructions.

You may change your telephone vote as often as you wish by following the procedures for telephone voting. The last known vote in the telephone voting system as of the beginning of the annual meeting at 10:00 a.m. Central Time on April 25, 2007 will be counted.

You may change your internet vote as often as you wish by following the procedures for internet voting. The last known vote in the internet voting system as of the beginning of the annual meeting at 10:00 a.m. Central Time on April 25, 2007 will be counted.

Outstanding Common Units Held on Record Date

As of the record date, there were 66,546,297 outstanding common units that were entitled to notice of and are entitled to vote at the annual meeting.

Solicitation and Mailing of Proxies

The expense of preparing, printing and mailing this proxy statement and the proxies solicited hereby will be borne by us. In addition to the use of the mail, proxies may be solicited by representatives of our general partner in person or by telephone, electronic mail or facsimile transmission. These representatives will not be additionally compensated for such solicitation but may be reimbursed for out-of-pocket expenses incurred in connection therewith. If undertaken, we expect the expenses of such solicitation by representatives of our general partner to be nominal. We will also request brokerage firms, banks, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of our common units as of the record date and will provide reimbursement for the cost of forwarding the proxy materials in accordance with customary practice. We have retained Morrow & Co., Inc. to aid in the solicitation of proxies. The fees of Morrow & Co., Inc. are $6,000, plus reimbursement of its reasonable costs.

Only one annual report and proxy statement will be delivered to multiple unitholders sharing an address, if possible, unless we have received contrary instructions from one or more of the unitholders. If you have questions about the annual meeting or need additional copies of this proxy statement or additional proxy cards, please contact our proxy solicitation agent as follows:

Morrow & Co., Inc.

470 West Avenue

Stamford, Connecticut 06902

Email: magellaninfo@morrowco.com

Phone (unitholders): (800) 607-0088

Phone (banks and brokerage firms): (203) 658-9400

Other Matters for 2007 Annual Meeting

We know of no matters to be acted upon at the annual meeting other than the proposals included in the accompanying notice and described in this proxy statement. If any other matter requiring a vote of unitholders arises, including a question of adjourning the annual meeting, the persons named as proxies in the accompanying proxy card will have the discretion to vote thereon according to their best judgment of what they consider to be in the best interests of our partnership. The accompanying proxy card confers discretionary authority to take action with respect to any additional matters that may come before the meeting or any adjournment thereof.

CLASS II DIRECTOR ELECTION PROPOSAL

We are a limited partnership. We do not have a separate board of directors and do not have any employees. We are managed and operated by the officers of, and are subject to the oversight of the directors of, our general partner. The total number of directors on our general partner s board of directors is currently set at eight and there is one vacancy.

The terms of the directors of our general partner s board are staggered and the directors are divided into three classes. At each annual meeting, only one class of directors will be elected and, upon election, directors in that class will serve for a term of three years, subject to a director s earlier resignation or removal.

At the 2007 annual meeting, our unitholders will consider and act upon a proposal to elect three Class II directors to our general partner s board of directors to serve until the 2010 annual meeting of limited partners.

Each of the Class II nominees has consented to serve as a director if so elected. The persons named as proxies in the accompanying proxy card, who have been designated by the board of directors of our general partner, intend to vote for the election of the Class II director nominees unless otherwise instructed by a unitholder in a proxy card. If these nominees become unable for any reason to stand for election as a director of our general partner, the persons named as proxies in the accompanying proxy card will vote for the election of such other person or persons as the board of directors of our general partner may recommend and propose to replace such nominee or nominees.

Information concerning the three Class II director nominees, along with information concerning the current Class III and Class I directors whose terms of office will continue after the annual meeting, is set forth below.

CLASS II DIRECTOR NOMINEES If Elected, Term Expires at the 2010 Annual Meeting of Limited Partners

John P. DesBarres, 67, has served as an independent director of our general partner since May 19, 2005. He is currently a private investor in Park City, Utah. He was formerly Chairman, President and Chief Executive Officer (CEO) of Transco Energy Company (Transco) until his retirement in 1995. Prior to joining Transco in 1991, he was Chairman, President and CEO for Santa Fe Pacific Pipelines, Inc. Mr. DesBarres also currently serves as a board member for American Electric Power Company, Inc. and for the general partner of Penn Virginia Resource Partners, L.P. Mr. DesBarres nomination was recommended by our general partner s board of directors.

Patrick C. Eilers, 40, has served as a director of our general partner since June 17, 2003. He has served as a director of Magellan Midstream Holdings GP, LLC (MGG GP), the general partner of Magellan Midstream Holdings, L.P. (NYSE: MGG) (MGG), an affiliate that owns our general partner, since April 17, 2003. In addition, since December 21, 2005, Mr. Eilers has served as a director of MGG Midstream Holdings GP, LLC (MGG Holdings GP), the general partner of MGG Midstream Holdings, L.P., which is the owner of MGG s general partner. Mr. Eilers is a Director of Madison Dearborn Partners, LLC overseeing the firm s energy, power and chemicals practice. Prior to joining Madison Dearborn Partners in 1999, he served as a Director with Jordan Industries, Inc. from 1995 to 1997 and as an Associate with IAI Venture Capital, Inc. from 1990 to 1994 while playing professional football with the Chicago Bears, the Washington Redskins and the Minnesota Vikings from 1990 to 1995. Mr. Eilers nomination was recommended by our general partner s board of directors.

Thomas T. Macejko, Jr., 32, has served as a director of our general partner since January 29, 2007. He has served as a director of the general partner of MGG since January 26, 2007. Mr. Macejko is a Vice President of Madison Dearborn Partners, LLC. Prior to joining Madison Dearborn Partners, LLC as a Vice President in 2004, Mr. Macejko attended Northwestern University J.L. Kellogg Graduate School of Management. From 1998 through 2002, he was an analyst with Madison Dearborn Partners, LLC and Deutsche Banc Alex. Brown. Mr. Macejko s nomination was recommended by our general partner s board of directors.

CLASS III DIRECTORS Term Expires at the 2008 Annual Meeting of Limited Partners

James R. Montague, 59, has served as an independent director of our general partner since November 21, 2003. He served from December 2001 to October 2002 as President of EnCana Gulf of Mexico, Inc., which is in the oil and gas exploration and production business. From 1996 to June 2001, he served as President of two subsidiaries of International Paper Company, IP Petroleum Company, an oil and gas exploration and production company, and GCO Minerals Company, a company that manages International Paper Company s mineral holdings. Mr. Montague is also a director of Atwood Oceanics, Inc. and the general partner of Penn Virginia Resource Partners, L.P.

Don R. Wellendorf, 54, is currently Chairman of the Board and has served as a director and President and CEO of our general partner since November 15, 2002. He has served as President and CEO of the general partner

of MGG since June 17, 2003 and as the Chairman of that board since December 21, 2005. Mr. Wellendorf also served as President and CEO of our former general partner from May 13, 2002 until November 15, 2002 and served as a director of our former general partner from February 9, 2001 until November 15, 2002. He served as Treasurer and Chief Financial Officer (CFO) of our former general partner from January 7, 2001 to July 24, 2002 and as Senior Vice President of our former general partner from January 7, 2001 until May 13, 2002. From 1998 to March 2003, he served as a Vice President of a subsidiary of The Williams Companies, Inc. (Williams). Prior to Williams merger with MAPCO Inc. (MAPCO), he served in various management positions since joining MAPCO in 1979.

CLASS I DIRECTOR NOMINEES Term Expires at the 2009 Annual Meeting of Limited Partners

George A. O Brien, Jr., 59, has served as an independent director of our general partner since December 12, 2003. Mr. O Brien is currently the President and CEO of Pacific Lumber Company. From 1988 until 2005, he worked for International Paper Company where he served as Senior Vice President of Forest Products responsible for its forestry, wood products, minerals and specialty chemicals businesses. Other responsibilities during his tenure at International Paper Company included corporate development, CFO of its New Zealand subsidiary and operations management.

Thomas S. Souleles, 38, has served as a director of our general partner since December 13, 2004. He has served as a director of the general partner of MGG since December 13, 2004. In addition, Mr. Souleles has served as a director of MGG Holdings GP since December 21, 2005. Mr. Souleles has been employed by Madison Dearborn Partners, LLC since 1995 where he serves as a Managing Director and concentrates on investments in the basic industries sector. He is also a director of Great Lakes Dredge & Dock Corporation and Packaging Corporation of America.

THE BOARD OF DIRECTORS OF OUR GENERAL PARTNER UNANIMOUSLY RECOMMENDS THAT UNITHOLDERS VOTE FOR THE ELECTION OF JOHN P. DESBARRES, PATRICK C. EILERS AND THOMAS T. MACEJKO, JR. TO CLASS II OF OUR GENERAL PARTNER S BOARD OF DIRECTORS.

LTIP AMENDMENT PROPOSAL

Pursuant to a recommendation of the compensation committee of our general partner s board of directors (our Compensation Committee) on January 25, 2007, our general partner s board of directors has approved an amendment to our LTIP, subject to unitholder approval, that will increase the total number of common units authorized to be issued under the LTIP from 1,400,000 to 3,200,000. If the amendment is approved, it will be effective as of the date of the annual meeting of limited partners. Our general partner s board of directors believes that this amendment is necessary in order to continue (i) aiding in the retention of key employees who are important to the success of our organization; (ii) motivating employee contributions toward long-term value through ownership in our organization; and (iii) aligning potential increases in compensation to increases in financial results that drive unitholder value.

For a more complete description of the proposed amendment, please see Proposed Amendment to the LTIP below and a copy of the First Amendment to the LTIP included as Annex A to this Proxy Statement (the LTIP Amendment). For a more complete description of the LTIP generally, please see Summary Description of the LTIP below. A copy of the LTIP is included as Annex B to this Proxy Statement. The statements made in this Proxy Statement with respect to the LTIP Amendment Proposal should be read in conjunction with, and are qualified in their entirety by reference to, the full text of the LTIP Amendment and the LTIP, which are incorporated by reference herein from Annex A and Annex B.

5

Proposed Amendment to the LTIP

As of the date hereof, we have granted awards under the LTIP to independent directors of our general partner s board of directors, executive officers of our general partner and to certain employees of an affiliate that provide services to us, which totals approximately 100 individuals. Out of the initial 1,400,000 common units authorized at the time of our initial public offering in February 2001, approximately 327,000 common units are currently available to be awarded under the LTIP. As a result of future LTIP awards that may be awarded in connection with our compensation strategy or acquisitions, our general partner s board of directors recommends an amendment to the LTIP to increase the total number of common units authorized to be issued under the LTIP from 1,400,000 to 3,200,000. Our general partner s board of directors believes that this amount would be sufficient for a reasonable period of time.

Summary Description of the LTIP

Two types of awards may be granted pursuant to the LTIP: phantom units and performance awards. The LTIP currently limits the number of common units that may be delivered to 1,400,000 common units. Units withheld to satisfy tax obligations are included in this number.

Administration. The LTIP is administered by our Compensation Committee. The LTIP may be terminated or amended at any time with respect to any common units for which a grant has not yet been made. The LTIP may be altered or amended from time to time, including an amendment to increase the number of common units that may be granted, subject to unitholder approval as required by the NYSE. However, no change in any outstanding grant may be made that would materially reduce the benefits of the participant without the consent of the participant. The LTIP will expire on the earlier of the date terminated by our Compensation Committee or general partner s board of directors or when common units are no longer available for the payment of awards under the LTIP. Awards then outstanding under the LTIP will continue pursuant to the terms of their grants.

Eligibility. Awards may be granted to any independent director of our general partner s board of directors, executive officers of our general partner and to certain employees of an affiliate that provide services to us as may be determined by our Compensation Committee.

Phantom Units. A phantom unit entitles the grantee to receive a common unit upon the vesting of the phantom unit or, in the discretion of our Compensation Committee, cash equivalent to the value of a common unit. As of the date hereof, 1,387,282 phantom units have been awarded under the LTIP. Historically, phantom unit awards granted under the LTIP have had a three-year vesting period and vest only upon our achievement of specific performance metrics, which are established by our Compensation Committee. Participants who receive phantom unit awards under the LTIP do not have voting rights nor do they receive distributions until common units are issued with respect to the phantom unit award that has vested.

Phantom unit awards are subject to forfeiture if employment is terminated for any reason other than for retirement, death or disability prior to the vesting date. To date, 39,412 phantom units have been forfeited and returned to the number of units available to be granted under the LTIP. If an award recipient retires, dies or becomes disabled prior to the end of the vesting period, the recipient s grant will be prorated based upon the completed months of employment during the vesting period and the award will be paid at the end of the vesting period. The awards do not have an early vesting feature except when there is a termination of employment due to a change-in-control of our general partner. For more information regarding this early vesting feature, see the section entitled Termination or Change-in-Control Provisions in this Proxy Statement.

Common units to be delivered upon the vesting of phantom units may be common units acquired by us in the open market, common units already owned by us or an affiliate, common units acquired by us from any other person, newly issued common units or any combination of the foregoing. If we issue new common units upon vesting of the phantom units, the total number of our common units outstanding will increase. The Compensation

Committee may also settle the phantom unit awards in cash. When this occurs, the phantom units settled in cash are returned to the number of units available to be granted under the LTIP. To date, 313,740 phantom units have been settled in cash and returned to the number of units available to be granted under the LTIP.

Our Compensation Committee, in its discretion, may grant tandem distribution equivalent rights with respect to phantom units that entitle the holder to receive cash equal to any cash distributions made on common units while the phantom units are outstanding. As of the date hereof, tandem distribution equivalent rights have only been granted in connection with phantom units that have been deferred pursuant to the Magellan Midstream Partners Director Deferred Compensation Plan.

We intend the issuance of any of our common units upon vesting of the phantom units under the LTIP to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of our common units. Therefore, plan participants do not pay any consideration for the common units they receive, and we receive no remuneration for these common units.

Performance Awards. Performance awards are a right to receive compensation based upon performance criteria specified by our Compensation Committee and may be denominated or payable in cash, deferred cash, our common units, other awards or other property as determined by our Compensation Committee. As of the date hereof, 39,295 performance awards have been granted under the LTIP, primarily to retain the independent members of our general partner s board of directors.

THE BOARD OF DIRECTORS OF OUR GENERAL PARTNER UNANIMOUSLY RECOMMENDS THAT UNITHOLDERS VOTE FOR THE APPROVAL OF THE LTIP AMENDMENT PROPOSAL.

CORPORATE GOVERNANCE

Director Independence

The NYSE rules do not require the boards of directors of publicly-traded limited partnerships to be made up of a majority of independent directors. Three members of our general partner s eight-member board of directors meet the independence and financial literacy requirements of the NYSE and the Securities and Exchange Commission (SEC). These independent directors are John P. DesBarres, James R. Montague and George A. O Brien, Jr. Based on all relevant facts and circumstances, our general partner s board of directors affirmatively determined on January 25, 2007 that these independent directors have no material relationship with us or our general partner. The following categorical standards were used by our general partner s board of directors to determine the independence of these directors:

- A director will not be considered independent if the director is, or has been within the last three years, an employee of MGG, our general partner or us, or if an immediate family member of a director is, or has been within the last three years, an executive officer of MGG, our general partner or us; provided, however, that employment as an interim Chairman or CEO or other executive officer will not disqualify a director from being considered independent following that employment;

- A director who has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than $100,000 in direct compensation from MGG, our general partner or us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), will not be considered independent; provided, however, that the following need not be considered in determining independence under this test: (i) compensation received by a director for former service as an interim Chairman or CEO or other executive officer and (ii) compensation received by an immediate family member for service as an employee (other than an executive officer) of MGG, our general partner or us;

A director will not be considered independent if (i) the director or an immediate family member is a current partner of a firm that is our internal or external auditor; (ii) the director is a current employee of such a firm, (iii) the director has an immediate family member who is a current employee of such a firm and who participates in the firm s audit, assurance or tax compliance (but not tax planning) practice; or (iv) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on our audit within that time;

A director or immediate family member who is, or has been within the last three years, employed as an executive officer of another company where any of MGG s, our general partner s or our present executive officers at the same time serves or served on that company s compensation committee will not be considered independent; and

A director who is a current employee, or whose immediate family member who is a current executive officer, of a company that has made payments to, or received payments from, MGG, our general partner or us for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2% of such other company s consolidated gross revenues, will not be considered independent; provided, however, that charitable organizations will not be considered to be a company for purposes of this test.

John P. DesBarres serves on the board of directors of American Electric Power Company, Inc. In the ordinary course of our business, we incur power costs with Public Service Company of Oklahoma, which is a subsidiary of American Electric Power Company, Inc. This relationship was not required to be disclosed in the section below entitled Related Person Transactions, but was considered by the board of directors in determining the independence of Mr. DesBarres.

2006 Meetings of the Board of Directors and its Committees

The board of directors of our general partner held five board meetings, eight audit committee meetings, three compensation committee meetings and one conflicts committee meeting, which is a total of 17 meetings during 2006. During 2006, no director attended fewer than 75% of: (1) the total number of meetings of our general partner s board of directors held during the period for which he was a director; and (2) the total number of meetings held by all committees of the board on which he served during the periods that he served. Our general partner s board of directors does not have a policy with respect to the board members attendance at annual meetings. At our 2006 annual meeting of limited partners, all of our directors were in attendance.

Board Committees

Our general partner s board of directors has the following three standing committees: (1) audit committee; (2) compensation committee; and (3) conflicts committee.

Audit Committee. The members of the audit committee are John P. DesBarres, James R. Montague and George A. O Brien, Jr. Our general partner s board of directors has determined that each of these directors meets the independence and financial literacy requirements of the NYSE. Mr. O Brien is the chairman of the audit committee. Our general partner s board of directors has determined that Mr. O Brien is an audit committee financial expert. The audit committee, among other things, reviews our external financial reporting, retains our independent registered public accounting firm, approves and pre-approves services provided by the independent registered public accounting firm and reviews procedures for internal auditing and the adequacy of our internal accounting controls. More information regarding the functions performed by the audit committee is set forth below in the section entitled 2006 Report of the Audit Committee. Our general partner s board of directors has adopted a written charter for the audit committee, which is available on our website at www.magellanlp.com.

2006 Report of the Audit Committee

The Audit Committee of the Board of Directors of Magellan GP, LLC, acting in its capacity as the general partner of Magellan Midstream Partners, L.P. (referred to in this report as the Partnership), oversees the Partnership s financial reporting process on behalf of the board of directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls.

In fulfilling its oversight responsibilities, the Audit Committee reviewed with management the audited financial statements contained in the Annual Report on Form 10-K for the year ending December 31, 2006. The review included a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Partnership s independent registered public accounting firm, Ernst & Young LLP, is responsible for expressing an opinion on the conformity of the audited financial statements with generally accepted accounting principles. The Audit Committee reviewed with Ernst & Young LLP their judgment as to the quality, not just the acceptability, of the Partnership s accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards.

The Audit Committee discussed with Ernst & Young LLP the matters required to be discussed by Statement of Auditing Standards 61 (Codification of Statements on Auditing Standards, AU § 380), as may be modified or supplemented. The Committee received the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as adopted by the Public Company Accounting Oversight Board in Rule 3600T, and has discussed with Ernst & Young LLP its independence from management and the Partnership.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the board of directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the SEC.

Dated: February 26, 2007

Submitted By:

Audit Committee

George A. O Brien, Jr., Chair

John P. DesBarres

James R. Montague

The foregoing report shall not be deemed to be incorporated by reference by any general statement or reference to this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those Acts.

Compensation Committee. The NYSE rules do not require publicly-traded limited partnerships boards of directors to have a standing compensation committee. Nevertheless, our general partner s board of directors has elected to have a compensation committee, which is comprised of each member of the board of directors. Mr. DesBarres is the chairman of our Compensation Committee. Our Compensation Committee makes decisions regarding all components of our general partner s executive officers compensation, with the exception of benefits, which are provided through an affiliate, as well as decisions regarding independent directors compensation. The board of directors of our general partner did not modify or reject in any material way any action or recommendation by our Compensation Committee during 2006. Our general partner s board of directors has adopted a written charter for our Compensation Committee, which is available on our website at www.magellanlp.com.

The primary purpose of our Compensation Committee is to assist our general partner s board of directors in fulfilling its responsibility to motivate the executive officers of our general partner and key employees of MGG GP who provide services to us toward the achievement of certain business objectives and to align their focus with the long-term interests of our unitholders by establishing or recommending appropriate compensation for these executive officers and key employees. Our Compensation Committee has the authority to retain and terminate consultants, external counsel or other advisors or experts for this purpose and to determine the terms and conditions of any such engagement, including the authority to approve fees and other retention terms. Our Compensation Committee also has the authority to authorize, assign and/or delegate matters within its oversight, power or responsibility directly to a subcommittee of our general partner s board of directors or to employees of MGG GP who provide services to us, subject to limitations imposed by law or any plan or document.

Our Compensation Committee has historically directly engaged an independent executive compensation consulting firm to assist with the annual evaluation of executive compensation and the appropriate amount of independent director compensation. The independent executive compensation consulting firm retained directly by our Compensation Committee in 2006 was Compass Consulting and Benefits. The consulting firm provides recommended total compensation amounts for each of our general partner s executive officers. With the exception of the CEO, our general partner s executive officers do not play a role in determining or recommending the amount or form of executive compensation. The CEO reviews the recommendations of the consulting firm and provides any further recommendations to our Compensation Committee regarding the total amount of compensation for our general partner s executive officers. The CEO is a member of our Compensation Committee; however, he recuses himself from all decisions regarding his compensation.

Conflicts Committee. The members of the conflicts committee are John P. DesBarres, James R. Montague and George A. O Brien, Jr. Mr. Montague is the chairman of the conflicts committee. At the request of our general partner s board of directors, the conflicts committee reviews specific material matters that may involve conflicts of interest with our general partner and its affiliates and determines if the resolution of the conflict of interest is fair and reasonable to us. Any matters approved by the conflicts committee are conclusively deemed to be fair and reasonable to us, approved by all of our partners and not a breach by our general partner of any duties it may owe to us or our unitholders.

Director Nominations

The NYSE rules do not require publicly-traded limited partnerships boards of directors to have a standing nominating committee. It is the view of our general partner s board of directors that, in lieu of a standing nominating committee, the entire board shall serve the function of a nominating committee. Each member of our general partner s board of directors participates in the consideration of director nominees. Our general partner s board of directors has not adopted a nominating committee charter.

The minimum qualifications that our general partner s board of directors believes must be met in order to recommend a nominee as a director are set forth in our Corporate Governance Guidelines, which have been approved by our general partner s board of directors and are available on our website at www.magellanlp.com. Our general partner s board of directors relies on its members to identify and evaluate nominees for director. Nominees recommended by unitholders will be evaluated by our general partner s board of directors in the same manner as nominees recommended by a member of the board of directors.

Communications to the Board of Directors

You may send communications to our general partner s board of directors by calling our Action Line at 1-888-475-9501. All messages received for the board of directors will be forwarded directly to Mr. O Brien, the chairman of the audit committee.

EXECUTIVE OFFICERS OF OUR GENERAL PARTNER

John D. Chandler, 37, has served as Vice President since June 17, 2003 and CFO and Treasurer of our general partner since November 15, 2002 and served in the latter capacities for our former general partner from

July 24, 2002 until November 15, 2002. He has served as Vice President, CFO and Treasurer of the general partner of MGG since June 17, 2003. He was Director of Financial Planning and Analysis for a subsidiary of Williams from September 2000 to July 2002. He also served as Director of Strategic Development for a subsidiary of Williams from 1999 to 2000. Prior to Williams merger with MAPCO, he held various accounting and finance positions since joining MAPCO in 1992.

Lisa J. Korner, 45, has served as Vice President, Human Resources and Administration of our general partner since April 26, 2006. Ms. Korner served as Director of Human Resources for our general partner since November 15, 2002. She also served as Executive Director of HR Strategy and HRIS for Williams from July 2001 to November 2002 and served as Director of Human Resources from October 1999 to July 2001. Ms. Korner also worked in various human resource management positions with MAPCO and Williams since 1989.

Michael N. Mears, 44, has served as Vice President, Transportation of our general partner since November 15, 2002 and served in that capacity for our former general partner from April 22, 2002 until November 15, 2002. He served as Vice President of the general partner of MGG from June 17, 2003 to November 1, 2005. He served as Vice President of subsidiaries of Williams from 1996 to 2003. Mr. Mears also worked in various management positions with Magellan Pipeline Company, L.P. since joining Williams in 1985.

Richard A. Olson, 49, has served as Vice President, Pipeline Operations of our general partner since November 15, 2002 and served in that capacity for our former general partner from April 22, 2002 until November 15, 2002. He served as Vice President of subsidiaries of Williams from 1996 to 2003. Mr. Olson also worked in various management positions with Magellan Pipeline Company, L.P. since joining Williams in 1981.

Brett C. Riley, 37, has served as Vice President, Business Development of our general partner since June 17, 2003. He served as Vice President of the general partner of MGG from June 17, 2003 to November 1, 2005. Mr. Riley served as Director of Mergers & Acquisitions for a subsidiary of Williams from September 2000 until June 2003. He also served as Director of Financial Planning and Analysis for a subsidiary of Williams from 1998 to 2000. Mr. Riley also worked in various financial positions with MAPCO and Williams since 1992.

Lonny E. Townsend, 50, has served as Vice President, General Counsel and Assistant Secretary of our general partner since June 17, 2003 and as the Compliance and Ethics Officer since October 20, 2004. He has served as Vice President and General Counsel of the general partner of MGG since June 17, 2003 and as the Compliance and Ethics Officer and Secretary since December 21, 2005. He was Assistant General Counsel for Williams from February 2001 to June 17, 2003. He also served in various other legal positions with Williams since 1991.

Don R. Wellendorf, 54, is currently Chairman of the Board and has served as a director and President and CEO of our general partner since November 15, 2002. He has served as President and CEO of the general partner of MGG since June 17, 2003 and Chairman of the Board since December 21, 2005. Mr. Wellendorf also served as President and CEO of our former general partner from May 13, 2002 until November 15, 2002 and served as a director of our former general partner from February 9, 2001 until November 15, 2002. He served as Treasurer and CFO of our former general partner from January 7, 2001 to July 24, 2002 and as Senior Vice President of our former general partner from January 7, 2001 until May 13, 2002. From 1998 to March 2003, he served as Vice President of a subsidiary of Williams. Prior to Williams merger with MAPCO, he served in various management positions since joining MAPCO in 1979.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Compensation Discussion and Analysis

Overview

Our compensation program is administered by our Compensation Committee. Our compensation program consists of the following four components: (i) base salary; (ii) the LTIP; (iii) annual non-equity incentive program (the AIP); and (iv) benefits.

The objective of our compensation program is to compensate our executive officers in a manner that: (i) links our executive officers compensation to the achievement of our business and strategic goals; (ii) aligns their interests with those of our unitholders; (iii) recognizes individual contributions; and (iv) attracts, motivates and retains highly-talented executives.

Our Compensation Committee engaged the independent executive compensation consulting firm of Compass Consulting and Benefits to assist with the annual evaluation of executive compensation by assisting in: (i) the determination of the appropriate level of compensation for each named executive officer (NEO); (ii) the evaluation and selection of the incentive plans metrics for 2006; and (iii) the development of the appropriate level of compensation for achieving the established benchmarks for each performance metric. Our NEOs constitute the CEO, CFO and the top three highest paid executive officers of our general partner.

Market Analysis

Our Compensation Committee, in consultation with Compass Consulting and Benefits, utilized third party surveys published by Mercer and Towers Perrin and an industry specific survey by Effective Compensation, Inc. to evaluate our NEOs compensation. Additionally, peer data of other master limited partnerships (MLPs) was obtained and utilized in developing the benchmark. The benchmark ultimately selected as the best possible representation of market was the MLP Market Benchmark, as described below.

MLP Market Benchmark

Compass Consulting and Benefits developed a MLP Market Benchmark defined as 110% of the median compensation of 11 MLPs. These MLPs were chosen because they had a market capitalization of $1 billion to $10 billion, they were in businesses similar to ours and/or they were companies with which we compete for employees. The MLP Market Benchmark was set at 110% of the median compensation of the peer MLPs because more than half of the MLPs compensation structures were not complete given their dependence on parent organizations for services and management as opposed to our stand-alone organization.

The MLP Market Benchmark was comprised of the following MLPs: Alliance Resource Partners, L.P., AmeriGas Partners, L.P., Enbridge Energy Partners, L.P., Energy Transfer Partners, L.P., Enterprise Products Partners L.P., Ferrellgas Partners, L.P., ONEOK Partners, L.P., Plains All American Pipeline, L.P., Sunoco Logistics Partners L.P., TEPPCO Partners, L.P. and Valero L.P.

Internal Analysis

In addition to the MLP Market Benchmark, our Compensation Committee reviewed internal tally sheets to evaluate the appropriate amount of each NEO s compensation. Internal pay equity percentages of the CEO s total compensation were also evaluated and determined to be appropriate by our Compensation Committee.

Internal Allocations

Three of our NEOs are also NEOs of MGG, which owns our general partner. These three NEOs spend the majority of their time managing us, and we are responsible for the majority of their compensation. Therefore, MGG s general partner s board of directors has delegated responsibility for decisions related to these NEOs compensation to our Compensation Committee. Based on the estimated time each of these NEOs spent managing our affairs, our general partner s board of directors agreed the following percentages for each NEO s base salary, AIP payout and benefits would be allocated between us and MGG:

NEO	Our Allocation	MGG Allocation
Don R. Wellendorf, CEO	85%	15%
John D. Chandler, CFO	85%	15%
Lonny E. Townsend	85%	15%

Our general partner s board of directors will review these allocations periodically to determine whether they are appropriate. As discussed below, our LTIP is designed to motivate employee contributions toward our long-term growth through ownership in us. Therefore, no cost associated with the LTIP is allocated to MGG.

Base Salary

Base salary for each NEO is derived from MLP Market Benchmark data with respect to base salaries for each position and is set at amounts that are deemed competitive in the various labor markets where we compete for executive talent. In evaluating 2006 base salaries for our NEOs, our Compensation Committee determined that the base salaries of our NEOs were significantly lower than the MLP Market Benchmark, consistent with previous years evaluations. As a result, increases were awarded in 2006 to bring our NEOs base salaries closer to the MLP Market Benchmark. Our Compensation Committee intends to increase our NEOs base salaries up to the MLP Market Benchmark over time.

Long-Term Equity Incentive Compensation

Our LTIP is designed to: (i) aid in the retention of key employees who are important to the success of our organization; (ii) motivate employee contributions toward long-term growth through ownership in our organization; and (iii) align potential increases in compensation to long-term increases in unitholder value. All awards granted under the terms of our LTIP have been in the form of phantom units without distribution equivalent rights (Phantom Units). Historically, our LTIP allowed for the ability to grant both Phantom Units and unit options. Since our Compensation Committee has not awarded any unit options under the terms of our LTIP and does not feel this type of equity compensation is aligned with our unitholders best interests, our LTIP was amended effective October 26, 2006 to remove unit options as a type of award available under the LTIP. It has been the practice of our Compensation Committee to grant Phantom Units to our NEOs during the first quarter of each year, as soon as our Compensation Committee has established appropriate performance metrics.

2006 LTIP

Our Compensation Committee used the MLP Market Benchmark with respect to long-term equity incentives in the development of the appropriate LTIP payout targets. Our Compensation Committee believes it is important to place a significant amount of the total compensation for the NEOs at risk in the form of long-term variable incentive compensation instead of base pay, with this risk similar to the risk experienced by our unitholders. Our Compensation Committee further believes this will encourage long-term management strategies that will benefit our unitholders. Phantom Unit awards were granted to each NEO in 2006 and are subject to a vesting period ending December 31, 2008. Details of the individual awards are included in the Grants of Plan-Based Awards table in this proxy statement. The table below reflects the 2006 LTIP payout target for each NEO expressed as a percentage of their annual salary.

NEO	2006 LTIP Payout Target
Don R. Wellendorf, CEO	100%
John D. Chandler, CFO	94%
Michael N. Mears	80%
Richard A. Olson	84%
Lonny E. Townsend	84%
Jay A. Wiese[(1)]	84%

(1) Mr. Wiese left the Company on October 20, 2006. As a result, all of his Phantom Unit awards, including his 2006 Phantom Unit award, were forfeited.

Phantom Unit awards are subject to forfeiture if employment is terminated for any reason other than for retirement, death or disability prior to the vesting date. If an award recipient retires, dies or becomes disabled prior to the end of the vesting period, the recipient s grant will be prorated based upon the completed months of employment during the vesting period and the award will be paid at the end of the vesting period. The awards do not have an early vesting feature except when there is a change-in-control of our general partner. The change-in-control provisions of our LTIP are discussed in the section below entitled Termination or Change-in-Control Provisions.

The performance metric or metrics established for the LTIP are the same for all LTIP participants, including our NEOs. Our Compensation Committee selected a metric for the 2006 LTIP plan that was designed to align the focus of the NEOs with the increase in the unitholders value. The 2006 LTIP performance metric was as follows:

Metric	Threshold	Target	Stretch
2008 Pro Forma Distributable Cash Flow (per limited partner unit outstanding)[(1)]	$ 2.72	$ 2.75	$ 2.79

(1) Distributable Cash Flow per limited partner unit outstanding will be pro forma to include the full year impact of any payout projects which are completed and become operational by year-end 2008 and the full year impact of acquisitions completed in 2008.

The threshold, target and stretch performance levels established by our Compensation Committee are designed to motivate individual performance and are not necessarily the same as our annual business plan objectives. At the end of the three-year vesting period, the LTIP award payout will be calculated based on the actual results of the metric and is subject to a 20% discretionary adjustment. When actual results are at or below threshold, the payout percentage will be 0%. When actual results are at target (expected performance), the payout percentage is 100% and when results are at stretch, the payout percentage is 200%. The payout percentage for results between threshold and stretch are interpolated.

A discussion of amounts paid to our NEOs under our LTIP for Phantom Unit awards that vested on December 31, 2006 can be found in the section below entitled Units Vested.

Changes to the LTIP for 2007

The performance metric that will be used for Phantom Unit awards granted in 2007 pursuant to the LTIP was adopted at the January 2007 Compensation Committee meeting. Our Compensation Committee adopted the performance metric of distributable cash flow per limited partner unit. For the 2007 Phantom Unit awards, our Compensation Committee retained the three-year vesting feature, but established three one-year tranches within the vesting period with performance targets to be set at the beginning of each tranche year. Our Compensation Committee believes that the ability to set shorter-term targets within the three-year vesting period will improve the incentive strength of the LTIP by providing targets that are more reflective of changing market conditions and that build on the prior year s performance. Under the 2007 Phantom Unit awards, one-third of the calculated payout will be determined at the end of each of the three years in the vesting period. At the end of the vesting period in 2009, the sum of all three years calculated payout will vest and be paid to the participant subject to a 20% discretionary adjustment to be determined by our Compensation Committee. The 2007 metric is as follows:

Metric	Weight	Threshold	Target	Stretch
2007 Distributable Cash Flow (per limited partner unit outstanding)	33%	$ 2.47	$ 2.76	$ 3.00
2008 Distributable Cash Flow (per limited partner unit outstanding)	33%	(1)	(1)	(1)
2009 Distributable Cash Flow (per limited partner unit outstanding)	34%	(2)	(2)	(2)
Total Calculated Payout Percentage				

(1) To be determined in January 2008.
(2) To be determined in January 2009.

The threshold, target and stretch performance levels under the LTIP established by our Compensation Committee are designed to motivate individual performance and are not necessarily the same as our annual business objectives.

Annual Non-Equity Incentive Program

The objective of our AIP is to provide a flexible pay-for-performance reward system that is paid out in cash and linked to our annual financial and operational performance. Our Compensation Committee establishes a funding metric to ensure that certain levels of profitability are met before any AIP payments are made. Regardless of whether the funding metric is met, funding of our AIP is at the discretion of our Compensation Committee. Our Compensation Committee also sets performance metrics that are used to measure results such as profitability, safety and other results. Each performance metric used for our AIP has an established threshold amount below which no payout would be made. This reflects the view of our Compensation Committee that it is inappropriate to pay annual non-equity incentive compensation for results that do not meet minimum performance expectations.

2006 AIP

Our Compensation Committee utilized the MLP Market Benchmark to establish the appropriate AIP target levels for each NEO. In evaluating the 2006 AIP target levels it was determined that the target for our CEO was significantly below the MLP Market Benchmark, consistent with prior years evaluations. Therefore, our Compensation Committee set our CEO s 2006 AIP target at approximately 85% of the MLP Market Benchmark with the goal of achieving the MLP Market Benchmark over time. Our CFO and other NEOs 2006 AIP targets were already near the MLP Market Benchmark with respect to non-equity incentives; therefore, no adjustments to their targets were made. The table below reflects the 2006 AIP target for each NEO expressed as a percentage of their annual salary.

NEO	2006 AIP Target
Don R. Wellendorf, CEO	60%
John D. Chandler, CFO	45%
Michael N. Mears	45%
Richard A. Olson	45%
Lonny E. Townsend	45%
Jay A. Wiese[(1)]	45%

(1) Mr. Wiese left the Company on October 20, 2006. As a result, his 2006 AIP payout was forfeited.

The funding and performance metrics of our AIP are the same for all participants, including our NEOs. The performance metrics selected for 2006 included components that could be influenced by most employees within our organization, thereby creating a clear line-of-sight for employees between performance and compensation. Each performance metric was weighted by our Compensation Committee to reflect the metric s importance with respect to our major business objectives for the year. Threshold, target and stretch performance levels were set for each performance metric. After the funding metric is met, payout amounts begin when performance exceeds threshold level. Target payout occurs when results equal expected performance. Stretch payout occurs when results exceed defined performance expectations by a specified amount. The threshold, target and stretch performance levels established by our Compensation Committee are designed to motivate individual performance and are not necessarily the same as our annual business plan objectives.

Payout percentages are determined for each performance metric based on actual results attained for each metric multiplied by the weight assigned to the metric. When actual results are at or below threshold, the payout percentage is at 0% for that metric. When actual results are at target (expected performance), the payout percentage is 100% and when results are at stretch, the payout percentage is 200%. The payout percentage for results between threshold and stretch are interpolated. The payout percentage is then multiplied by the weight of the metric to determine a calculated payout percentage.

The funding metric for our 2006 AIP was Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) less maintenance capital. The target established for this metric in 2006 was $249.0 million and our actual results for 2006 were $316.0 million. For more information, please see the reconciliation of EBITDA less maintenance capital to our 2006 actual results in the section below entitled Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table. Since our actual results exceeded the funding metric, our Compensation Committee exercised its discretion to fund our AIP in accordance with all performance metrics for 2006.

The performance metrics used for our 2006 AIP were as follows:

EBITDA less Maintenance Capital 50% Weight This metric focuses attention on the ultimate means by which our operations provide a return to our partners, specifically generating distributable cash flow. The attainment of target for this particular metric ensures that we have generated sufficient cash flow to maintain or increase the distributions we pay to our unitholders.

Total Cost and Capital 15% Weight This metric focuses attention on significant controllable costs.

Revenues 10% Weight This metric focuses attention on specific revenue categories and reflects the importance of creating new business opportunities and finding ways to enhance our returns on existing businesses.

Environmental High Consequence Releases 15% Weight This metric measures the number of high consequence product releases from our terminal or pipeline systems and focuses attention on the environmental aspects of our business as well as cost control since these releases generally result in significant expense.

Safety Occupation Safety and Health Act (OSHA) Recordable Incident Rate (IR) 10% Weight This metric focuses attention on the health and safety of employees. Payout under this metric will be zero if a fatality occurs related to activities under our control.

All payouts under our AIP are eligible for consideration under the terms of the Magellan Pension Plan and the Magellan 401(k) Plan, subject to Internal Revenue Service (IRS) limitations.

Changes to the AIP for 2007

The performance metrics that will be used for the 2007 AIP were revised and adopted at the January 2007 Compensation Committee meeting. Our Compensation Committee adopted a single financial performance metric EBITDA less Maintenance Capital. This change from the 2006 AIP was made to simplify the program and concentrate our focus on what our Compensation Committee believes is our most important financial measure. Our Compensation Committee also modified the Environmental performance metric by establishing a zero payout in the event of a fatality directly related to a release on any assets we operate or any high consequence release that results in us incurring clean up and third party damage expenses in excess of $2.5 million. Our Compensation Committee added this feature to focus awareness and diligence on environmental stewardship. In summary, the performance metrics that will be used for the 2007 AIP are as follows:

EBITDA less Maintenance Capital 75% Weight

Environmental High Consequence Releases 15% Weight Environmental metric payout will be zero if a fatality occurs as a direct result of a release on any asset we operate or any high consequence release that exceeds or is expected to exceed $2.5 million in clean up and third party damage expenses.

Safety OSHA IR 10% Weight Safety metric payout will be zero if a fatality occurs under our control.

Benefits

The employee benefits available to eligible participants, including our NEOs, are designed to be competitive within the energy industry and are comprised of a pension plan, 401(k) plan and health and welfare plan. Our NEOs who elect to participate in the Magellan Health and Welfare Plan are required to participate on an after-tax basis instead of on a pre-tax basis like other participants. Our NEOs do not participate in a supplemental employment retirement benefit (SERP) of any kind.

Termination or Change-in-Control Provisions

None of our NEOs has an employment contract or agreement, whether written or unwritten, that provides for payments at, following or in connection with, any termination of employment or a change-in-control in our general partner other than the same severance plan and other provisions that apply to all other employees.

Payments to our NEOs associated with a position elimination or a change-in-control of our general partner are provided for under the Magellan Severance Plan and under the LTIP as follows:

The Magellan Severance Plan provides severance benefits to eligible participants, including our NEOs, based upon years of service for the following termination events:

- Position Elimination Benefits payable to the NEO are two weeks of base salary pay for every complete year of service with a minimum of six weeks of base salary and a maximum of fifty-two weeks of base salary; and

- Change-in-Control As defined in the plan, to receive severance pay benefits due to a change-in-control, the NEO must terminate voluntarily for good reason or be terminated involuntarily for other than performance reasons within two years following a change-in-control. Benefits payable to the NEO are two weeks of base salary pay for every year of service with a minimum of twelve weeks of base salary and a maximum of fifty-two weeks of base salary.

The change-in-control provisions of our LTIP state that in the event a participant, including our NEOs, is terminated voluntarily for good reason or involuntarily for other than performance reasons within two years following a change-in-control as defined in the LTIP, all awards granted to that NEO will immediately vest and all performance criteria associated with the award grants will be deemed to have been achieved at their maximum level.

We provide these benefits because we believe they are consistent with the benefits provided by other MLPs with which we compete. Additional information and details regarding potential payments to our NEOs can be found in the section below entitled Potential Payments Upon Termination or Change-In-Control.

Distributions on NEOs Personal Investments in MGG Midstream Holdings, L.P.

MGG Midstream Holdings, L.P. is the sole owner of the general partner of MGG, which in turn is the sole owner of our general partner. Certain of our NEOs have made a personal investment in Class B common units of MGG Midstream Holdings, L.P. These NEOs were given the opportunity to make this personal investment in MGG Midstream Holdings, L.P. in connection with the purchase of all of our general partner interest and a portion of our limited partner interest by MGG in June 2003. The Class B common units owned by our NEOs constitute 4.7% of the total ownership of MGG Midstream Holdings, L.P. In 2006, the following NEOs received the following distributions from MGG Midstream Holdings, L.P. due to their ownership of the Class B common units. The large majority of these distributions came from the proceeds of MGG s initial public offering in February 2006. The distributions on these personal investments do not reduce our cash flows. Compensation expense is only recognized on distributions paid on unvested units when it becomes probable that those unvested units will not vest.

NEO	2006 Total Distributions from MGG Midstream Holdings, L.P. on Vested and Unvested Class B Common Units	
Don R. Wellendorf, CEO	$	6,680,352
John D. Chandler, CFO	$	4,660,711
Michael N. Mears	$	4,660,711
Lonny E. Townsend	$	1,553,570
Jay A. Wiese	$	4,660,711

Our Compensation Committee recognizes these are personal investments of our NEOs in MGG Midstream Holdings, L.P and does not take distributions related to these investments into account in setting our NEOs compensation.

Compensation Committee Report

We have reviewed and discussed the foregoing section entitled Compensation Discussion and Analysis with management. Based on this review and discussion, we have recommended to the board of directors that the Compensation Discussion and Analysis be included in this Proxy Statement and be incorporated by reference into Magellan Midstream Partners, L.P. s annual report on Form 10-K for the year ended December 31, 2006.

Submitted By:

Compensation Committee

John P. DesBarres, Chair

Patrick C. Eilers

Thomas T. Macejko, Jr.

James R. Montague

George A. O Brien, Jr.

Thomas S. Souleles

Don R. Wellendorf

The foregoing report shall not be deemed to be incorporated by reference by any general statement or reference to this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those Acts.

Summary Compensation Table

The following table provides a summary of the compensation expense allocated to our general partner for the fiscal year ended December 31, 2006 for each NEO:

Name and Principal Position	Year	Salary	Unit Awards(1)	Non-Equity Incentive Program Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings(2)	All Other Compensation(3)	Total
Don R. Wellendorf, CEO and President	2006	$ 372,115	$ 987,131	$ 310,344	$ 21,866	$ 31,886	$ 1,723,342
John D. Chandler, Vice President, CFO and Treasurer	2006	$ 208,269	$ 534,561	$ 130,272	$ 5,617	$ 35,392	$ 914,111
Michael N. Mears, Vice President	2006	$ 208,269	$ 452,794	$ 130,272	$ 8,439	$ 22,041	$ 821,815
Richard A. Olson, Vice President	2006	$ 197,923	$ 452,794	$ 123,801	$ 12,771	$ 38,342	$ 825,631
Lonny E. Townsend, Vice President, General Counsel and Compliance and Ethics Officer	2006	$ 197,923	$ 452,794	$ 123,801	$ 14,247	$ 35,667	$ 824,432
Jay A. Wiese, Vice President(4)	2006	$ 168,268			$ 16,542	$ 3,031,920(5)	$ 3,216,730

(1) See Calculation of 2006 Unit Award Expense below for details of these amounts.
(2) See narrative included with the Pension Benefits table in this proxy statement for more details.
(3) Our NEOs participate in the Magellan Health and Welfare Plan on an after-tax basis. A portion of this amount includes the difference between the pre-tax and after-tax cost of obtaining these benefits, the tax gross-up for the loss of the pre-tax treatment and the Magellan 401(k) Plan matching contribution of $13,200 to each NEO. Perquisites received by the NEOs, which primarily consist of free parking, were insignificant and did not meet the disclosure threshold.
(4) Mr. Wiese left the Company on October 20, 2006. As a result, all of his Phantom Unit awards granted pursuant to the LTIP and his 2006 AIP payout were forfeited.
(5) Mr. Wiese, through a personal investment, owned 150,000 Class B common units of MGG Midstream Holdings, L.P., an affiliate, of which 46,983 Class B common units had not vested as of the date of his departure. His departure in the fourth quarter of 2006 caused us to recognize approximately $3.0 million of compensation expense in 2006 for distributions he received on the 46,983 unvested Class B common units from 2004 through 2006. Mr. Wiese also received the tax gross-up for the loss of the pre-tax treatment on his health and welfare benefits and the Magellan 401(k) Plan matching contribution of $13,200 as described above in footnote (3).

Grants of Plan-Based Awards

The results of the performance metrics and payouts associated with the non-equity incentive plan awards set forth in the table below were approved by our Compensation Committee in January 2007. Details of the performance metrics results and payouts to our NEOs as set forth in the Summary Compensation Table are discussed in the following narrative section.

On February 16, 2006, our Compensation Committee granted Phantom Unit awards to our NEOs as detailed in the table below. Our Compensation Committee can, at its discretion, increase or decrease these awards by as much as 20%. These awards vest on December 31, 2008 and do not have distribution equivalent rights. A discussion of the material terms of these awards can be found under the section above entitled Long-Term Equity Incentive Compensation. Details of the grant date fair market value of these awards are discussed in the following narrative section.

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			Grant Date
NEO	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	Fair Value of Awards[(1)]
Don R. Wellendorf, CEO	02/16/2006		$ 223,269	$ 446,538		12,400	24,800	$ 303,428
John D. Chandler, CFO	02/16/2006		$ 93,721	$ 187,442		6,540	13,080	$ 160,034
Michael N. Mears	02/16/2006		$ 93,721	$ 187,442		5,540	11,080	$ 135,564
Richard A. Olson	02/16/2006		$ 89,065	$ 178,131		5,540	11,080	$ 135,564
Lonny E. Townsend	02/16/2006		$ 89,065	$ 178,131		5,540	11,080	$ 135,564
Jay A. Wiese[(2)]	02/16/2006							$ 135,564

(1) The grant date fair value of the awards was $24.47 per limited partner unit, which was calculated as the closing price of our limited partner units on the grant date less the present value of the expected distributions during the vesting period of the award grants.

(2) Mr. Wiese left the Company on October 20, 2006. As a result, his 2006 AIP payout and all of his Phantom Unit awards, including his 2006 Phantom Unit award, were forfeited.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

As discussed in the section above entitled Compensation Discussion & Analysis, our compensation program consists of the following four components: (i) base salary; (ii) the LTIP; (iii) the AIP; and (iv) benefits. Please refer to that section for additional information about each of these components.

Calculation of 2006 Unit Award Expense

The calculation of 2006 LTIP expense associated with the Phantom Unit awards granted in 2004 is provided below:

NEO	Liability Awards Granted in 2004 (A)	Liability Recognized at December 31, 2006[(1)] (B)	Liability Recognized at December 31, 2005[(2)] (C)	2004 Unit Award Expense Recognized in 2006[(3)] (B) - (C)
Don R. Wellendorf, CEO	12,000	$ 914,897	$ 474,000	$ 440,897
John D. Chandler, CFO	6,540	$ 498,635	$ 258,330	$ 240,305
Michael N. Mears	5,540	$ 422,361	$ 218,830	$ 203,531
Richard A. Olson	5,540	$ 422,361	$ 218,830	$ 203,531
Lonny E. Townsend	5,540	$ 422,361	$ 218,830	$ 203,531

(1) See Units Vested below for details of these amounts.

(2) The payout for the 2004 award grants was based 40% on that attainment of short-term financial performance metrics and 60% on the attainment of long-term financial performance metrics. During 2004 we exceeded the financial metrics which resulted in a calculated payout of 193.7% of standard for the short-term component of this award. Additionally, at December 31, 2005, we estimated we would exceed the long-term metrics as well and we recorded our LTIP accruals for this component of the award at 200% of standard. As a result, the weighted-average payout percentage for our LTIP compensation accruals for these award grants for 2005 was 197.5% of standard. The fair value of the 2004 Phantom Unit award grants on December 31, 2005 was $30.00 per unit and our NEO s had completed 2 years of the 3-year vesting period on December 31, 2005 (66 2/3%). The liability recognized for these award grants at December 31, 2005 was calculated as the number of Phantom Units granted times the per unit fair value on that date ($30.00) times the estimated weighted-average payout percentage (197.5%) times the percent of the vesting period completed (66 2/3%).

(3) The amounts included in expense for purposes of this table have been calculated assuming our 2004 Phantom Unit award grants were accounted for under the provisions of Statement of Financial Accounting Standard (SFAS) No. 123(R), with the exception that no estimates of forfeitures have been made. Therefore, the expense amounts disclosed in this table do not match the compensation expense amounts recognized in our consolidated financial statements for the year ended December 31, 2006.

The calculation of 2006 LTIP expense associated with the Phantom Unit awards granted in 2005 is as follows:

NEO	Liability Awards Granted in 2005 (A)	Liability Recognized at December 31, 2006[(1)] (B)	Liability Recognized at December 31, 2005[(2)] (C)	2005 Unit Award Expense Recognized in 2006[(3)] (B) - (C)
Don R. Wellendorf, CEO	12,000	$ 549,784	$ 199,296	$ 350,488
John D. Chandler, CFO	6,540	$ 299,632	$ 108,616	$ 191,016
Michael N. Mears	5,540	$ 253,817	$ 92,008	$ 161,809
Richard A. Olson	5,540	$ 253,817	$ 92,008	$ 161,809
Lonny E. Townsend	5,540	$ 253,817	$ 92,008	$ 161,809

(1) The payout for the 2005 award grants was based on that attainment of long-term financial performance metrics. At December 31, 2006 we estimated we would exceed the financial metrics established for this award grant and recorded our LTIP accruals at 190.0% of standard. The fair value of the 2005 Phantom Unit award grants on December 31, 2006 was $36.17 per unit. Our NEO s had completed 2 years of the 3-year vesting period on December 31, 2006 (66 2/3%). The liability recognized for these award grants at December 31, 2006 was calculated as the number of Phantom Units granted times the per unit fair value on that date ($36.17) times the estimated weighted-average payout percentage (190.0%) times the percent of the vesting period completed (66 2/3%).

(2) The payout for the 2005 award grants was based on that attainment of long-term financial performance metrics. At December 31, 2005 we estimated we would exceed the financial metrics established for this award grant and recorded our LTIP accruals at 180.0% of standard. The fair value of the 2005 Phantom Unit award grants on December 31, 2005 was $27.68 per unit and our NEO s had completed 1 year of the 3-year vesting period on December 31, 2006 (33 1/3%). The liability recognized for these award grants at December 31, 2005 was calculated as the number of Phantom Units granted times the per unit fair value on that date ($27.68) times the estimated weighted-average payout percentage (180.0%) times the percent of the vesting period completed (33 1/3%).

(3) The amounts included in expense for purposes of this table have been calculated assuming our 2004 Phantom Unit award grants were accounted for under the provisions of SFAS No. 123(R), with the exception that no estimates of forfeitures have been made. Therefore, the expense amounts disclosed in this table do not match the compensation expense amounts recognized in our consolidated financial statements for the year ended December 31, 2006.

The calculation of 2006 LTIP expense associated with the Phantom Unit award granted in 2006 is as follows. For purposes of calculating compensation expense under SFAS No. 123(R), our 2006 Phantom Unit awards were treated as two separate grants: (i) 80% of the total award was classified as equity and (ii) 20% of the total award was classified as liabilities. The grant date fair value of the equity awards was $24.47 per limited partner unit. The grant date fair value was calculated from the closing price of our common limited partner units on the grant date less the present value of the expected distributions during the vesting period.

NEO	2006 Equity-Method Unit Awards	2006 Liability-Method Unit Awards	Equity-Method Unit Awards At Grant Date Fair Value ($24.47)	Liability-Method Unit Awards Fair Value as of December 31, 2006 ($33.67)	Total Equity/ Liability Value of 2006 Unit Awards
	(A)	(B)	(C)	(D)	(C) + (D)
Don R. Wellendorf, CEO	9,920	2,480	$ 242,742	$ 83,502	$ 326,244
John D. Chandler, CFO	5,232	1,308	$ 128,027	$ 44,040	$ 172,067
Michael N. Mears	4,432	1,108	$ 108,451	$ 37,306	$ 145,757
Richard A. Olson	4,432	1,108	$ 108,451	$ 37,306	$ 145,757
Lonny E. Townsend	4,432	1,108	$ 108,451	$ 37,306	$ 145,757

NEO	Total Equity/ Liability Value of 2006 Unit Awards	Assumed Performance Adjustment	Total Expected Value of Unit Awards at Vesting Date	2006 Unit Award Expense Recognized In 2006(1)
Don R. Wellendorf, CEO	$ 326,244	180%	$ 587,239	$ 195,746
John D. Chandler, CFO	$ 172,067	180%	$ 309,721	$ 103,240
Michael N. Mears	$ 145,757	180%	$ 262,363	$ 87,454
Richard A. Olson	$ 145,757	180%	$ 262,363	$ 87,454
Lonny E. Townsend	$ 145,757	180%	$ 262,363	$ 87,454

(1) Our 2006 Phantom Unit award grants were accounted for under the provisions of SFAS No. 123(R). However, the amounts included as expense for purposes of this table have not been adjusted for estimated forfeitures.

The compensation expense recognized for 2006 represented above is one-third of the total value as of December 31, 2006. The expense amounts recognized during 2006 assume that the 2006 Phantom Unit awards will pay out at 180%. While management believes the 2006 Phantom Unit awards could vest at the full stretch amount of 200%, the current assumptions for accruing compensation expense reflect the uncertainties inherent in the time remaining until the 2006 Phantom Units vest.

The summary of expense recognized in 2006 associated with our 2004, 2005 and 2006 Phantom Unit award grants is as follows:

NEO	2006 Unit Award Expense Recognized in 2006	2005 Unit Award Expense Recognized in 2006	2004 Unit Award Expense Recognized in 2006	Total Unit Award Expense Recognized in 2006
Don R. Wellendorf, CEO	$ 195,746	$ 350,488	$ 440,897	$ 987,131
John D. Chandler, CFO	$ 103,240	$ 191,016	$ 240,305	$ 534,561
Michael N. Mears	$ 87,454	$ 161,809	$ 203,531	$ 452,794
Richard A. Olson	$ 87,454	$ 161,809	$ 203,531	$ 452,794
Lonny E. Townsend	$ 87,454	$ 161,809	$ 203,531	$ 452,794

Non-Equity Incentive Program Compensation

The 2006 AIP payouts for each NEO are set forth in the Summary Compensation Table in the Non-Equity Incentive Program Compensation column. The table below provides the weights used for each performance metric of the 2006 AIP, the threshold, target and stretch levels established for 2006 performance, the actual 2006 results achieved and the calculated payout percentages for each metric.

2006 Annual Non-Equity Incentive Program

Performance Metrics and Year-end Results

($ in millions)

Performance Metric	**Weight**	**2006 Results**	**Threshold**	**Target**	**Stretch**	**Calculated Payout Percentage**
EBITDA less Maintenance Capital	**50%**	$ 316.0	$ 249.0	$ 278.7	$ 309.7	**100.0%**
Total Cost and Capital						
Operations and Maintenance Costs		$ 160.9	$ 159.3	$ 157.0	$ 152.1	
General and Administrative (G&A) Costs		59.0	62.3	59.6	57.9	
Maintenance Capital		24.2	28.8	27.4	24.7	
Total	**15%**	$ 244.1	$ 250.4	$ 244.0	$ 234.7	**14.6%**
Revenues	**10%**	$ 555.7	$ 542.9	$ 556.5	$ 568.7	**9.4%**
Environmental High Consequence Releases	**15%**	8	10	8	7	**15.0%**
Safety OSHA Recordable IR	**10%**	1.51	1.10	0.99	0.88	**0.0%**
	100%		**Total Calculated Payout Percentage**			**139.0%**

In 2006, we accelerated $3.0 million of operations and maintenance costs and $2.1 million of maintenance capital spending that were planned for 2007. This accelerated spending was used to improve the accuracy and efficiency of our operations system and was not included in our 2006 annual business plan or our AIP performance metrics. Therefore, our Compensation Committee adjusted our actual financial results under two of the performance metrics. The details of these adjustments and reconciliations of the performance metrics disclosed above to amounts presented in our consolidated financial statements are provided below:

($ in millions)

EBITDA less Maintenance Capital:	
Net income fiscal year 2006	$ 192.7
Depreciation, amortization and debt placement fee amortization(1)	63.5
Interest expense(2)	53.0
LTIP expense(1)	10.8
Indemnified environmental expenditures(1)	8.9
Asset retirements(1)	7.9
Net maintenance capital(3)	(26.4)
Adjustments approved by our Compensation Committee:	
Accelerated maintenance capital and maintenance costs	5.1
Other	(0.5)
EBITDA less Maintenance Capital 2006 Actual Results for Compensation Purposes	$ 316.0

(1) These cost categories are non-cash charges against net income; therefore, these costs were added back to net income in determining this performance metric.
(2) These cost categories were specifically excluded from the determination of this performance metric.
(3) Maintenance capital net of reimbursements from indemnities or insurance.

Total Cost and Capital:	
Operations and Maintenance Costs	
Operating expense fiscal year 2006	$ 244.5
Product (gains) losses[1]	9.2
Ammonia System Integrity Program costs[1]	(5.1)
Asset retirements[1]	(7.9)
Indemnified environmental expenditures[1]	(8.9)
Property taxes[1]	(24.4)
Power costs[1]	(45.4)
Adjustments approved by our Compensation Committee:	
Accelerated maintenance costs	(3.0)
Other	1.9
Operating and Maintenance Expense 2006 Actual Results for Compensation Purposes	$ 160.9

(1) These cost categories were specifically excluded from the determination of this performance metric.

General and Administrative Costs	
Affiliate general and administrative expense fiscal year 2006	$ 67.1
Long-term G&A incentive compensation expense[1]	(9.2)
Adjustment for G&A expense allocated from MGG Midstream Holdings, L.P. [2]	(3.0)
Capitalized G&A Costs[3]	3.4
Other	0.7
General and Administrative Expense 2006 Actual Results	$ 59.0

(1) This cost category is a non-cash charge against net income; therefore, these costs were deducted from our reported G&A expense in determining this performance metric.
(2) A former executive officer of our general partner had an investment in MGG Midstream Holdings, L.P., an affiliate of us and our general partner. This former executive officer left the company during the fourth quarter of 2006 and, at that time, we were allocated $3.0 million of G&A compensation expense associated with certain distribution payments made by MGG Midstream Holdings, L.P. to this individual over the past three years. Because this was a non-cash expense, we deducted it from the total G&A expense in determining this performance metric.
(3) The performance metric was based on total G&A cost irrespective of costs that were capitalized related to capital projects.

Maintenance Capital	
Additions to property, plant and equipment fiscal year 2006	$ 168.5
Organic growth capital spending[1]	(135.6)
Indemnified environmental maintenance capital expenditures[2]	(6.6)
Adjustments approved by our Compensation Committee:	
Accelerated maintenance capital spending	(2.1)
Net Maintenance Capital 2006 Actual Results[3]	$ 24.2

(1) This amount was deducted from additions to property, plant and equipment in order to separate growth capital spending from maintenance capital.
(2) These costs were reimbursed to us by a former affiliate as part of an indemnity settlement agreement; therefore, they were excluded from the determination of this performance metric.
(3) Maintenance capital net of reimbursements from indemnities or insurance.

Revenues:	
Total revenues fiscal year 2006	$ 1,223.6
Product sales revenues[(1)]	(664.6)
Other	(3.3)
Revenues 2006 Actual Results	$ 555.7

(1) Product sales revenues are specifically excluded from the determination of this performance metric.

Once the total of the calculated payout amount under the AIP was determined, our Compensation Committee had the discretion to make adjustments to the funding of the payout pool for all participants, including our NEOs. At the January 2007 meeting, our Compensation Committee approved the calculated payout percentage based on the 2006 actual results as measured against the metrics, as described above, and funded the 2006 AIP at the calculated payout percentage of 139.0%

Once the total calculated payout amount was approved and funded, our Compensation Committee had discretion to make adjustments to 50% of the individual payout for each NEO. This adjustment, if applied, can range from 0% to 200% of the 50%. For 2006, our Compensation Committee made no discretionary adjustments to our NEOs AIP payouts. The calculations for the 2006 NEO s AIP payouts are as follows:

NEO	2006 Actual Annual Base Salary (a)	2006 AIP Target (b)	2006 Total Calculated Payout Percentage (c)	2006 Calculated Payout Amount (a)*(b)*(c)
Don R. Wellendorf, CEO	$ 372,115	60%	139.0%	$ 310,344
John D. Chandler, CFO	$ 208,269	45%	139.0%	$ 130,272
Michael N. Mears	$ 208,269	45%	139.0%	$ 130,272
Richard A. Olson	$ 197,923	45%	139.0%	$ 123,801
Lonny E. Townsend	$ 197,923	45%	139.0%	$ 123,801

Outstanding Equity Awards at Fiscal Year-End

The following table reflects the number and value of unvested Phantom Unit awards to our NEOs at December 31, 2006:

NEO	Equity Incentive Plan Awards: Number of Unearned Units That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Units That Have Not Vested ($)
Don R. Wellendorf, CEO:		
February 2005 award grant[(1)]	12,000	$ 926,400
February 2006 award grant[(2)]	12,400	
Total	24,400	$ 926,400
John D. Chandler, CFO:		
February 2005 award grant[(1)]	6,540	$ 504,888
February 2006 award grant[(2)]	6,540	
Total	13,080	$ 504,888
Michael N. Mears:		
February 2005 award grant[(1)]	5,540	$ 427,688
February 2006 award grant[(2)]	5,540	
Total	11,080	$ 427,688
Richard A. Olson:		
February 2005 award grant[(1)]	5,540	$ 427,688
February 2006 award grant[(2)]	5,540	
Total	11,080	$ 427,688
Lonny E. Townsend:		
February 2005 award grant[(1)]	5,540	$ 427,688
February 2006 award grant[(2)]	5,540	
Total	11,080	$ 427,688
Jay A. Wiese[(3)]		

(1) Award grant vests on December 31, 2007.
(2) Award grant vests on December 31, 2008.
(3) Mr. Wiese left the Company on October 20, 2006. As a result, all of his Phantom Unit awards were forfeited.

Relative to the 2005 unit awards above, the number of unvested units reflected in the table assumes a maximum payout value (200%) because the distributable cash flow per limited partner unit outstanding that we generated during 2006 was above the stretch level set for the 2005 LTIP awards. The maximum payout value was determined using $38.60 per unit, which was the closing price of our limited partner units on December 29, 2006.

For the 2006 unit awards above, the payout value of the unvested units reflected in the table assumes no payout value because the distributable cash flow per limited partner unit outstanding that we generated during 2006 was below the threshold level set for the 2008 targets established in the 2006 LTIP awards. See discussion under Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table above for a discussion of expense accrual assumptions for these awards for 2006.

Units Vested

The unit awards granted to our NEOs in 2004 under our LTIP vested on December 31, 2006. At December 31, 2006, the value of these unit awards for each of our NEOs was as follows:

	Unit Awards	
NEO	Number of Units Acquired on Vesting	Value Realized on Vesting
Don R. Wellendorf, CEO	23,702	$ 914,897
John D. Chandler, CFO	12,918	$ 498,635
Michael N. Mears	10,942	$ 422,361
Richard A. Olson	10,942	$ 422,361
Lonny E. Townsend	10,942	$ 422,361
Jay A. Wiese[(1)]		

(1) Mr. Wiese left the Company on October 20, 2006. As a result, all of his Phantom Units awards, including the 2004 Phantom Unit award, were forfeited.

The 2004 Phantom Unit awards granted to our NEOs under our LTIP included both a short-term and long-term component. The short-term component was weighted at 40% and the long-term component was weighted at 60%. Based on actual results described above, the total calculated unit award for the 2004 grants to our NEO s was as follows:

	2004	Short-Term Component			Long-Term Component			Total
NEO	Phantom Unit Award Grant	Weight	Payout Percentage	Calculated Unit Award (a)	Weight	Payout Percentage	Calculated Unit Award (b)	Calculated Unit Award (a + b)
Don R. Wellendorf, CEO	12,000	40%	193.7%	9,302	60%	200%	14,400	23,702
John D. Chandler, CFO	6,540	40%	193.7%	5,069	60%	200%	7,849	12,918
Michael N. Mears	5,540	40%	193.7%	4,293	60%	200%	6,649	10,942
Richard A. Olson	5,540	40%	193.7%	4,293	60%	200%	6,649	10,942
Lonny E. Townsend	5,540	40%	193.7%	4,293	60%	200%	6,649	10,942

Once the total calculated unit award above was determined, our Compensation Committee had the discretion to make adjustments of up to 40% of that amount. This adjustment, if applied, could have ranged from 0% to 200% of the 40%. For the 2004 Phantom Unit award payouts, our Compensation Committee made no discretionary adjustments.

All payouts under our LTIP are excluded for consideration under the terms of the Magellan Pension Plan and the Magellan 401(k) Plan. While we encourage equity ownership by our NEOs, we have no policies requiring equity ownership or mandatory retention of any unit awards paid to our NEOs. Further, we have no policies which provide protection for our NEOs from any losses which they might sustain as a result of their ownership of our limited partner units.

The total calculated payout percentage of the short-term component of the 2004 LTIP Phantom Unit awards was as follows:

2004 LTIP Short-Term Component

Metrics and 2004 Year-End Results

($ in millions)

Performance Metrics	**Weight**	**2004 Actual Results**	**Threshold**	**Target**	**Stretch**	**Calculated Payout Percentage**
EBITDA less Maintenance Capital	**50%**	$ 198.6	$ 147.2	$ 167.3	$ 184.7	**100.0%**
Total Cost & Capital						
Operations and Maintenance Costs		$ 115.8	$ 124.1	$ 115.5	$ 111.7	
General and Administrative Costs		46.4	53.1	48.6	47.1	
Maintenance Capital		18.2	20.7	20.3	18.7	
Total	**15%**	$ 180.4	$ 197.9	$ 184.4	$ 177.5	**23.7%**
Revenues	**10%**	$ 423.5	$ 376.6	$ 391.0	$ 396.6	**20.0%**
Environmental Reportable Releases	**15%**	35	47	40	35	**30.0%**
Safety OSHA Recordable Accidents	**10%**	11	16	14	12	**20.0%**
	100%		**Total Calculated Payout Percentage**			**193.7%**

The details of the adjustments and reconciliations of the performance metrics disclosed above to amounts presented in our consolidated financial statements are provided below.

($ in millions)

EBITDA less Maintenance Capital:	
Net income fiscal year 2004	$ 110.2
Net maintenance capital[6]	(18.3)
Depreciation, amortization and the write-off of unamortized debt placement fees[1]	49.9
Interest expense[1]	35.4
Excess general and administrative expenses[2]	6.3
Asset retirements[3]	5.2
Long-term incentive compensation expense[3]	5.7
Adjustments approved by our Compensation Committee:	
Debt prepayment premium[4]	12.7
EBITDA derived from pipeline acquisition completed during 2004[5]	(8.5)
EBITDA less Maintenance Capital 2004 Actual Results	$ 198.6

(1) These costs are excluded from this earnings metric.
(2) Pursuant to our partnership agreement, our general partner reimburses us for certain general and administrative expenses. This amount was a non-cash charge against net income; therefore, these costs were added back to net income in determining this performance metric.
(3) These costs are non-cash charges against net income; therefore, these costs were added back to net income in determining this performance metric.
(4) During 2004, we executed a refinancing plan to improve our credit profile and increase our financial flexibility by removing all of the secured debt from our capital structure and we incurred a $12.7 million prepayment premium. Because this charge was not included in the plan for 2004 and because of the positive long-term implications of this transaction to us, our Compensation Committee agreed that this expense should be excluded from the determination of this

performance metric.

(5) In October 2004, we completed the acquisition of a pipeline system. This acquisition was not in our business plan and our Compensation Committee agreed that the EBITDA derived from this acquisition should be excluded from the determination of this performance metric.

(6) Maintenance capital net of reimbursements from indemnities or insurance.

Total Cost and Capital:	
Operations and Maintenance Costs	
Operating expense fiscal year 2004[1]	$ 177.0
Adjustments approved by our Compensation Committee:	
Power costs[2]	(26.8)
Property taxes[2]	(17.2)
Operating costs associated with pipeline acquisition completed during 2004	(7.5)
Asset retirements[3]	(5.2)
Product gains and losses[4]	(3.3)
Other	(1.2)
Operating and Maintenance Expense 2004 Actual Results	$ 115.8

General and Administrative Costs	
Affiliate general and administrative expense fiscal year 2004	$ 54.5
Long-term incentive compensation expense[3]	(4.8)
Adjustments approved by our Compensation Committee:	
Costs associated with pipeline acquisition completed during 2004	(1.1)
Migration expenses[5]	(0.8)
Other	(1.4)
General and Administrative Expense 2004 Actual Results	$ 46.4

Maintenance Capital	
Additions to property, plant and equipment fiscal year 2004	$ 53.5
Payout projects included in additions to property, plant and equipment	(31.7)
Indemnified environmental maintenance capital expenditures	(3.6)
Maintenance Capital 2004 Actual Results	$ 18.2

(1) Excludes environmental expenses.
(2) Our Compensation Committee approved these as adjustments to total cost because the increased expenses were outside the control of the employees.
(3) Because these are non-cash expenses, our Compensation Committee agreed that they should be excluded from the determination of this performance metric.
(4) Because of the accounting treatment that is required for product gains and losses, our Compensation Committee agreed that these costs should be excluded from the determination of this performance metric.
(5) During 2003, Williams sold its ownership interest in us. As a result of that transaction, we incurred costs associated with migrating off of Williams operational and financial systems to our own. Our Compensation Committee agreed that these costs should be excluded from the determination of this performance metric

Revenues:	
Total revenues fiscal year 2004	$ 695.4
Product purchases[1]	(255.6)
Revenues associated with pipeline acquisition completed during 2004	(16.9)