



Testimony by

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Supply Shortages of Gasoline and Diesel Supply in the Upper Great Plains

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Good afternoon Senator Dorgan and Sub Committee staff. On behalf of our CEO and our North Dakota based employees, thank you for inviting Magellan to testify on the important subject of fuel availability in the state of North Dakota. Magellan owns and operates the nation's longest refined product pipeline system along with eighty-one petroleum distribution terminals in twenty-two states. In North Dakota, we have distribution terminals in Fargo and Grand Forks. We also have two terminals in South Dakota and five in Minnesota. While we are neither a refiner nor are we affiliated with any petroleum company, we do have an important role in the transportation and distribution sector of our industry.

Along with our petroleum transportation and distribution infrastructure, Magellan has been a trailblazer in developing new infrastructure dedicated to renewable fuel distribution at our terminals throughout the Midwest. In fact, we were an industry leader with the installation of state-of-the-art biodiesel blending systems at our terminals in North Dakota. These systems allow us to provide our customers with quality biodiesel blends from B2 to B20. Our North Dakota terminals also have ethanol blending infrastructure. These sophisticated "sequential-blending" systems allow us to provide our customers with blend options ranging from E10 to E85.

We are also exploring new cost efficient methods to transport biofuels. Later this year, we are planning to transport a B5 biodiesel blend on our pipeline system. In addition, we are active with industry and governmental efforts to find solutions to technical challenges associated with the transportation of ethanol blended gasoline and neat ethanol via

pipeline. Indeed, we see commercial opportunities in the future to transport biofuels within the mainstream petroleum transportation system.

As an open access common carrier pipeline company, we do not own the commodities we ship through our system. The gasoline, diesel fuel, and other refined products that we transport in our pipeline are owned by the refiners, traders, and wholesale marketers that are shippers on Magellan's pipeline. In other words, we are a company that transports the refined products from refineries to terminals. We constantly strive to minimize product outages, but our ability to achieve our goal is dependent on the volume of refined products we receive from refineries and at our connections with other pipelines.

Our pipeline system and our petroleum distribution terminals in Fargo and Grand Forks are operating normally from a mechanical standpoint. From our perspective, recent short term outages at our distribution terminals are not related to pipeline or distribution terminal operations. Quite simply, it's the lack of available supply. The majority of gasoline and diesel fuel delivered into our Fargo and Grand Forks terminals generally originates from refineries and pipelines connected to the northern tier¹ of our pipeline system. We also have the capability to supply our North Dakota terminals with volume from refineries in Texas, Oklahoma and Kansas. However, to meet demand in the Upper Great Plains, we need supply from northern tier refineries.

Recent outages at our North Dakota and other terminals in the Upper Great Plains have been due to lower supply from regional refinery origins and strong seasonal demand. If a refinery connected to our pipeline system has an expected or unexpected disruption in operations, we receive a lower volume of product to deliver to our terminals. In the case of an expected or planned operational disruption² (typically the result of required refinery maintenance), we are generally able to build inventory in advance and / or transport refined products from alternative origins to compensate for the shortfall in an effort to supply terminals. However, when several refineries connected to our system are down for

¹ The northern tier includes refineries located in Minnesota and Wisconsin.

² A planned operational disruption in production is generally referred to as a refinery "turnaround".

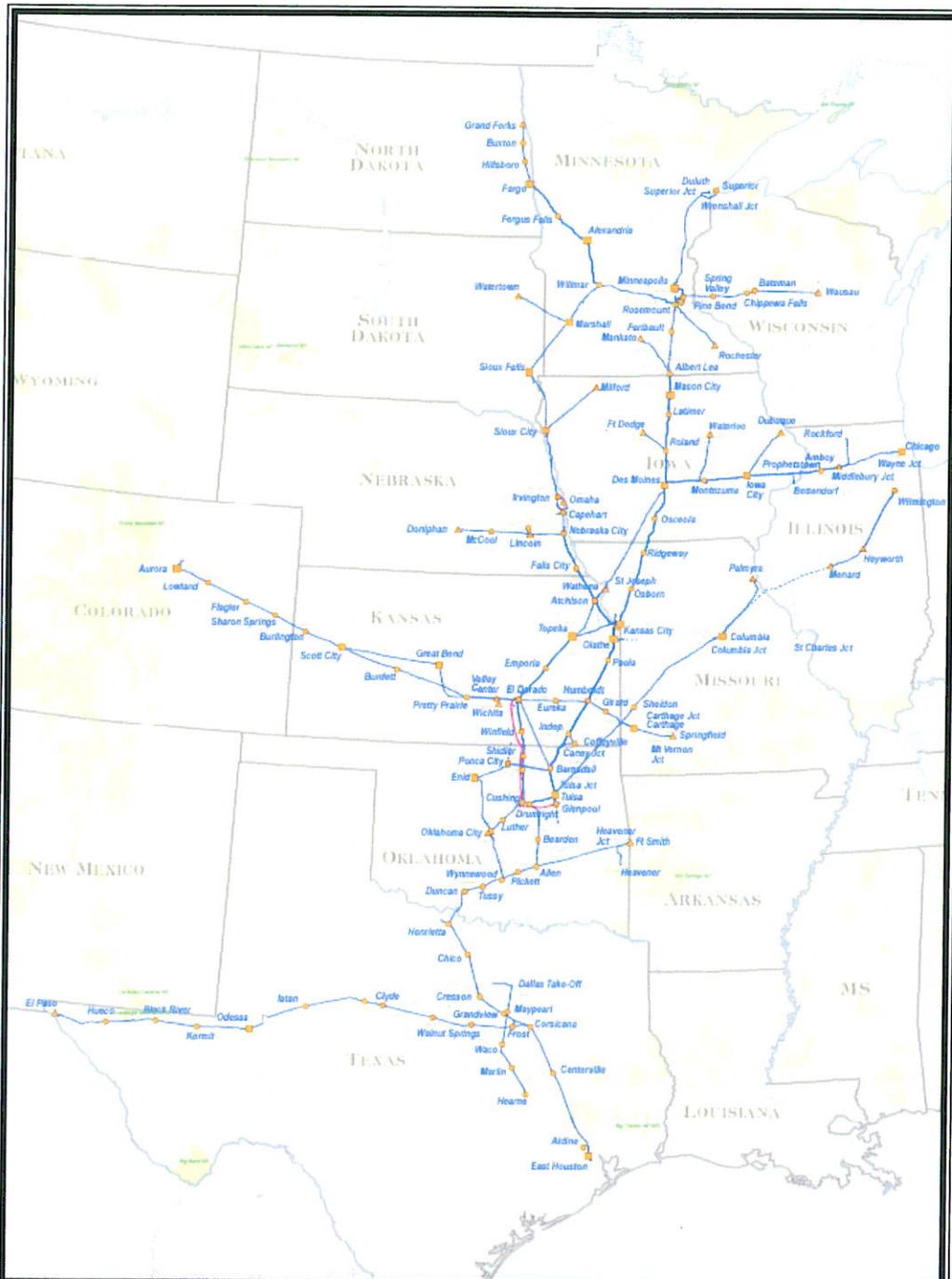
maintenance at the same time or are encountering unexpected operational issues, we cannot always prevent short term outages at our terminals. Refiners connected to our pipeline system generally make us aware of their plans but they are by no means required to share their plans with us.

Lastly, recent demand for gasoline and diesel fuel has exceeded available supply at several of our terminals in the Upper Great Plains. During a time when available demand exceeds supply which results in a terminal outage, we notify the inventory owners (shippers) on a real-time basis of the outage. In addition, we update our “Terminal Information System” (TIM)³ on a real-time basis. Our TIM system is a voluntary, value added service to our shippers, petroleum jobbers and their drivers. We believe the structure of this system is one of the best in the industry and we have received positive feedback from a variety of sources.

When the terminal is resupplied, we may initiate an allocation procedure which was developed with feedback from our shippers. The allocation procedure provides product availability based on historical volumes at a terminal. We believe this procedure provides equitable allocation of fuel.

Thank you again for the opportunity to comment on these important subjects and I would be pleased to answer questions.

³ TIM is an audio system that provides updates regarding product availability at our terminals.



SYSTEM MAP

**Magellan Pipeline Company, L.P.
Osage Pipeline Company, LLC**

Legend	
—	Petroleum Pipeline (Metric)
—	Petroleum Pipeline (Imperial)
—	Crude Oil Pipeline (Metric)
■	Petroleum Terminal / Pump Station
▲	Petroleum Terminal
●	Petroleum Pump Station
—	Pipeline Junction



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