

Internal Revenue Service

Number: **200638018**

Release Date: 9/22/2006

Index Number: 7704.03-00

Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

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CC:PSI:B03

PLR-155291-05

Date:

June 13, 2006

LEGEND:

X =

W =

Y =

Z =

a =

b =

c =

d =

e =

r =

s =

t =

u =

v =

Refinery 1 =

Pipeline 1 =

Pipeline 2 =

Pipeline 3 =

D1 =

D2 =

D3 =

State =

Operating Agreements =

Dear _____ :

This letter responds to your letter dated October 24, 2005, submitted on behalf of X, requesting a ruling concerning the qualifying income exception to the publicly traded partnership rules of section 7704 of the Internal Revenue Code.

Facts

X is a limited partnership organized under the laws of State. X is a "publicly traded partnership" within the meaning of section 7704(b). X is engaged in the storage, transportation, and distribution of crude oil and refined petroleum products and the acquisition and marketing of crude oil to refiners or resellers.

X, through various partnerships and disregarded entities, owns and operates a group of refined product and crude oil pipeline and terminal facilities. X represents that it is not engaged in retail activity.

X owns all, or a partial interest in, a refined product terminals and a b barrel refined product terminal serving Refinery 1. Petroleum product terminals are centralized locations where fuel is received from major common carrier pipelines (or other vessels) and stored until transportation through a complex of equipment necessary to load delivery vehicles with the fuel. In connection with the petroleum product terminals, X earns income by charging customers a per barrel or per gallon terminaling fee for receiving refined products into the terminal and transferring them from the terminal to trucks, barges, or pipelines. In addition, X earns income by charging customers a fee to inject additives or blend ethanol with the fuel.

In addition to the operation of the product terminal facilities, X owns an undivided c interest in, and is the operator of Pipeline 1. X also owns a d interest in Y, and operates Pipeline 2 on behalf of Y. In addition, X is the operator of Pipeline 3 on behalf of Z, e of which is owned by related party W.

Pipeline 1 began operations in D1 for the purpose of transporting gasoline, kerosene, and fuel oil, from r to s. Pipeline 2 began operations in D2 for the purpose of transporting crude oil, from t to u. Pipeline 3 began operations in D3 for the purpose of transporting crude oil, from u to v.

Pursuant to the Operating Agreements, X is responsible for all transportation of petroleum products and crude oil through Pipeline 1, Pipeline 2, and Pipeline 3. In this regard, X performs all the functions associated with the movement of the petroleum product or crude oil including: contracting with customers for the use of the pipelines (except for the jointly-owned pipelines where the other owners are responsible for their own tariffs and contracts with customers), taking delivery from customers, performing the tasks necessary to physically move the petroleum product or crude oil through the pipeline, metering the quantity of petroleum product or crude oil, monitoring the specification of the petroleum product or crude oil, offloading the petroleum product or crude oil to customers, staffing the pipeline operations, conducting routine maintenance, identifying and purchasing supplies, and handling all commercial transactions, including the billing, accounting, and financial reporting for the pipelines. In consideration for operating the pipelines, X receives amounts including fixed operating fees and reimbursement for certain operating expenses.

X requests a ruling that its income derived from injecting additives into and blending ethanol with the fuel in the product terminal facilities and from the operation of Pipeline 1, Pipeline 2, and Pipeline 3 is qualifying income under section 7704(d)(1).

Law and Analysis

Section 7704(a) provides that a publicly traded partnership shall be treated as a corporation. Section 7704(b) provides that the term "publicly traded partnership" means any partnership if (1) interests in that partnership are traded on an established securities market, or (2) interests in that partnership are readily tradable on a secondary market (or the substantial equivalent thereof).

Section 7704(c)(1) provides that section 7701(a) shall not apply to any publicly traded partnership for any taxable year if such partnership met the gross income requirements of section 7704(c)(2) for such taxable year and each preceding taxable year beginning after December 31, 1987, during which the partnership (or any predecessor) was in existence.

Section 7704(c)(2) explains that a partnership meets the gross income requirements of section 7704(c) for any taxable year if 90 percent or more of the gross income of such partnership for such taxable year is qualifying income.

Section 7704(d)(1)(E) provides that the term qualifying income means income or gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy or timber).

Conclusion

Based solely on the facts submitted and representations made, we conclude that the income derived by X from injecting additives into and blending ethanol with the fuel in the product terminal facilities and the operation of Pipeline 1, Pipeline 2, and Pipeline 3 is qualifying income within the meaning of section 7704(d)(1)(E).

Except as specifically provided, no opinion is expressed or implied as to the federal tax consequences of any aspect of any transaction or item discussed or referenced in this letter. In particular, no opinion is expressed as to whether X meets the 90 percent gross income requirement of section 7704(c)(1).

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with the power of attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

/s/

James A. Quinn
Senior Counsel
Office of Associate Chief Counsel
(Passthroughs & Special Industries)