

**Internal Revenue Service**

Department of the Treasury  
Washington, DC 20224

Number: **201224023**  
Release Date: 6/15/2012

Third Party Communication: None  
Date of Communication: Not Applicable  
Person To Contact:  
, ID No.  
Telephone Number:

Index Number: 7704.03-00

Refer Reply To:  
CC:PSI:B01  
PLR-147786-11  
Date:  
March 08, 2012

LEGEND

X =

Y =

Z =

Terminal =

State =

Month =

A =

B =

c =

Dear :

This letter responds to a letter dated November 14, 2011, submitted on behalf of X, requesting a ruling that income derived from sales of liquefied natural gas (LNG) is qualifying income within the meaning of § 7704(d)(1)(E) of the Internal Revenue Code.

## FACTS

According to the information submitted and the representations made, we understand the relevant facts to be as follows:

X is a limited partnership organized under the laws of State. In Month, upon consummation of a public offering of X's common units, X became a publicly traded partnership within the meaning of § 7704(b). X indirectly owns 100% of the outstanding equity interests in Y, a limited partnership organized under the laws of State. Additionally, X owns 100 percent of the outstanding equity interests in Z, a limited liability company organized under the laws of State. Y and Z are classified as disregarded entities from X for federal tax purposes.

Y owns and operates Terminal, which is located in A. Terminal converts, on behalf of its customers, LNG into natural gas in a process called "regasification." LNG is natural gas that has been cooled until it condenses into a liquid in a process called "liquefaction." The regasification process at Terminal involves receiving and unloading LNG from LNG tankers, storing and blending the LNG in storage tanks, and warming the LNG through a series of vaporizers until the LNG is converted into pipeline quality natural gas.

Terminal is undergoing a capital improvement project to develop and construct liquefaction capabilities. The liquefaction process reduces the natural gas to a volume that is safer and more cost-effective to transport over long distances by ocean-going LNG tankers. The goal of this project is to enable Terminal to both liquefy natural gas into LNG for export and regasify LNG into natural gas for import.

X has entered into a long-term contract with B. Under this agreement, X will procure domestically-produced natural gas, process the natural gas into LNG through liquefaction at Terminal, transport the LNG to its marine docks for uploading onto an LNG tanker, and sell the LNG to B over a c-year period for a contracted sales price. B is contractually obligated to resell the LNG to third parties. The partnership expects to enter into other similar long-term contracts to sell LNG.

X represents that, absent further processing, LNG does not have a commercial application. For LNG to be delivered into transmission and distribution pipelines for industrial use, power generation or residential applications, LNG must first be converted to its gaseous state through the regasification process.

## LAW

Section 7704(a) provides that, except as provided in § 7704(c), a publicly traded partnership (PTP) will be treated as a corporation.

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

Section 7704(c)(1) provides that § 7704(a) does not apply to a PTP for any taxable year if the PTP meets the gross income requirements of § 7704(c)(2) for the 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) provides that a partnership meets the gross income requirements of § 7704(c)(2) for any taxable year if 90 percent or more of the gross income of the partnership for the taxable year consists of qualifying income.

Section 7704(d)(1)(E) defines the term qualifying income to include income and 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.

## CONCLUSION

Based solely on the facts submitted and the representations made, we conclude that the income derived by X from sales of LNG will be qualifying income within the meaning of § 7704(d)(1)(E).

Except as expressly provided herein, we express or imply no opinion concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. In particular, we express no opinion as to whether X meets the 90 percent gross income requirement of § 7704(c) in any taxable year.

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,

Faith P. Colson

Faith P. Colson

Senior Counsel, Branch 1

Office of the Associate Chief Counsel

(Passthroughs & Special Industries)

Enclosures (2)

Copy of this letter

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