

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

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Person To Contact:
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Date:
December 11, 2012

X =

Y =

Z =

Parent =

Company =

A =

B =

State =

Dear

This responds to your letter dated July 11, 2012, submitted on behalf of X, requesting a ruling concerning the qualifying income exception to the publicly traded partnership rules of § 7704 of the Internal Revenue Code.

Facts

X is a limited partnership organized under the laws of State. X represents that it is a “publicly traded partnership” within the meaning of § 7704(b). Y, a limited partnership organized under the laws of State, is the general partner and the tax matters partner of X. Z, a limited liability company, is the general partner of Y. Z is wholly-owned by Parent, a publicly-traded State limited partnership. X, is engaged in the gathering,

processing, treating and transportation of natural gas and the transportation, processing and storage of natural gas liquids. In addition, X, through an entity that is disregarded for federal tax purposes, owns and operates a fleet of compressors used to provide turn-key natural gas compression services for customer-specific systems.

X has requested a ruling that the gross income it derives for providing operating services with respect to a number of natural gas compressors which are sited at the wellhead of a producing natural gas well, as described below, constitute qualifying income under § 7704(d)(1)(E).

Natural Gas Processing Activities

Company is a natural gas gathering and processing joint venture owned by A and B. “Gathering” entails the transportation of natural gas produced from a reservoir. Natural gas must be compressed in order for it to be transported. Company owns a number of natural gas compressors, which are sited at the wellhead of a producing natural gas well (“Company Assets”).

X has expertise in compressing natural gas. X has entered into an operating agreement (“Agreement”) with a wholly-owned subsidiary of Company in which X, as operator, will provide operating services with respect to Company Assets. In general, the Agreement provides that Company must install (or cause to be installed) the “Equipment,” which is defined to include all equipment necessary to provide the services under the Agreement. Although such installation is generally performed at Company’s expense, under the agreement X assumes full risk for any damage to (or destruction of) X’s own equipment, tools or other materials resulting from any cause while in use on any jobsite installation. X’s principal responsibility under the agreement is to perform the tasks necessary to physically compress the natural gas and to move such natural gas through the processing equipment.

X maintains a large body of service employees to compress natural gas pursuant to the Agreement, consisting primarily of engineers, service technicians and field personnel, who will together undertake the obligations set forth in Agreement. In exchange for operating the Company Assets, X is paid services fees pursuant to the Agreement.

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 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 to the extent X derives gross income from its contract with Company (which may include fees depending on the facts and circumstances), such gross income will be qualifying income within the meaning of § 7704(d)(1)(E).

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter, including whether X meets the 90 percent gross income requirement of § 7704(c)(1) in any taxable year for which this ruling may apply. In addition, no opinion is expressed or implied concerning whether any of the ownership structures discussed or referenced in this letter constitute partnerships for federal tax purposes.

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

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

The rulings contained in this letter are based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

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,

Charlotte Chyr
Senior Technician Reviewer, Branch 2
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2):

Copy of this letter

Copy for § 6110 purpose