

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **201349004**
Release Date: 12/6/2013
Index Number: 7704.03-00

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:PSI:01
PLR-112063-13
Date:
August 29, 2013

Legend

X =

State =

Dear :

This letter responds to a letter dated March 11, 2013, and subsequent correspondence, submitted on behalf of X by X's authorized representatives, requesting a ruling under § 7704(d)(1)(E) 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 § 7704(b). X, through affiliated partnerships, disregarded entities, and corporate subsidiaries, is principally engaged in the transportation, processing, storage, and distribution of natural gas, natural gas liquids ("NGL"), crude oil, and refined petrochemical and petroleum products.

X is building a facility ("Facility") that will convert butane into butadiene through dehydrogenation or catalytic cracking. In addition to creating butadiene, this process will also create an output stream consisting of unreacted butane, hydrogen, ethane, methane, and other NGLs as byproducts ("Byproducts.") This output stream is referred to as Crude C4. X may separate the components of the output stream using distillation systems and other typical refinery separation processes.

X will operate Facility pursuant to long-term tolling agreements (“Agreements”) and long-term contracts (“Contracts.”) Under the terms of the Agreements, customers will deliver unrefined butane to Facility and will receive butadiene in accordance with an agreed-upon yield ratio. X may also deliver Crude C4 to its customers. The customer may purchase the butane feedstock from X at a market-index price or from third parties. Customers will pay X a formula-based cash fee for its services on a monthly basis. X will retain all Byproducts not delivered as Crude C4 as additional compensation and may, in its sole discretion, retain any butadiene produced in excess of the yield ratio. Under the Contracts, X will use its own butane as feedstock for the Facility and sell the resulting product, butadiene or Crude C4, to its customers at a formula price that includes adjustments based on the market price of butane, the cost of electricity and gas necessary for the operation of the Facility, and the cost of the construction of the Facility. Under both Agreements and Contracts, X may provide storage and transportation services with respect to butadiene or Crude C4 produced by the facility.

LAW AND ANALYSIS

Section 7704(a) provides that, except as provided in § 7704(c), a publicly traded partnership will 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 § 7704(a) does not apply to a publicly traded partnership for any taxable year if such partnership 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, in relevant part, 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) provides that the term “qualifying income” includes 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 (including fertilizer, geothermal energy, and timber).

CONCLUSION

Based solely on the facts submitted and the representations made, we conclude that income derived by X from the conversion of butane into butadiene or Crude C4 and income derived by X from marketing, transporting, or storing butadiene or Crude C4 will constitute qualifying income within the meaning of § 7704(d)(1)(E).

Except as expressly provided herein, no opinion is expressed or implied concerning 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 § 7704(c)(1) in any taxable year for which this ruling may apply.

This ruling is directed only to the taxpayer requesting it. However, in the event of a technical termination of X under § 708(b)(1)(B), the resulting partnership may continue to rely on this ruling in determining its qualifying income under § 7704(d)(1)(E). Section 6110(k)(3) of the Code 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 representatives.

Sincerely,

Laura C. Fields

Laura C. Fields
Senior Technician Reviewer, Branch 1
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2)
Copy of this letter
Copy for § 6110 purposes