

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

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Person To Contact:
, ID No.

Telephone Number:

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CC:PSI:01
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Date:
May 26, 2015

Legend

X =

Y =

Z =

State =

Date =

n1 =

n2 =

n3 =

Dear _____ :

This responds to your letter dated January 10, 2014, and subsequent correspondence, submitted on behalf of X, requesting a ruling under section 7704(d)(1)(E) of the Internal Revenue Code.

FACTS

According to the information submitted, X is a limited partnership organized under the laws of State. Y is a publicly traded corporation formed in State. Y is engaged in the exploration, development, and acquisition of natural gas, natural gas liquids, and oil properties. Y entered into an agreement with X pursuant to which it would contribute its businesses to X. On Date, Y executed an initial public offering (IPO) of X. Prior to the IPO, Y's exploration and development activities were supported by its businesses, which included

services including the exploration and production activities (of necessary for Y's Services Business). As part of the IPO, Y contributed the Business to X and transferred the Services Business to Z, a wholly-owned, disregarded subsidiary of Y. Y also granted X an option to acquire the Services Business. X intends to exercise this option.

Z provides a full suite of handling, treatment, processing, and services to Y pursuant to a long-term services contract. To the extent Y does not require the use of Z's entire capacity, Z has the right to use excess system capacity to provide to other oil and gas producers. These services are rendered in all three phases of the exploration and production of oil and gas: upstream of the well site, at the well site, and downstream of the well site.

As part of its upstream services, Z delivers through its system of , for use in hydraulic fracturing ("fracking"). Z also treats with that can damage oil and gas wells and have an adverse impact on

Fracking stimulates production of natural gas and oil from dense subsurface rock formations. Fracking involves the injection of fluids, primarily water, sand, and chemicals under pressure through a cased and cemented wellbore into targeted subsurface formations to fracture the surrounding rock and stimulate production,

At the well site, Z typically installs to connect the applicable . After the infrastructure is in place, Z supplies to the well site and stores it in with a capacity of n1 to n2 . Employees and subcontractors of Z must be present at the well site during all active fracking operations to ensure equipment is functioning properly and maintain proper . Maintaining proper is essential to the success of the drilling operation because being removed from

may exceed the rate at which _____ is entering the _____. Personnel must monitor _____ and make adjustments as necessary to ensure that _____ do not _____ while transferring _____ at a rate that most efficiently compensates for _____ at which the _____. The provision of _____ is a specialized and requires skilled employees or contractors to coordinate closely with the fracking contractor and other onsite personnel.

Z also _____ of _____ associated with the exploration and production of oil and gas through hydraulic fracturing. _____ and _____ are picked up _____ and transported to a _____ resulting _____ to be discharged _____ are then processed to allow the _____

X and Y make the following representations:

1. The services provided by Z require substantial assets and equipment that are dedicated exclusively to use in the exploration and production of oil and gas.
2. The production of oil and gas using the hydraulic fracturing process would not be commercially viable without _____ services.
3. Z employs directly, and through independent contractors, n3 of persons with a specialized knowledge base, training, and experience, who design, permit, install, and operate every aspect of Z's business and oversee day-to-day field operations.

LAW & ANALYSIS

Section 7704(a) provides that, except as provided in section 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 section 7704(a) does not apply to a publicly traded partnership for any taxable year if such partnership meets the gross income requirements of section 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 section 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 gross income derived by X from the _____ of _____ and the collection, treatment, and transport of _____, and residual _____ will constitute qualifying income for purposes of section 7704(d)(1)(E). This ruling is not applicable to any income derived by X from the _____ of _____ to affiliates or third parties where X does not also _____, or otherwise _____ of the _____ after use.

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.

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.

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 this letter 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