

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

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Person To Contact: _____, ID No.

Telephone Number:

Refer Reply To:
CC:PSI:03
PLR-143388-13

Date:
April 17, 2017

X =

State =

Supplier =

Operator =

Plant =

Agreement =

Dear _____ :

This letter responds to a letter dated October 4, 2013, and subsequent correspondence, submitted on behalf of X, requesting a ruling under § 7704(d)(1)(E) of the Internal Revenue Code (Code) that income and gains from X's activities relating to processing natural gas will constitute qualifying income.

FACTS

X is a limited partnership organized under the laws of State. X is a publicly traded partnership within the meaning of § 7704(b) of the Code.

X, through affiliated limited partnerships, limited liability companies, or disregarded entities, is principally engaged in the business of (1) gathering, compressing, treating, processing, transporting, storing, and selling natural gas; (2) producing, fractionating, transporting, storing, and selling natural gas liquids (NGLs) and condensate, and (3) transporting, storing and selling propane in wholesale markets. This ruling request involves income X derives from its ownership of a natural gas processing plant that receives fees for its natural gas processing services.

X indirectly wholly owns the Plant, a natural gas processing plant. The Plant uses cryogenic expansion to extract NGLs from natural gas. Under an arm's length agreement, the Plant is operated and maintained by Operator, a minority partner in X and the indirect 100% owner of Supplier, on behalf of X. Under a second arm's length agreement, Agreement, the Plant receives raw natural gas from Supplier and processes it to remove the NGLs to meet interstate pipeline gas quality specifications. Supplier retains legal title to the natural gas delivered to the Plant at all times and to the volumes of extracted residue gas and NGLs at the outlet of the facilities. Pursuant to Agreement, Supplier subscribes 100% of the available natural gas processing capacity of the Plant. Supplier pays X a processing fee that is composed of both a fixed monthly demand charge (calculated based on the Plant's capacity to process the natural gas) and a variable service fee (calculated based on the volume of natural gas that the Plant processes).

LAW AND ANALYSIS

Section 7704(a) provides that, except as provided in § 7704(c), 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 § 7704(a) shall not apply to any publicly traded partnership for any taxable year if such partnership met the gross income requirements of § 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) provides that a partnership meets the gross income requirements of § 7704(c) for any taxable year if 90 percent or more of the gross income of such partnership for that 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).

Section 1.7704-4(a) of the Income Tax Regulations provides that qualifying income is income and gains from qualifying activities with respect to minerals or natural resources as defined in § 1.7704-4(b). Qualifying activities are section 7704(d)(1)(E) activities (as described in § 1.7704-4(c)) and intrinsic activities (as described in § 1.7704-4(d)).

Section 1.7704-4(c) provides that section 7704(d)(1)(E) activities include the exploration, development, mining or production, processing, refining, transportation, or marketing of any mineral or natural resource.

Section 1.7704-4(c)(5) provides that an activity constitutes processing if it is performed to convert raw mined or harvested products or raw well effluent to substances that can be readily transported or stored, as described in §1.7704-4(c)(5). Section 1.7704-4(c)(5)(i) provides that an activity constitutes processing of natural gas if it is performed to (A) purify natural gas, including by removal of oil or condensate, water, or non-hydrocarbon gases (such as carbon dioxide, hydrogen sulfide, nitrogen, and helium), and (B) separate natural gas into its constituents which are normally recovered in a gaseous phase (methane and ethane) and those which are normally recovered in a liquid phase (propane, butane, pentane, and heavier streams).

CONCLUSION

Based solely on the facts submitted and representations made, we conclude that the income derived by X from the processing of natural gas under Agreement is 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 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 ruling contained in this letter is 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 ruling request, it is subject to verification on examination.

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. 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).

Pursuant to the power of attorney on file with the office, a copy of this ruling will be sent to X's authorized representative.

Sincerely,

Holly Porter
Branch Chief, Branch 3
Office of the Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2):

Copy of this letter
Copy for § 6110 purposes