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Washington, DC 20224

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Legend

X =

State =

Dear :

This letter responds to a letter from your authorized representative dated October 21, 2011, 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.

X is a limited partnership organized under the laws of State. X, through a wholly owned subsidiary that is disregarded for U.S. federal income tax purposes, will earn income by providing services to customers engaged in the exploration for, and the development and production of, oil and natural gas. Specifically, X will earn income from the removal, transportation, and disposal of the petroleum-water mix produced in connection with natural gas processing activities. X also intends to earn income in connection with a fluid treating/recycling business, whereby X will conduct additional treatment activities to render a portion of the petroleum-water mix, not otherwise marketable as a hydrocarbon, suitable for use in later drilling operations. X also plans to generate income from the sale of recovered condensates, although it represents that it will not market hydrocarbons to end users at the retail level.

Raw natural gas extracted from natural gas reservoirs is a mixture of many compounds that in combination are not ready to be transported from the wellhead for further processing or used as a fuel source. To meet pipeline standards, the compounds found in raw natural gas (water, sulfur and natural gas liquids, including ethane, propane, and butane) must be removed at the wellhead. One of the unavoidable byproducts of

natural gas processing is water saturated with petroleum molecules, which X refers to as “petroleum-water” mix. Most plant and field locations have very little petroleum-water mix storage capacity, making reliable removal services essential. Natural gas producers rely on third parties, such as X, to remove, transport, and dispose of the petroleum-water mix generated by their facilities to enable continuing development and production operations. Due to the high hydrocarbon levels in the mix, the material is hazardous and must be properly handled to comply with applicable state and Federal environmental regulations. Once removed from the site, the petroleum-water mix is further processed to segregate it into waste water and marketable condensate. The waste water is usually pumped into a disposal well, in compliance with state and Federal regulations, and the condensate is sold.

X will charge its customers fees for its petroleum-water mix storage and disposal services. A petroleum-water mix disposal company typically charges an hourly fee for its transportation services and a separate fee at either hourly or per-barrel rates for its removal/disposal services. X also plans to generate income from the sale of petroleum condensates. Sales proceeds from petroleum condensates often account for a substantial portion of a petroleum-water mix disposal company’s income and often exceed the revenue earned from the removal services. X will also conduct additional treatment activities to render a portion of the petroleum-water mix, not otherwise marketable, suitable for use in later drilling operations and either re-convey the treatment mix to its customers or third parties.

Section 7704(g) provides generally 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 the partnership are traded on an established securities market, or (2) interests in the partnership are readily tradable on a secondary market (or substantial equivalent thereof).

Section 7704(c)(1) exempts from treatment as a corporation any publicly traded partnership for any tax year if the partnership meets the gross income requirements of § 7704(c)(2) for that year and each preceding tax 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 for any tax year if 90% or more of the partnership’s gross income for that year consists of qualifying income.

Section 7704(d)(1)(E) defines “qualifying income” to include income and gains derived from the exploration, development, mining or production, processing, refining, transportation, or marketing of any material or natural resource.

Based solely on the facts submitted and representations made, we conclude that X's gross income from the transportation, storage, and disposal of petroleum-water mix derived from oil and natural gas wells, including any associated condensate sales, is qualifying income within the meaning of § 7704(d)(1)(E).

Except for the specific ruling above, we express or imply no opinion concerning the federal tax consequences of the facts of this case under any other provision of the Code. Specifically, we express or imply no opinion as to whether X is taxable as a partnership for federal tax purposes.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that this ruling may not be used or cited as precedent. Under a power of attorney on file with this office, we are sending a copy of this letter to your authorized representative.

Sincerely,

Bradford R. Poston
Senior Counsel, Branch 2
(Passthroughs & Special Industries)

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

cc: