



(IPO) of limited partner interests. After the IPO, X represents that it would be a publicly traded partnership within the meaning of section 7704(b).

X will own (1) certain oil and gas gathering systems, subsystems, and short-haul lines (gathering systems); (2) a gas processing and fractionation plant (the gas plant); (3) a truck loading and unloading terminal and rail terminal (the terminals); and (4) rail tank cars designed to haul crude oil. X will earn income using this equipment under the agreements described below.

Under Agreement A, X will gather crude oil in the field and transport it to a place where it can be treated and sold. Specifically, X will provide services including receiving crude oil at or near the wellhead, gathering services, redelivery of oil at terminals or other locations, and metering services. Under Agreement A, X will (1) maintain, repair, and, when necessary, replace components of the oil gathering systems; (2) perform inspections and otherwise monitor the equipment in service; (3) schedule flow and optimize pump deployment on the gathering lines; and (4) obtain permits and satisfy regulatory and legal requirements necessary to operate the oil gathering systems; and (5) make operational and strategic decisions related to X's oil gathering systems.

Under Agreement B, X will gather raw, untreated natural gas in the field and transport it to a place where it can be further processed and treated. Specifically, X will provide services including the receiving of natural gas at or near the wellhead, gathering and compression services, gas lift services, redelivery of the gas at a gas plant or another location, and metering services. Under Agreement B, X will (1) maintain, repair and, when necessary, replace components of the natural gas gathering systems; (2) perform inspections and otherwise monitor the equipment in service; (3) schedule flow and optimize compression on the gathering lines and determine when flaring is necessary; (4) obtain permits and otherwise satisfy regulatory and legal requirements necessary to operate the natural gas gathering systems; and (5) make operational and strategic decisions related to X's gas gathering systems.

Under Agreement C, X will provide services, including treating raw gas (which removes sulfur and other impurities), demethanizing and ethane extraction (which separates methane and ethane from the heavier hydrocarbon compounds and from each other), and fractionation (which separates the heavier compounds into NGLs, such as butane, propane, and natural gas). X will also deliver methane into interstate pipelines and deliver NGLs to interstate pipelines and a rail terminal, so that the NGLs can be loaded onto rail tank cars to be shipped to market trading hubs or terminals. Under Agreement C, X will (1) maintain, repair, and, when necessary, replace components of the gas plant; (2) perform inspections and otherwise monitor the equipment in service; (3) accept or reject interruptible volumes flowing through gathering systems tied into the gas plant; (4) determine when diversion of volumes to other third-party systems or gas flaring at the gas plant is necessary; (5) schedule gas deliveries; (6) store NGLs; and (7) obtain permits and otherwise satisfy regulatory and other legal requirements necessary

to operate the gas plant; and (8) make operational and strategic decisions related to the gas plant.

Under Agreement D, X will terminal and transport crude oil and natural gas liquids (NGLs) for a per-barrel fee. X will provide services, including receiving crude oil from pipeline gathering systems, unloading trucks, storing crude oil in storage tanks, loading crude oil and NGLs onto railcars, storing propane in an underground storage cavern, and delivering crude oil through pipelines. X will (1) maintain, repair, and, when necessary, replace equipment at the terminals; (2) perform inspections and otherwise monitor the equipment in service; (3) load crude oil and NGLs into rail tank cars, schedule arrivals, departures, and unloading; (4) store crude oil and NGLs at the terminals; and (5) make operational and strategic decisions related to X's terminals.

Under Agreement D or another agreement, X will provide long-haul rail transportation services for crude oil delivery. Specifically, X will (1) schedule the use of its railcars; (2) store rail tank cars; (3) inspect, maintain, clean, repair, or replace components of the railcars to ensure proper functioning; (4) obtain permits and otherwise satisfy regulatory and legal requirements necessary to operate the rail tank cars; and (5) make operational and strategic decisions related to the rail tank cars and rail transportation services.

## 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, for the purposes of § 7704, 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) provides that § 7701(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 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” 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 the representations made, we conclude that the income derived by X from the agreements described above is qualifying income within the meaning of section 7704(d)(1)(E).

Except as expressly provided herein, we express or imply no opinion concerning the 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) in any taxable year.

The ruling is directed only to the taxpayer who requested 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 the taxpayer's authorized representatives.

Sincerely,

*David R. Haglund*

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Office of the Associate Chief Counsel  
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Enclosures (2)

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