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Person To Contact:
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Telephone Number:

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Date:
May 26, 2015

Legend

X =

Y =

Z =

A =

B =

C =

State =

Date =

n1 =

n2 =

Dear :

This responds to your letter dated January 16, 2015, submitted on behalf of X, requesting a ruling under § 7704(d)(1)(E) of the Internal Revenue Code (Code).

FACTS

X is a limited partnership organized on Date under the laws of State. Upon consummation of an initial public offering (IPO), X will become a publicly traded partnership within the meaning of § 7704(b).

X will own n1% of the outstanding equity interests of Y, an LLC treated as a partnership for Federal tax purposes. Z will own the remaining n2% interest in Y. Y owns all of the outstanding equity interests of A, a disregarded entity for Federal tax purposes. A owns and operates a liquefied natural gas (LNG) receiving and regasification terminal (Terminal). Y also owns all of the outstanding equity interests of B, a disregarded entity for Federal tax purposes. B will construct and own additional liquefaction capabilities at Terminal that will enable B to process and convert natural gas into LNG (Liquefaction Project).

LNG is natural gas that has been cooled until it condenses into a liquid in a process referred to as liquefaction. The liquefaction process includes the removal of certain components from the natural gas stream, such as water, carbon dioxide, sulfur, mercury, and heavy hydrocarbons. The purified natural gas is condensed into a liquid at close to atmospheric pressure by cooling it to a cryogenic temperature of approximately minus 260 degrees Fahrenheit. The liquefaction process reduces the volume of the molecules to 1/600th of their original size. The reduction in volume makes natural gas considerably more cost effective to transport over long distances where pipelines do not exist. LNG transportation to a LNG receiving terminal typically occurs by ocean-going LNG tankers that are designed with a special containment system to keep the appropriate atmospheric pressure and cryogenic temperature.

Regasification is the inverse process of liquefaction. It involves warming the LNG through a series of vaporizers until the LNG is converted into pipeline quality natural gas. Unloaded LNG is pumped through various components, including vaporizers, to convert or warm the LNG into natural gas. The vaporizers use either air or seawater to warm the LNG (ambient temperature systems) or burn fuel to generate heat to indirectly warm the LNG (above-ambient temperature systems).

Terminal is currently comprised of all the facilities necessary for regasification: marine docks for LNG tankers to offload or upload LNG, LNG storage tanks, LNG vaporizers, and other required facilities and equipment. A has a series of agreements for regasification (Regasification Agreements) with C, pursuant to which C has contractually committed to pay A fixed fees for A's agreement to accept a specified amount of C's LNG via LNG tankers, to store the LNG in tanks at Terminal, to process the LNG into natural gas, and to deliver the natural gas to C for further transport via pipeline. Under the Regasification Agreements, A assumes the risk of loss for the LNG

as it is received at Terminal and has the risk of loss during the processing of the LNG into gas and during the transportation of the gas to C's delivery point. The risk of loss reverts from A to C at the time the gas is delivered to C (at the point a pipeline connects to Terminal).

Terminal cannot currently liquefy domestically-produced natural gas for export. As part of the Liquefaction Project, B will construct and install gas treatment facilities, refrigerant compressors, cold boxes and heat exchangers, waste heat recovery systems, associated fire and gas detection systems, interconnections to Terminal, and new control buildings to enable it to liquefy natural gas. The Liquefaction Project, in combination with the existing services provided at Terminal, will allow Terminal to both liquefy natural gas into LNG for export and regasify LNG into natural gas for import.

B intends to execute a long-term Liquefaction Services Agreement (Liquefaction Agreement) with C. B will contract to process a calculated amount of C's domestic natural gas into LNG and transport the LNG to its marine docks for uploading onto an LNG tanker. Pursuant to the Liquefaction Agreement, B will assume the risk of loss for the gas as it is received at Terminal and will have risk of loss during the processing of the natural gas into LNG and during the transport of the LNG to the LNG tanker. The risk of loss reverts from B to C at the point the LNG is delivered onto the LNG tanker. In connection with entering into the Liquefaction Agreement, C will continue to pay the fixed fees under the Regasification Agreements.

Pursuant to the Liquefaction Agreement, C may assign a portion of its right to processing capacity at Terminal to other third parties. Such other third parties would become customers of Terminal and would execute similar agreements. Y expects that Terminal ultimately will have multiple customers.

X requests a ruling that its distributive share of income derived from contracts for the processing, regasification, liquefaction, and storage of natural gas constitutes qualifying income under § 7704(d)(1)(E).

LAW & 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), industrial source carbon dioxide, or the transportation or storage of any fuel described in § 6426(b), (c), (d), or (e), or any alcohol fuel defined in § 6426(b)(4)(A), or any biodiesel fuel as defined in § 40A(d)(1).

CONCLUSION

Based solely on the facts submitted and the representations made, we conclude that income derived by X, directly or indirectly, from contracts for the processing, regasification, liquefaction, and storage of natural gas constitutes qualifying income under § 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 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

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