

## Internal Revenue Service

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Department of the Treasury  
Washington, DC 20224

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Person To Contact:  
, ID No.

Telephone Number:

Refer Reply To:  
CC:PSI:B01  
PLR-117504-14

Date:  
May 29, 2015

### Legend

X =

State =

Dear :

This letter responds to a letter dated April 23, 2014, and subsequent correspondence, submitted on behalf of X by its authorized representative, requesting a ruling under § 7704(d)(1)(E) of the Internal Revenue Code.

### Facts

X is a limited partnership organized under the laws of State and intends to become a publicly traded partnership within the meaning of § 7704(b) by effecting an initial public offering of limited partner interests. X expects to earn income principally by assessing fees for gathering, transporting, processing, treating and disposing of saltwater produced in the exploration and production of oil and natural gas ("produced water"). X's primary assets will consist of ownership interests of saltwater disposal wells and associated assets including pipelines, rights of way and the equipment necessary to operate the saltwater disposal wells. X may redeliver produced water for continued oil recovery operations but will not charge a fee for redelivery. As a complement to its primary business, X will remove residual oil and other similar hydrocarbons ("skim oil") from drilling waste during the disposal process at its facilities. X expects to earn income by marketing the skim oil in relevant markets other than to end users at the retail level.

X makes the following representations:

1. Personnel are provided for produced water handling and the personnel received unique training for the operation of the saltwater disposal system.
2. The saltwater disposal system is dedicated to processing, treatment and disposal of produced water, the saltwater disposal system does not have other commercially viable uses, and is not easily converted for other uses.
3. Processing and treatment of produced water is required prior to injection into a disposal well, in order to comply with governmental regulations and industry standards.
4. The personnel provide necessary onsite services at all saltwater disposal wells on a daily basis.
5. Offsite monitoring services are performed on an ongoing basis and are offered exclusively for use with X's salt water disposal system.

#### 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 such partnership are traded on an established securities market, or (2) interests in such partnership are readily tradable on a secondary market (or the substantial equivalent thereof).

Section 7704(c)(1) provides, in part, 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)(2) for any taxable year if 90 percent or more of the gross income of such partnership for such taxable 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 (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 presented and representations made, we conclude that income derived by X from the gathering, transporting, processing, treating and disposing of saltwater produced in the exploration and production of oil and natural gas constitutes qualifying income within the meaning of § 7704(d)(1)(E). Further, income derived by X from the recovery and marketing of skim oil other than to end users at the retail level constitutes qualifying income within the meaning of § 7704(d)(1)(E).

Except as expressly provided herein, no opinion is expressed or implied 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 in § 7704(c) 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) provides that this ruling may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, we are sending copies of this letter 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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