

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

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Person To Contact:

Telephone Number:

In re:

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Date:
July 02, 2004

LEGEND:

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Dear :

This letter responds to a letter, dated November 25, 2003, and subsequent correspondence, submitted on behalf of A by its authorized representative, requesting rulings under §§ 29 and 702 of the Internal Revenue Code.

The facts as represented by A and A's authorized representative are as follows. A is a limited liability company that is treated as a partnership for federal tax purposes. A owns a facility (Facility) for the production of solid synthetic fuel from coal. C, a limited liability company, owns a .90 percent interest in A. B, a limited liability company, owns a 99.1 percent interest in A. B is treated as a partnership for federal income tax purposes. D owns 0.1 percent, C owns 0.90 percent, and G owns 99 percent of the membership interests in B. D is a limited liability company that is treated as a partnership for federal income tax purposes. C owns 61.2 percent, E owns 9 percent, and F owns 29.8 percent of the membership interests in D. F is a limited liability company that is treated as a partnership for federal tax purposes. F owns 13.354 percent and L owns 86.646 percent of the membership interests in C.

On Date 1, D entered into contracts for the construction and acquisition of two synthetic fuel production facilities. Each of the two facilities was to be constructed by Y and/or Z. The construction contract for the Facility (Construction Contract) provides for liquidated damages of at least five percent of the total contract price. It also includes a description of the Facility to be constructed, a completion date, and a price. A provided an opinion of counsel that the Construction Contract constituted a binding written contract under applicable state laws prior to January 1, 1997, and at all time thereafter through completion of the contract.

The Facility was constructed at Site X. The Facility was designed with the ability to be moved from one site to another depending on the availability, price, quality, and location of coal feedstock. A represents that the Facility was in a condition or state of readiness and availability for its specifically assigned function and was operational before July 1, 1998.

H, the owner of Site X, allowed D to occupy a portion of the site for the purposes of constructing the Facility and producing synthetic fuel. In addition, D and H agreed that H would sell coal feedstock to, and purchase synthetic fuel from D. On or about Date 2, H filed a petition under Chapter 11 of the Bankruptcy Code. As a result, the

operation of the Facility was halted. D eventually removed the Facility from Site X and placed it in storage.

On Date 3, D contributed the Facility to A. On Date 4, D contributed its entire 99 percent membership interest in A to B, and C contributed a 0.1 percent membership interest in A to B. Following the contribution of the Facility by D to A, the Facility was relocated from the storage to Site Y, which is owned by K. On Date 5, A acquired a leasehold interest in Site Y pursuant to a lease agreement entered into with K, which is owned by J.

At Site Y, A will use a different type of chemical reagent or binder than was used previously. Due to this change, it is neither desirable nor practicable to use the prior storage tanks and related equipment which had been used with the asphaltic binder used at Site X. Accordingly, A will acquire and use new binder storage tanks and related equipment at Site Y. A represents that in connection with the proposed change in binder, the use of the new binder will not increase the production output of the Facility.

In connection with the relocation, the fair market value of the original property comprising the Facility at Site X was more than 20 percent of the Facility's total value (the cost of the new property plus the value of the original property). Further, all essential components of the Facility are retained at Site Y and the production capacity of the Facility has not significantly increased at Site Y.

The process which occurs in the Facility consists of the following steps: (i) thoroughly mixing coal feedstocks with a chemical change agent in a mixer/blender auger, (ii) feeding metered amounts of the coal feedstock and chemical change agent mixture into a roll briquetter, and (iii) compressing the mixture into synthetic fuel. In the first phase of the production process, coal feedstocks are mixed in a pug mill with an ultra heavy hydrocarbon asphaltic emulsion used as the chemical change agent. In the second phase of the production process, the mixture of coal feedstock and chemical change agent is introduced via conveyors and feed hoppers into roll briquetters. A represents that the combination of the chemically reactive agent, the mixing process and processing through the roll briquetters results in the formation of a solid synthetic fuel.

As described, the Facility and the process implemented in the Facility, including the utilization of the specified chemical reagent, meet the requirements of Rev. Proc. 2001-30, 2001-1 I.R.B. 1163. Further, A has engaged recognized experts in coal combustion chemistry to conduct tests on synthetic fuel samples produced by the Facility using the specified chemical reagent. Based on the tests, the experts have concluded that a measurable, significant chemical change has occurred in the conversion of feedstock coal into a synthetic fuel.

On Date 5, A entered into a Facility Lease Agreement with G under which G will use the Facility to produce synthetic fuel on its own behalf. Upon termination of the Facility Lease Agreement, A will repossess the Facility and produce and sell synthetic Fuel on its own behalf. The term of the Facility Lease Agreement was expected to end on or around Date 6; however, after amendments to the Agreement, G operated the Facility as a lessee until the beginning of Date 7.

Effective Date 8, G purchased 99 percent interest in B from D pursuant to an Agreement for Acquisition of Membership Interest. Under the Agreement, G makes an initial payment of \$V, and makes fixed payments and variable payments on a quarterly basis as provided in the Agreement. A represents that the net present value of the initial payment and the fixed payments to D are expected to exceed the net present value of the variable payments made to D.

The agreement among the members of B (LLC Agreement) provides that G's initial 99 percent interest may be adjusted downward if the production of the Facility exceeds V tons on an annual basis. To the extent that G's interest is reduced, the interest of D or its successor in B will increase. Under the LLC Agreement, G is required to make monthly capital contributions to B based on its percentage ownership interest.

Under an Operating Agreement, Operator will provide services to A in connection with the management, operation, maintenance, and repair of the Facility. For its services, Operator is paid a fee of Z for each ton of synthetic fuel produced by the Facility during the term of the Operating Agreement. The operating fee will be subject to an adjustment depending on the annual publication by the Service of the revised adjustment factor applicable to Section 29 credits.

Pursuant to a Feedstock Agreement entered into by A with I on Date 5, A agrees to purchase from I X tons of coal feedstock annually, and could purchase an additional Y tons of coal feedstock annually.

On Date 5, A entered into the Contract of Purchase of Synfuel with J. Under the Agreement, J agrees to buy all synthetic fuel produced by A during the term of the Contract up to X tons per calendar year, and no more than U tons per month. A has a right to sell any synthetic fuel not purchased by J to other parties.

The rulings requested by A are as follows:

(1) The synthetic fuel produced by the Facility is a solid synthetic fuel produced from coal feedstock that differs significantly in chemical composition from the coal from which it is produced and thus constitutes a "qualified fuel" within the meaning of § 29(c)(1)(C).

(2) The Construction Contract constitutes a binding written contract in effect before January 1, 1997 within the meaning of § 29(g)(1)(A).

(3) The Facility is “placed in service” for purposes of § 29(g)(1) on the date that it was placed in a condition or state of readiness and availability for its specifically assigned function (as described in §§ 1.46-3(d)(1)(ii) and 1.167(a)-11(e)(1)(i) of the Income Tax Regulations) to produce synthetic fuel.

(4) Production from the Facility by A will be attributable solely to A within the meaning of § 29(a)(2)(B), and A will be allowed the credit as determined under § 29 for synthetic fuel produced by the Facility and sold by A to unrelated persons.

(5) Provided the Facility was “placed in service” within the meaning of § 29(g)(1) prior to July 1, 1998, neither the relocation of the Facility after June 30, 1998 nor the replacement of parts described in the ruling request will result in a new placed in service date for the Facility or otherwise prevent the Facility from continuing to be treated as placed in service for purposes of § 29. In addition, subsequent relocations of the Facility to different sites, or the replacement of parts of the Facility, will not result in a new placed in service date for the Facility or otherwise prevent the Facility from continuing to be treated as placed in service for purposes of § 29 if the fair market value of the original property that is incorporated into the Facility exceeds 20% of the total fair market value of the Facility immediately following the relocation or replacement.

(6) Any § 29 credit allowed to A may be passed through to and allocated among the members of A under the principles of § 702(a)(7) in accordance with the members’ interest in A at the time the § 29 credits are allowed. For purposes of the § 29 credit, a member’s interest in A is determined based on a valid allocation of the receipts from the sale of the synthetic fuel.

(7) Provided the Facility was “placed in service” within the meaning of § 29(g)(1) prior to July 1, 1998, the Facility will continue to be treated as placed in service before July 1, 1998 if sold to a new owner after such date or if A terminates within the meaning of § 708(b), and § 29 credits for synthetic fuel produced by the Facility and sold to unrelated persons before January 1, 2008, will be allowed.

RULING REQUEST #1 AND #4

Section 29(a) allows a credit for qualified fuels sold by the taxpayer to an unrelated person during the taxable year, the production of which is attributable to the taxpayer. The credit for the taxable year is an amount equal to \$3.00 (adjusted for inflation) multiplied by the barrel-of-oil equivalent of qualified fuels sold.

Section 29(c)(1)(C) defines “qualified fuels” to include liquid, gaseous, or solid synthetic fuels produced from coal (including lignite), including such fuels when used as feedstocks.

In Rev. Rul. 86-100, 1986-2 C.B. 3, the Internal Revenue Service ruled that the definition of the term "synthetic fuel" under § 48(l) and its regulations are relevant to the interpretation of the term under § 29(c)(1)(C). Former § 48(l)(3)(A)(iii) provided a credit for the cost of equipment used for converting an alternate substance into a synthetic liquid, gaseous, or solid fuel. Rev. Rul. 86-100 notes that both § 29 and former § 48(l) contain almost identical language and have the same overall congressional intent, namely to encourage energy conservation and aid development of domestic energy production. Under § 1.48-9(c)(5)(ii) of the Income Tax Regulations, a synthetic fuel "differs significantly in chemical composition," as opposed to physical composition, from the alternate substance used to produce it. Coal is an alternate substance under § 1.48-9(c)(2)(i).

Consistent with its private letter ruling practice that began in the mid 1990's, the Service, in Rev. Proc. 2001-30, provided that taxpayers must satisfy certain conditions in order to obtain a letter ruling that a solid fuel (other than coke) produced from coal is a qualified fuel under § 29(c)(1)(C). Rev. Proc. 2001-30, as modified by Rev. Proc. 2001-34, 2001-1 C.B. 1293. The revenue procedure requires taxpayers to present evidence that all, or substantially all, of the coal used as feedstock undergoes a significant chemical change. To meet this requirement and obtain favorable private letter rulings, taxpayers provided expert reports asserting that their processes resulted in a significant chemical change.

In Announcement 2003-46, 2003-30 I.R.B. 222, the Service announced that it was reviewing the scientific validity of test procedures and results presented of significant chemical change in expert reports. In Announcement 2003-70, 2003-46 I.R.B. 1090, the Service announced that it had determined that the test procedures and results used by taxpayers were scientifically valid if the procedures were applied in a consistent and unbiased manner. However, the Service concluded that the processes approved under its long standing ruling practice and as set forth in Rev. Proc. 2001-30 did not produce the level of chemical change required by § 29(c)(1)(C). Nevertheless, the Service announced that it recognized that many taxpayers and their investors have relied on its long standing ruling practice to make investments. Therefore, the Service announced that it would continue to issue rulings on significant chemical change but only under the guidelines set forth in Rev. Proc. 2001-30, as modified by Rev. Proc. 2001-34.

This ruling is provided to A consistent with Announcement 2003-70 and the Service's long standing ruling practice. Accordingly, based on the expert test results submitted by A, we conclude that A with use of the described process and a specified chemical reagent, will produce a solid synthetic fuel from coal constituting a "qualified fuel" within the meaning of § 29(c)(1)(C). Because A owns the Facility and operates and maintains the Facility through Operator, we conclude that A will be entitled to the § 29 credit for the production of the qualified fuel from the Facility that is sold to an unrelated person.

RULING REQUEST #2

Sections 29(f)(1)(B) and (f)(2) provide that § 29 applies with respect to qualified fuels which are produced in a facility placed in service after December 31, 1979, and before January 1, 1993, and which are sold before January 1, 2003.

Section 29(g)(1) modifies § 29(f) in the case of a facility producing qualified fuels described in § 29(c)(1)(C), which qualified fuels include solid synthetic fuels produced from coal or lignite. Section 29(g)(1)(A) provides that for purposes of § 29(f)(1)(B), a facility shall be treated as placed in service before January 1, 1993, if the facility is placed in service before July 1, 1998, pursuant to a binding written contract in effect before January 1, 1997. Section 29(g)(1)(B) provides that if the facility is originally placed in service after December 31, 1992, § 29(f)(2) shall be applied by substituting "January 1, 2008" for "January 1, 2003."

A contract is binding only if it is enforceable under local law against a taxpayer, and does not limit damages to a specified amount, e.g., by use of a liquidated damages provision. A contract provision limiting damages to an amount equal to at least five percent of the total contract price, for example, should be treated as not limiting damages. The Construction Contract, executed prior to January 1, 1997, provides for liquidated damages of at least five percent of the total contract price and includes such essential features as a description of the facility to be constructed, a completion date, and a price. Therefore, we conclude that the Construction Contract is a "binding written contract" in effect before January 1, 1997, within the meaning of § 29(g)(1)(A).

RULING REQUESTS #3 and #5

Sections 29(f)(1)(B) and (f)(2) of the Code provide that § 29 applies with respect to qualified fuels which are produced in a facility placed in service after December 31, 1979, and before January 1, 1993, and which are sold before January 1, 2003.

Section 29(g)(1) of the Code modifies § 29(f) in the case of a facility producing qualified fuels described in § 29(c)(1)(C), which qualified fuels include solid synthetic fuels produced from coal or lignite. Section 29(g)(1)(A) provides that for purposes of § 29(f)(1)(B), such a facility is to be treated as placed in service before January 1, 1993, if the facility is placed in service before July 1, 1998, pursuant to a binding written contract in effect before January 1, 1997. Section 29(g)(1)(B) provides that if the facility is originally placed in service after December 31, 1992, § 29(f)(2) is to be applied by substituting for the date therein January 1, 2008.

To qualify for the § 29 credit, the facility must be placed in service before July 1, 1998, pursuant to a binding written contract in effect before January 1, 1997. While § 29 does not define "placed in service," the term has been defined for purposes of the deduction for depreciation and the investment tax credit. Property is "placed in service" in the taxable year the property is placed in a condition or state of readiness and

availability for a specifically assigned function. Sections 1.167(a)-11(e)(1)(i) and 1.46-3(d)(1)(ii) of the Income Tax Regulations. “Placed in service” has consistently been construed as having the same meaning for purposes of the deduction for depreciation and the investment tax credit. See Rev. Rul. 76-256, 1976-2 C.B. 46. When property is placed in service is a factual determination, and we express no opinion on when the Facility was placed in service.

Rev. Rul. 94-31, 1994-1 C.B. 16, concerns § 45, which provides a credit for electricity produced from certain renewable resources, including wind. The credit is based on the amount of electricity produced by the taxpayer at a qualified facility during the 10-year period beginning on the date the facility was originally placed in service, and sold by the taxpayer to an unrelated person during the taxable year. Rev. Rul. 94-31 holds that, for purposes of § 45, a facility qualifies as originally placed in service even though it contains some used property, provided the fair market value of the used property is not more than 20 percent of the facility's total value (the cost of the new property plus the value of the used property).

Rev. Rul. 94-31 concerns a factual context similar to the present situation. Consistent with the holding in Rev. Rul. 94-31, provided the Facility was placed in service prior to July 1, 1998, within the meaning of § 29(g)(1), relocation of the Facility after June 30, 1998 or replacement of parts of the Facility after that date, will not result in a new placed in service date for the Facility or otherwise prevent the Facility from continuing to be treated as originally placed in service prior to July 1, 1998, if the fair market value of the property used at the original facility is more than 20 percent of the Facility's total fair market value immediately following the relocation or replacement (the cost of the new equipment included in the Facility plus the value of the property used at the original facility).

Rev. Rul. 94-31 describes a windfarm that consists of an “array of wind turbines, towers, pads, transformers, roadways, fencing, on-site power collection systems, and monitoring and meteorological equipment.” Notwithstanding that the windfarm consisted of all of these items, the ruling concludes that the “facility” for purposes of § 45 is confined to “the property on the windfarm necessary for the production of electricity from wind energy.” (emphasis added.) The present situation is similar to Rev. Rul. 94-31. Thus, for purposes of determining a Facility's total fair market value at the time of relocation or replacement, a Facility consists of the process equipment directly necessary for the production of the qualified fuel, starting at the immediate input of the coal and chemical reagents to the pug mills or mixers (including any coal hoppers and reagent tanks directly feeding the pug mills or mixers) through the output from the briquetters or other forming equipment (including output hoppers, if any). Hence, the Facility's total fair market value includes the process equipment such as pugmills or mixers, the briquetters or other forming equipment, the equipment necessary to interconnect such equipment, the electrical, instrumentation, control systems and auxiliaries related to such equipment (including the structures that house such electrical, instrumentation and control systems), the foundation platform(s) for the above-

referenced equipment, and an appropriate allocation of the engineering, project management, overhead, and other costs assignable to the relocation of such equipment and construction. The Facility's total fair market value does not include costs associated with the purchase and installation of equipment that supports the operation of the Facility but is not directly necessary for the production of the qualified fuel, such as coal beneficiation or preparation equipment (e.g., crushers, screens, dryers, or scales), other material handling or conveying equipment (e.g., stacking tubes, transfer towers, storage bunkers, mobile equipment, or conveyors), certain site improvements (e.g., fencing, lighting, earthwork, paving), separate office and bathhouse trailers for facility personnel, and buildings (if a "building" for purposes of § 168 of the Code), and other administrative assets.

Consistent with the holding in Rev. Rul. 94-31, provided A's Facility was "placed in service" prior to July 1, 1998, within the meaning of § 29(g)(1), relocation of the Facility to a different location, or replacement of part of the Facility after June 30, 1998, will not result in a new placed in service date for the Facility for purposes of § 29, provided the fair market value of the original property is more than 20 percent of the Facility's total fair market value at the time of relocation or replacement (the cost of the new equipment included in the Facility plus the value of the used property).

RULING REQUEST #6

Section 29(a) allows a credit for qualified fuels sold by the taxpayer to an unrelated person during the taxable year, the production of which is attributable to the taxpayer.

Section 7701(a)(14) provides that "taxpayer" means any person subject to any internal revenue tax. Generally, under § 7701(a)(1), the term "person" includes an individual, a trust, estate, partnership, association, company, or corporation.

Section 702(a)(7) provides that each partner determines the partner's income tax by taking into account separately the partner's distributive share of the partnership's other items of income, gain, loss, deduction, or credit to the extent provided by regulations prescribed by the Secretary. Section 1.702-1(a) provides that the distributive share is determined as provided in § 704 and § 1.704-1.

Section 704(a) provides that a partner's distributive share of income, gain, loss, deduction, or credit is, except as otherwise provided in chapter 1 of subtitle A of title 26, determined by the partnership agreement. Section 704(b) provides that a partner's distributive share of income, gain, loss, deduction, or credit (or item thereof) is determined in accordance with the partner's interest in the partnership (determined by taking into account all facts and circumstances) if (1) the partnership agreement does not provide as to the partner's distributive share of income, gain, loss, deduction, or credit (or item thereof), or (2) the allocation to a partner under the agreement of income,

gain, loss, deduction, or credit (or item thereof) does not have substantial economic effect.

Section 1.704-1(b)(4)(ii) provides that allocations of tax credits and tax credit recapture (except for § 38 property) are not reflected by adjustments to the partners' capital accounts. Thus, these allocations cannot have economic effect under § 1.704-1(b)(2)(ii)(b)(1), and the tax credits and tax credit recapture must be allocated in accordance with the partners' interests in the partnership as of the time the tax credit or credit recapture arises. If a partnership expenditure (whether or not deductible) that gives rise to a tax credit in a partnership tax year also gives rise to valid allocations of partnership loss or deduction (or other downward capital account adjustments) for the year, then the partners' interests in the partnership with respect to such credit (or the cost giving rise to it) are in the same proportion as the partners' respective distributive shares of the loss or deduction (and adjustments). See § 1.704-1(b)(5), example (11). Identical principles apply in determining the partners' interests in the partnership with respect to tax credits that arise from receipts of the partnership (whether or not taxable).

Based on the information submitted and the representations made, we conclude that, assuming the solid synthetic fuel produced and sold qualifies for the § 29 credit, the credit will be allowed to A and the credit may be passed through to and allocated among the members of A under the principles of § 702(a)(7) in accordance with each member's interest in A as of the time the credit arises. For purposes of the § 29 credit, a member's interest in A is determined based on a valid allocation of the receipts from the sale of the § 29 credit qualified fuel.

RULING REQUEST #7

The § 29 credit has always been a time sensitive credit in that eligibility for the credit is determined when facilities or wells producing qualified fuels are placed in service and when the qualifying fuels are produced and sold to unrelated persons. For example, the § 44D credit, as originally enacted in the Crude Oil Windfall Profit Tax Act of 1980, was generally available for the production and sale of alternative fuels after December 31, 1979, and before January 1, 1990, on property that first began production after January 1, 1980.

Congress has extended the § 29 credit four times. The placed-in-service deadline and the period for claiming the § 29 credit were extended in the Technical and Miscellaneous Revenue Act of 1988 (1991 for placed in service), Omnibus Budget Reconciliation Act of 1990 (1993 for placed in service and 2003 for the end of the credit period), Energy Policy Act of 1992 (1997 for placed in service and 2007 for the end of the credit period), and Small Business Job Protection Act of 1996 (June 30, 1998, for placed in service).

It is clear from the legislative history of § 44D that Congress intended the credit to apply to facilities placed in service after 1979, and that the placed-in-service deadline

in § 29(f)(1)(B) must be read as applying to when the facility is first placed in service within the applicable dates. The placed-in-service deadlines contained in §§ 29(f) and 29(g) focus on the facility, and not the owner of the facility. The legislative history of § 44D clearly shows that Congress wanted to encourage the production of new alternative fuels from facilities first placed in service after 1979, and not provide a tax incentive for production capacity in service before 1980.

Section 29(g)(2) demonstrates that Congress knows how to preclude transferees of facilities from claiming the § 29 credit. That provision provides that the extension of the period for placing facilities in service after 1992 does not apply to any facility that produces coke or coke gas unless the original use of the facility commences with the taxpayer.

Accordingly, the determination of whether a facility has satisfied the placed-in-service deadline under either § 29(f)(1)(B) or 29(g)(1)(A) is made by reference to when the facility is first placed in service, not when the facility is transferred or sold to a different taxpayer.

Section 708(b)(1)(B) provides that a partnership shall be considered as terminated if within a twelve-month period there is a sale or exchange of 50 percent or more of the total interest in partnership capital and profits.

Section 1.708-1(b)(4) provides that if a partnership is terminated by a sale or exchange of an interest, the following is deemed to occur: The partnership contributes all of its assets and liabilities to a new partnership in exchange for an interest in the new partnership; and, immediately thereafter, the terminated partnership distributes interests in the new partnership to the purchasing partner and the other remaining partners in proportion to their respective interests in the terminated partnership in liquidation of the terminated partnership, either for the continuation of the business by the new partnership or for its dissolution and winding up. Section 1.708-1(b)(4) applies to terminations of partnerships under § 708(b)(1)(B) occurring on or after May 9, 1997.

As discussed above, the placed-in-service deadline in §§ 29(f)(1)(B) and 29(g)(1)(A) must be read as applying to when the facility is first placed in service within the applicable dates. The placed-in-service deadlines contained in §§ 29(f)(1)(B) and 29(g)(1)(A) focus on the facility, and not the taxpayer owning the facility. Accordingly, the placed-in-service deadline under §§ 29(f)(1)(B) and 29(g)(1)(A) is determined by reference to when the facility is first placed in service. Therefore, provided the Facility was “placed in service” prior to July 1, 1998 within the meaning of § 29(g)(1), the sale of the Facility after June 30, 1998 will not result in a new placed in service date for the Facility for purposes of § 29 for the new owner. Further, a termination of A under § 708(b)(1)(B) will not preclude the reconstituted partnership from claiming the § 29 credit for the production and sale of synthetic fuel to unrelated persons.

Accordingly, based on the representations of A and A's authorized representative, we conclude as follows:

(1) The synthetic fuel produced by the Facility is a solid synthetic fuel produced from coal feedstock that differs significantly in chemical composition from the coal from which it is produced and thus constitutes a "qualified fuel" within the meaning of § 29(c)(1)(C).

(2) The Construction Contract constitutes a binding written contract in effect before January 1, 1997 within the meaning of § 29(g)(1)(A).

(3) The Facility is "placed in service" for purposes of § 29(g)(1) on the date that it was placed in a condition or state of readiness and availability for its specifically assigned function (as described in §§ 1.46-3(d)(1)(ii) and 1.167(a)-11(e)(1)(i) of the Income Tax Regulations) to produce synthetic fuel.

(4) Production from the Facility by A will be attributable solely to A within the meaning of § 29(a)(2)(B), and A will be allowed the credit as determined under § 29 for synthetic fuel produced by the Facility and sold by A to unrelated persons.

(5) Provided the Facility was "placed in service" within the meaning of § 29(g)(1) prior to July 1, 1998, neither the relocation of the Facility after June 30, 1998 nor the replacement of parts described in the ruling request will result in a new placed in service date for the Facility or otherwise prevent the Facility from continuing to be treated as placed in service for purposes of § 29. In addition, subsequent relocations of the Facility to different sites, or the replacement of parts of the Facility, will not result in a new placed in service date for the Facility or otherwise prevent the Facility from continuing to be treated as placed in service for purposes of § 29 if the fair market value of the original property that is incorporated into the Facility exceeds 20% of the total fair market value of the Facility immediately following the relocation or replacement.

(6) Any § 29 credit allowed to A may be passed through to and allocated among the members of A under the principles of § 702(a)(7) in accordance with the members' interest in A at the time the § 29 credits are allowed. For purposes of the § 29 credit, a member's interest in A is determined based on a valid allocation of the receipts from the sale of the synthetic fuel.

(7) Provided the Facility was "placed in service" within the meaning of § 29(g)(1) prior to July 1, 1998, the Facility will continue to be treated as placed in service before July 1, 1998 if sold to a new owner after such date or if A terminates within the meaning of § 708(b), and § 29 credits for synthetic fuel produced by the Facility and sold to unrelated persons before January 1, 2008, will be allowed.

The conclusions drawn and rulings given in this letter are subject to the requirements that the taxpayer (i) maintain sampling and quality control procedures that

conform to ASTM or other appropriate industry guidelines at the facility or facilities that are the subject of this letter, (ii) obtain regular reports from independent laboratories that have analyzed the fuel produced in such facility or facilities to verify that the coal used to produce the fuel undergoes a significant chemical change, and (iii) maintain records and data underlying the reports that taxpayers obtain from independent laboratories including raw FTIR data and processed FTIR data sufficient to document the selection of absorption peaks and integration points.

Except as specifically ruled upon above, we express no opinion concerning the federal income tax consequences of the transaction described above. Specifically, we express no opinion on when the Facility was placed in service for purposes of § 29.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent. Temporary or final regulations pertaining to one or more of the issues addressed in this ruling have not yet been adopted. Therefore, this ruling may be modified or revoked by the adoption of temporary or final regulations to the extent the regulations are inconsistent with any conclusion in this ruling. See § 11.04 of Rev. Proc. 2004-1, I.R.B. 2004-1. However, when the criteria in § 11.05 of Rev. Proc. 2004-1 are satisfied, a ruling is not revoked or modified retroactively, except in rare or unusual circumstances.

Sincerely,
Joseph H. Makurath
Senior Technician Reviewer, Branch 7
Office of Associate Chief Counsel
(Passthroughs and Special Industries)

cc: