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Sunoco Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

Your first question comes from Erik Mielke – Merrill Lynch

Erik Mielke – Merrill Lynch

My question is probably for Mike Thomson and relates to the coke business. You reaffirmed your guidance for 2009 at \$175 to \$200. Given the delay to Middletown, can you give us an update on what your guidance will be for 2010? Secondly linked to the coke business, can you give us an update on where you are in your discussions with your customers around existing contracts? I don't think it's a surprise to anyone that some of your customers have had a tough time of late. I just wonder where you are on those negotiations.

Mike Thomson

I'll tell you where we are at in Middletown. As you know, we've had some challenges to the projects existing air permit. This is a valid permit and it gives us the right to build but given some opposition we want to ensure that a full and complete due process is satisfied and our opponents get their views into the mix.

Essentially those challenges attack the validity of the permit we have. As such we filed for a new permit under major source regulations. It's always difficult to predict the timing of permitting, but we filed that recently and we expect in the next few months we will secure major source permit for Middletown.

And if we are successful in doing that, we would recommence construction probably in the fourth quarter, which would defer all the capital spending, as Terry and Lynn mentioned, predominantly into 2010. So that's the current timetable. We expect to be successful with that permit and, like I said, hopefully be in full construction in the fourth quarter.

With respect to our customers and their situation, as you know probably the steel industry hasn't recovered noticeably from the last time we spoke. Our customers continue to conserve cash and we continue to work with them any way we can to help them do so, and right now we continue to produce at pretty much our contract volumes with the exception of Brazil. We're under a temporary agreement with them where we've reduced production about 30%.

With respect to the U.S. operations, we continue to work with Ashland, Middletown, and Severstal on ways we can help, and we'll probably get increasingly serious about that in the current quarter. Again,

the objective will be to continue to preserve the integrity or the spirit of the take-or-pay option if there are ways we can reduce production and be made whole and help them conserve cash on working capital or coal purchases we're going to make every effort to do that.

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