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April 15, 2016

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Via Federal Express

Wyoming Environmental Quality Council Attn: Jim Ruby 122 West 25th Street Herschler Building 1W, Room 1714 Cheyenne, Wyoming 82002

FILED

APR 2 0 2016

Jim Ruby, Executive Secretary Environmental Quality Council

Padlock Ranch Company Re:

Response to Ramaco's Request for Hearing

WDEQ/LQD TFN 6 2/025

Ladies/Gentlemen:

Please accept this letter as Padlock Ranch Company's response to the Request for Order in Lieu of Consent and Request for Hearing dated March 16, 2016, filed by Brook Mining Company, LLC and Ramaco Wyoming Coal, LLC ("Ramaco").

Ramaco seeks from the Wyoming Environmental Quality Council ("EQC") an order in lieu of surface owner consent to the mine plan and the reclamation plan filed with the Wyoming Department of Environmental Quality ("DEQ") by Ramaco as to lands within the mine permit area owned by Padlock Ranch Company ("Padlock").

Padlock asserts that Ramaco is not currently entitled to an order in lieu of surface owner consent from the EQC for the following reasons:

The Ramaco mining plan and reclamation plan are not detailed enough to illustrate Ramaco's full proposed surface use of Padlock lands, including proposed routes of ingress and egress. In fact, the mining plan is silent on how Ramaco proposes to move, load, sell or transport coal to market from the mine permit area. The mine plan states only that coal will be crushed using portable in-pit crushers, and loaded using front end loaders with buckets, and that "the front-end loaders will load the coal into trucks. The trucks will haul the coal off site." Mine Plan, Section MP 4.4.2. There is no further explanation of where or how coal will be moved from the mine permit area.

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- b. Ramaco's proposed use of the surface of Padlock's lands, insofar as they can be discerned from the mine plan, will substantially prohibit Padlock's agricultural operations on its lands within the mine permit area and on its lease of an adjacent section owned by the State of Wyoming. The mine would also impair Padlock's movement of cattle to approximately 350 acres of land located along the Tongue River near the old Acme town site.
- c. Ramaco's proposed mining operations will almost certainly result in the destruction of an underground livestock watering system installed and used by Padlock on its lands within the mine permit area. As a result, without livestock water, much of Padlock's lands within and adjacent to the mine permit area will not be effectively utilized by to Padlock's livestock. Ramaco was made aware of the existence and location of this livestock watering system in February and March of 2015. However, Ramaco's mine plan makes no mention of the livestock watering system and provides for no mitigation of the loss of that system as required by W.S. §35-11-415(a)(xii).
- d. The Wyoming Environmental Quality Act requires Ramaco to compensate Padlock for damages to the surface estate, damages to crops or forage, damage to tangible improvements and financial loss resulting from disruption of Padlock's operation. Ramaco has not offered to pay Padlock or to execute a bond or undertaking to the state, for the use and benefit of Padlock, in an amount sufficient to secure the payment for damages to Padlock caused by Ramaco's proposed mining operations, as required by W.S. §35-11-416(a).
- 1. The Wyoming Environmental Quality Act. W.S. §35-11-406(b)(xii) of the Wyoming Environmental Quality Act ("WEQA" or the "Act") provides that a mining application must contain an instrument of consent from the surface landowner, if different from the owner of the mineral estate, to the mining plan and the reclamation plan. If consent cannot be obtained to the mining plan or reclamation plan, or both, the applicant may request a hearing before the EQC. W.S. §35-11-406(b)(xii).

The EQC shall issue an order in lieu of consent if it finds:

(A) That the mining plan and the reclamation plan have been submitted to the surface owner for approval;

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- That the mining plan and the reclamation plan is detailed so as to illustrate the full proposed surface use including proposed routes of egress and ingress;
- That the use does not substantially prohibit the operations of the (C) surface owner;
- The proposed plan reclaims the surface to its approved future use, in segments if circumstances permit, as soon as feasibly possible;
- For surface coal mining operations, that the applicant has the legal authority to extract coal by surface mining methods.

W.S. §35-11-406(b)(xii)(A) through (E).

- W.S. §35-11-416(a) requires that, where the surface owner has not waived the requirement for a bond, a mine permit shall not be issued without the execution of a bond or undertaking to the state, for the use and benefit of the surface owner of the land, in an amount sufficient to secure the payment for any damages to the surface estate, to the crops and forage, or to the tangible improvements of the surface owner. The amount of the bond shall be commensurate with the reasonable value of the surrounding land and the effect of the overall operation of the landowner. This bond is in addition to the performance bond required for reclamation by WEQA. As damage is determined it shall be paid. Financial loss resulting from disruption of the surface owner's operations shall be considered as part of the damage. Payments of damages shall be paid annually unless otherwise agreed to by surface owner and the operator.
- W.S. §35-11-415(a)(xii) requires the applicant to replace in accordance with state law the water supply of a landowner where the water supply has been affected by diminution or interruption proximately resulting from the coal mine operation.
- Padlock's Lands and Padlock's use thereof. Padlock is the surface owner of approximately 1,400 acres of deeded surface estate within the proposed mine permit area, which lands are described as follows:

Township 57 North, Range 84 West, 6th P.M.

Section 7: E1/2SE1/4

Section 8:

S1/2

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Section 17: All Section 18: E¹/₂

Section 20: Part located north of I-90 and Tongue River

(the "Padlock Lands")

In addition, Padlock holds the State of Wyoming Grazing Lease No. 0-42080 on Section 16, <u>T57N/R84W</u>, consisting of 640 acres (the "<u>State Grazing Lease</u>"). That state section is not included within Ramaco's mine permit area (presumably because the coal lease covering the state section is not held by Ramaco), but the state section lies immediately adjacent to and is operated by Padlock in conjunction with the Padlock Lands.

Padlock cows also graze approximately 350 acres of land along Tongue River south and east of the State Grazing Lease (the "Riparian Lands").

Ramaco holds a mineral reservation affecting the Padlock Lands.

Padlock uses the Padlock Lands, the State Grazing Lease and the Riparian Lands for seasonal grazing of livestock. Typically, cattle are moved down through the Padlock Lands and the State Grazing Lease from pastures further to the north. Eventually cattle move down to the Riparian Lands along Tongue River. When grazing is complete, cattle are worked in corrals on the south side of Tongue River on the State Grazing Lease, and then are trailed or trucked to different pastures on the ranch. Padlock rotates its use of these pastures; in some years the pastures are grazed downhill from the north to the south and in some years the pastures are grazed uphill from the south to the north. Even though the Riparian Lands along the Tongue River and the land within the State Grazing Lease north of the river are not within the Ramaco Mine permit boundary, access to and from those lands would likely be prohibited by mining operations. The Padlock Lands and the State Grazing Lease north of the Tongue River typically provide grazing for 370 head of livestock for a period of 4 weeks; there is an additional two-weeks of grazing for this management group in the Riparian Lands along Tongue River. The corral facilities located south of the permit boundary are also important for shipping, receiving, branding, weaning and pregnancy testing cattle.

The movement of cattle on Padlock's Lands is an important part of its grazing management plan. Cattle on the Padlock Ranch are run in management groups and rotated through pastures to create periods of rest for the rangeland to recover. Padlock was awarded the Leopold Conservation Award for these practices in 2013. The mine

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proposed by Ramaco would reduce grazing days and significantly disrupt the ability to move and work livestock for the management group in this area.

In order to make the Padlock Lands more productive and to accommodate the management group in this area, Padlock constructed and installed an underground waterline system which runs from both a spring and a well located to the north of the Ramaco permit area down through the Padlock Lands. Various stock watering facilities are located along the water system so that Padlock's livestock has water in that pasture. Ramaco's engineers were advised of the existence and location of this water system in February and March, 2015, when electronic files showing the location of the water system were provided to Ramaco's engineer. Nonetheless, the Ramaco mine plan makes no mention of Padlock's water system nor does the mine plan provide for any mitigation of or replacement of water lost when mining operations sever the underground waterline system.

3. <u>History of Discussions between Ramaco and Padlock</u>. A chronology of Padlock's discussions with Ramaco is attached hereto as **Exhibit "A"**.

Contrary to the assertions in Ramaco's petition, there have not been "years of negotiating" between Ramaco and Padlock.

In November, 2012, Ramaco presented Padlock with a form of agreement and sought Padlock's consent to a mine plan and reclamation plan which did not yet exist. At that time, Ramaco could not tell Padlock which lands or how many acres were involved, although it initially appeared that as much as 6,600 acres of Padlock's deeded lands might be contained within the Ramaco mine permit area.

At a meeting between Ramaco and Padlock and their respective counsel on March 25, 2013, Padlock advised Ramaco that it could not consent to a mine plan which it had not seen, covering lands which had not been described. Padlock, however, did offer Ramaco an agreement allowing preliminary exploration activities on the Padlock Lands, pending receipt and review of Ramaco's mine plan.

Ramaco refused the offer of a simple exploration agreement and, on April 9, 2013, withdrew its original offer to Padlock.

In September, 2014, Padlock presented Ramaco with a proposed agreement which would address Padlock's concerns with respect to Ramaco's mining operation. Ramaco rejected that agreement out of hand. For a year and a half since then, Ramaco has refused

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to engage in any negotiations with Padlock which would result in Padlock providing consent to Ramaco's mine plan and reclamation plan, and it was not until February 4, 2016 that Ramaco finally provided Padlock with copies of its final mine plan and reclamation plan.

4. Ramaco's Mine Plan. Ramaco's mine plan fails to identify how and where coal will be moved, loaded, sold or transported to market from the Ramaco mine permit area except to state that "the front-end loaders will load the coal into trucks. The trucks will haul the coal off site." Mine Plan, Section MP 4.4.2. Accordingly, the mine plan does not comply with one of the conditions of obtaining an order in lieu of surface owner consent from EQC, specifically that the mining plan and the reclamation plan is detailed so as to illustrate the full proposed surface use including proposed routes of egress and ingress. W.S. §35-11-406(b)(xii)(B).

Further, it is evident that during the fourth or fifth year of mining a diagonal trench running northeast and southwest will be cut across Sections 8, 17 and 18 of the Padlock Lands. At a later date, there will be another trench running north and south through portions of Section 18. Mine Plan - Exhibit 1.1, Surface Disturbance Sequence. See Exhibit "B" attached hereto. These trenches will apparently be in existence during the fourth through tenth years of mining. Further, it appears that there will be a haul road roughly running east and west through all of the Padlock Lands. Mine Plan – Exhibit 3.1, Haul Roads. See Exhibit "C" attached hereto. Assuming that the haul road will be fenced in order to prohibit entry by livestock, the existence of the two trenches and the haul road would preclude Padlock's livestock from moving down through the Padlock Lands and the Padlock's State Grazing Lease to the productive Riparian Lands along Tongue River. Padlock's seasonal grazing rotation would be interrupted by the mining operation. Accordingly, it appears clear that the proposed plan substantially prohibits the operation of Padlock on its own lands within Ramaco's mine permit area, another factor that negates issuance of an order in lieu of surface owner consent. W.S. §35-11-406(b)(xii)(C).

Also, it can be inferred from the mine plan that Ramaco's proposed trench through Sections 8, 17 and 18 of the Padlock Lands will cut Padlock's buried waterline. Despite the fact that Ramaco has been aware of the existence and location of this waterline for over a year, the Ramaco mine plan contains absolutely no reference to Padlock's underground water system and provides for no remediation or replacement of the water provided to Padlock's livestock by that system as is required pursuant to W.S. §35-11-415(a)(xii).

These are just a few easily identifiable examples of the problems that exist with the mine plan and reclamation plan, especially with regard to the impact of the mining

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operations on Padlock's use of its lands. Because of these issues, and others that can be identified by qualified experts at a hearing in this matter, Padlock is no less hesitant to grant surface owner consent now that it has finally had an opportunity to examine the mine plan and reclamation plan.

Legal Analysis. We are aware that Ramaco has taken the position that it is 5. not required to obtain the surface owner consent to mining from Padlock which is mandated by WEOA, because of a mineral reservation contained in a 1954 deed to Padlock's predecessor in title. Ramaco cites the case of WYMO Fuels, Inc. v. Edwards, 723 P.2d 1230 (Wyo. 1986), for this position. Ramaco's reliance on the WYMO Fuels case is misplaced. In that case, two surface owners whose lands had been condemned for a haul road and a railroad spur claimed that they were surface owners from whom surface owner consent to mining was required, notwithstanding the fact that all of their surface rights within the mine permit area had been condemned and acquired by the mining company. The Wyoming Supreme Court held that the two parties whose lands had been condemned were not surface owners after the condemnation judgment and "were left with no interest which required protection pursuant to the Wyoming Environmental Quality Act." Id. at 1236. The situation here is completely different; Padlock is the fee owner of 1,400 acres of surface estate within the mine permit area. The lands have not been condemned and are therefore entitled to protection under WEQA.

In this regard, WEQA requires an "instrument of consent" from the surface owner that grants the applicant permission to enter and commence surface mining operations, and that includes approval of the applicant's mining plan and reclamation plan. See W.S. §35-11-406(b)(xi) and (xii). As explained below, the mineral reservation in the 1954 deed provides neither surface owner consent to mining as contemplated by WEQA, nor approval of a mining plan or a reclamation plan. The mineral reservation also does not provide for the compensation to the surface owner required by W.S. §35-11-416.

The 1954 deed relied upon by Ramaco is an instrument of conveyance, because it conveyed fee title to the surface of lands now owned by Padlock (and by Big Horn Coal Company). It is notable that the federal counterpart to WEQA, the Surface Mining Control and Reclamation Act of 1977 ("SMCRA") expressly includes a "conveyance" as a type of document that may provide for surface owner consent, see; 30 U.S.C. 1260(b)(6)(B); Belle Fourche Pipeline Company v. State, 766 P.2d 537, (Wyo 548 1988). However, WEQA does not include a "conveyance" as a specific type of "instrument of consent". This omission must be considered an intentional act by the legislature, and courts will not read words into a statute when the legislature has chosen not to include

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At the time the 1954 deed was executed, common law provided virtually no protection for surface owners. The mineral estate was wholly dominant over the surface estate - no damages were payable as long as the mineral owner's use of the surface was reasonable and the mineral owner did not operate negligently or engage in willful misconduct. Belle Fourche Pipeline Company v. State, supra at 544. There were no state or federal laws requiring reclamation of coal mines in 1954, nor were mining companies in the practice of voluntarily reclaiming their land. During the 1960s and 70s, however, state and federal governments responded to increased surface mining by enacting new laws to protect both the environment and surface owners. Id. The movement towards new legislation was based largely on the fact that mining companies had failed to reclaim or restore the surface after extracting minerals, leaving "once productive agricultural and grazing lands ...destroyed by mining activities." Id. 546. Wyoming enacted its Environmental Quality Act in 1973, and amended the Act in 1975. The Act provides specific protection and consent requirements for surface owners. It also requires that compensation be paid to surface owners in order to cover financial loss resulting from the disruption of agricultural operations. Importantly, all mining operations conducted after the effective date of the Act must comply with WEQA's requirements. See W.S. §35-11-401(a).

The 1954 deed predated WEQA by 20 years. Allowing that deed to serve as consent to mining and reclamation under the Act, or to provide for compensation to the surface owner, would be contrary to the legislature's goal to protect surface owners as intended by WEQA. See Universal Equipment Company v. State, 839 P.2d 967, 973 (Wyo. 1972) (imposing post-Environmental Quality Act bond requirements on pre-existing operations was appropriate in order to ensure reclamation of the mine lands). Further, the Wyoming Supreme Court has recognized the need for liberal construction of environmental statutes; "Environmental protection statutes have as their goal public protection; they are entitled to a liberal construction. When faced with claims under the Environmental Quality Act, courts of this state must at all times be ready and willing to afford such remedies as are within the law." People v. Platte Pipe Line Company, 649 P.2d 208, 212 (Wyo. 1982) (Internal citations omitted). Employing such an analysis,

them. *Morris v. CMS Oil and Gas Co.*, 227 P.2d 325, 333 (Wyo. 2010). Under Wyoming law, an instrument of conveyance cannot be considered an instrument of consent to mining. Further, Ramaco's mining plans and reclamation plans were developed more than 60 years after the execution of the 1954 deed. There is no conceivable way that the reservation in the 1954 deed can be construed as approval of Ramaco's 2015 mining plan or reclamation plan.

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Ramaco's argument that the reservation in the 1954 deed obviates the need for Ramaco to obtain surface owner consent to mining and approval of Ramaco's mine plan and reclamation plan from Padlock must fail, as must any argument that the 1954 deed provides adequate compensation for Ramaco's surface use or sufficiently ensures that all necessary reclamation will be completed timely and competently. Ramaco cannot use the 1954 deed to eliminate the surface owner protections mandated by WEQA.

Thus, surface owner consent is required before Ramaco may be issued its mine permit, and if that cannot be accomplished, Ramaco must be able to show that it is entitled to an order in lieu of surface owner consent pursuant to W.S. §35-11-406(b)(xii). As explained above, this has not been established as the recently disclosed mine plan is not so detailed as to illustrate the full proposed surface use including proposed routes of egress and ingress, and the mine plan confirms Padlock's fears that the mining operation will substantially prohibit Padlock's operations. See W.S. §35-11-406(b)(xii)(B) and (C). Further, the mine plan fails to provide for any mitigation or replacement of water lost when mining operations sever Padlock's underground water system, which is an affirmative obligation of Ramaco pursuant to W.S. §35-11-115(b)(xii). So, before a mine permit can be issued to Ramaco, Ramaco must either identify modification to its mine plan which will not substantially prohibit Padlock's operations or, in the alternative, execute a bond for the use and benefit of Padlock in an amount sufficient to secure the payment for damages to the surface estate, to crops and forage, and to the tangible improvements of Padlock and to cover financial loss resulting from the disruption of Padlock's operation. ² Ramaco must also articulate an acceptable plan for dealing with the effect its operations will have on Padlock's underground water system.

6. <u>Conclusion</u>. Although Ramaco's mine plan and reclamation plan were finally provided to Padlock on February 4, 2016, the mine plan does not adequately illustrate Ramaco's proposed use of Padlock surface estate. However, it is clear that Ramaco's proposed use of Padlock's lands will substantially prohibit Padlock's operations on its deeded lands within the mine permit area and on Padlock's adjacent State Grazing Lease and the Riparian Lands along Tongue River. It will also damage or destroy

² In lieu of a bond, Ramaco could negotiate an agreement with Padlock by which Padlock agrees to waive such a bond. However, to date, Ramaco has neither provided a bond for Padlock's benefit, nor has it offered an agreement by which Padlock would waive the bond for payment of surface damages. Until such a bond, or an agreement waiving the bond, is in place, the EQC should not issue an order in lieu of consent and the mine permit should not be approved by DEQ.

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Padlock's livestock watering system, which is a tangible improvement. In such a case, the Wyoming Environmental Quality Act requires that the surface owner be compensated for financial loss resulting from disruption of its operations, for damages to the surface estate and for damages to the tangible improvements located thereon, either in the form of a bond for the benefit of the surface owner, or in the form of an agreement by which the surface owner waives the bond. Ramaco has offered neither to Padlock. Padlock is reluctant to enter into agreements with a company that has been unwilling to show good faith in working with the landowner to reduce the impacts on their livestock operation and compensate fair value for disruption of operations. The EQC cannot issue an order in lieu of surface owner consent unless and until Ramaco has done so.

Very truly yours,

LONABAUGH AND RIGGS, LLP

By: Haultain E. Corbett

HEC/rlb Enclosures

ce: Padlock Ranch Company

Dr. David Bagley, Chairman - Wyoming Environmental Quality Council (via FedEx) Todd Parfitt, Director - Wyoming Department of Environmental Quality (via FedEx) Isaac Sutphin, Holland & Hart, LLP (via e-mail)

Lynne Boomgaarden, Crowley Fleck PLLP (via e-mail)

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EXIBIT "A"

Jim Ruby, Executive Secretary Chronology of Padlock / Ramaco Disett's Tons Quality Council

November 2012

First contact from Ramaco, which provided Padlock with a draft agreement by which Padlock consents to mining on its lands. Ramaco did not provide a mine plan or a reclamation plan and could not provide a legal description of Padlock's lands affected by mining operations, although it appeared as much as 6,600 acres of Padlock land might be contained within the mine permit area.

December 2012

Padlock advised Ramaco it was willing to grant exploration rights on the Padlock lands but wished to defer entering into a mining lease until Padlock sees a mine plan and a legal description of Padlock lands within the mine permit area.

March 25, 2013

At a meeting between Ramaco and Padlock and their respective counsel, Ramaco's president advised Padlock's CEO that there would be no negotiation of the agreement proposed by Ramaco and that it was a "take it or leave it" situation.

April 9, 2013

In a letter from Ramaco to Padlock, Ramaco withdraws its offer of an agreement for surface mining.

June 2013 through **July 2013**

Ramaco enters Padlock lands and conducts baseline monitoring and core hole drilling without Padlock's consent and without compensating Padlock therefor.

August 11, 2014

At a meeting with Padlock, Ramaco's engineer with WWC Engineering again requests surface owner consent and provides Padlock with copies of an incomplete draft mine plan. WWC still cannot identify the number of acres of Padlock lands within the Ramaco mine permit area.

August 25, 2014

WWC advises Padlock that 1.402.7 acres of Padlock lands are within Phase 1 of the Ramaco mine permit area.

September 4, 2014

Following approval by its Board of Directors, Padlock submits a draft Surface Access Agreement to Ramaco as a place to start negotiations.

September 15, 2014

At a meeting in Ramaco's office, Ramaco's president advises Padlock's CEO that Ramaco would not negotiate payments and unless that request was dropped would not further discuss the Surface Access Agreement. Ramaco again asked for Padlock's surface owner consent.

November 7, 2014

Ramaco sends a letter to Padlock stating that Ramaco does not need Padlock's surface owner consent in order to obtain a mining permit.

November 24, 2014

At another meeting, Ramaco's president again advises Padlock's CEO that there would be no negotiation of surface payments and that Ramaco was not prepared to talk about any other aspects of an agreement between Ramaco and Padlock.

February 19, 2015

At a meeting with Padlock, Ramaco disclosed some new designs of the mine plan, but would not leave maps of the new mine plan, or the haul roads with Padlock. Padlock advised Ramaco's engineer of the existence of its underground water system which would be disrupted by Ramaco's mining operations.

March 6, 2015

Padlock provided an electronic file to Ramaco's engineer, WWC Engineering, showing the location of its water system.

February 4, 2016

Ramaco finally provides Padlock with copies of its mine plan and reclamation plan and again asks Padlock for surface owner consent to mining.

March 16, 2016

Ramaco files petition with Environmental Quality Council.

Padlock Leased and Deeded Lands

EXHIBIT "B"

Surface Disturbance Sequence

EXHIBIT "C"
Padlock Leased and Deeded Lands

Haul Roads