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Beatty, Wozniak & Reese  
Attn: Margo Sabec  
1551 Three Crowns Drive, Suite 110  
Casper, WY 82604

**RE: Mine Permit 248C**



Dear Margo;

This letter responds to your October 9 letters on behalf of the Renkert and Curuchet Ranches, and your October 10 letter on behalf of the TTT Ranch with respect to Mine Permit 248C.

Black Hills is surprised at the demands made in your letters. Black Hills believes that it has been more than fair with your clients with respect to royalty and surface use and access payments, and believes it has had a good working relationship with them.

Nevertheless, you have threatened to file suit against the Wyoming DEQ raising allegations that the agency is not properly enforcing the Environmental Quality Act, unless Black Hills agrees to make substantial payments to the Renkerts, Curutchets, and TTT, including advance royalties, surface use fees, access fees, bond payments and road fees, with many of the fees to increase 120% every three years. In addition, you have demanded that Black Hills enter into new leases with the Renkerts, Curutchets and TTT covering all lands within the boundaries of permit 248C, with the leases to include not only the increased payments mentioned above, but also numerous mining and reclamation requirements.

Black Hills believes that the Wyoming DEQ has consistently enforced the Environmental Quality Act and related rules and regulations, and does not believe that filing suit against the DEQ would achieve the result you or your clients are looking for. And of course the expense of a lawsuit and perhaps years of litigation against the DEQ would be substantial. Whether your clients are ready to engage in a long term and expensive battle with a state agency is a choice best left to them, but the DEQ cannot require that

Black Hills increase royalty or surface use payments, or even mine bentonite on their surface or mineral lands.

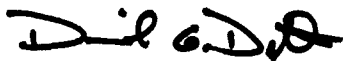
With regard to your demand that Black Hills amend Permit 248C to exclude certain lands within the permit area, such amendment would serve no useful purpose. Amending the permit would not give your clients the right to mine. They would still need to file mining and reclamation plans with DEQ and comply with other requirements. Neither does the permit preclude your clients from mining lands within the boundaries of the permit once they meet such requirements.

You have also demanded that Black Hills enter into onerous and one-sided leases with your clients for all lands within the boundary of Permit 248C. Aside from the monetary demands, such an approach would be unmanageable and confusing given the number of considerations that would need to be addressed, including ownership interests, reserved rights, location, access, size and depth of the deposit, and other variables. It would be impossible for Black Hills to enter into a global lease as you suggest. Black Hills will continue to negotiate lease terms for individual leases, as the need arises, in order to tailor the terms to each project.

Perhaps your clients have forgotten that much of the land within the boundaries of Permit 248C came available for private ownership by patent and not through any effort of theirs. Had the land not been patented years ago your clients would not have any right to the surface. And of course when Bethlehem Steel sold the surface it reserved the right to continue to use the surface for mining, without payment for surface damages. As a result, your clients' predecessors likely purchased such lands at a discounted price because of the reservation and the diminished value of the land due to that reserved right. Your clients have no right to payment of any kind on lands subject to the reservation.

Black Hills has mined primarily on those lands subject to the Bethlehem Steel reservation and will no doubt continue to do so. It would not be prudent for Black Hills to enter into onerous and one-sided leases and to pay your clients increased royalties and access payments when it already has the right to access and mine in most places, and after your clients or their predecessors received the financial benefit of a reduced purchase price.

Sincerely,



David G. Ditto

DGD/eb  
cc: Larry Madsen