

**Wyoming Department of Environmental Quality
Water Quality Division
WYPDES Program**

Statement of Basis

Major Modification

APPLICANT NAME: Pennaco Energy, Inc.

MAILING ADDRESS: 3601 Southern Drive
Gillette, WY 82718

FACILITY LOCATION: Schlautmann Ranch CBM facility located in the NWNE of Section 9, the SENW of Section 15, the NESW, NWNE of Section 10, the NESW of Section 11, the NWNW, SWNW of Section 14, the NWNW of Section 3, the NENE of Section 4, Township 45 North, Range 74; and the SESE of Section 33, Township 46 North, Range 74 West in Campbell County. The produced water will be discharged to unnamed ephemeral tributaries to Wild Horse Creek, to South Prong Wild Horse Creek and to Middle Prong Wild Horse Creek (all class 3B waters) in the Belle Fourche River (class 2ABWW) watershed. The daily maximum permitted discharge flow rate for this facility is 0.69 MGD, originating from the Wyodak and Big George coal seams. There are ten outfalls in this permit.

NUMBER: **WY0044318**

The following Statement of Basis only includes information that has changed with this modification. For a complete Statement of Basis, please see previously issued modifications or renewals for this permit.

Upon approval of this major modification, the terms of permit WY0044318 are hereby modified as follows:

- 1. The sodium adsorption ratio effluent limit is raised from 10 to 14.*
- 2. The effluent limits and routine end-of-pipe monitoring requirements for sulfates and manganese are removed from this permit according to current permitting practice. This modification is based on the discharge history at this facility. The actual concentrations of sulfates and manganese are significantly less than the allowable limits for those parameters.*

With the exception of items explicitly delineated in this major modification, all terms and conditions of permit WY0044318, including Parts II and III of the renewed permit, shall remain unchanged and in full force and effect.

Effluent Limits: Permit effluent limits are based on federal and state regulations and are effective as of the date of issuance. The daily maximum discharge flow rate for this facility is 0.69 MGD and must be monitored monthly. The pH must remain within 6.5 and 9.0 standard units. The permit also establishes a chlorides limit of 46 mg/l. This limit is based on chronic aquatic life standards for class 2AB waters as established in *the Wyoming Water Quality Rules and Regulations, Chapter 1*. In addition, the permit establishes a total recoverable barium limit of 1800 µg/l and a total recoverable arsenic limit of 3.1 µg/l, both of which are based on Water Quality Criteria as established in *the Wyoming Water Quality Rules and Regulations, Chapter 1*, for Human Health values. The limits established in this permit for metals and chlorides reflect the application of the antidegradation provisions required under *the Wyoming Water Quality Rules and Regulations, Chapter 1*. In addition, the permit establishes a dissolved iron limit of 1000 µg/l, which is based upon chronic aquatic life standards for class 3B waters greater than one mile from the confluence of a class 2 water, and reflects the application of standards required under *Wyoming Water Quality Rules and Regulations, Chapter 1*. All limits described in this section are intended to protect for the above listed designated uses, on both the immediate receiving water and the perennial mainstem, and apply at the end-of-pipe.

This permit originally established a sulfate limit of 3000 mg/l and a dissolved manganese limit of 820 µg/l to be met at the end-of-pipe. Review of discharge monitoring report data for this facility and other CBM facilities in Northeast Wyoming indicates that the maximum reported concentrations for sulfate and dissolved manganese in the discharge were well below the effluent limit of 3000 mg/l for sulfates and 820 µg/l for dissolved manganese as established in *Chapter 1 of the Wyoming Water Quality Rules and Regulations*. Therefore, WDEQ has removed the effluent limit and routine monitoring requirements for sulfate and dissolved manganese in this permit. Based on evaluation of the available data, it is WDEQ's determination that removing the sulfate and dissolved manganese limits from this permit conforms to the anti-backsliding requirements established in *Section 402(o).2.B.i of the Clean Water Act*.

Irrigation Effluent Limits and Monitoring: In order to monitor and regulate coal bed methane discharge for compliance with Chapter 1, Section 20 (protection of agricultural water supply), effluent limits for sodium adsorption ratio (SAR) and specific conductance are included in this permit. Originally, this permit established an effluent limit of 10 for SAR; however, the Wyoming DEQ has determined that an SAR effluent limit of 14 and specific conductance effluent limit of 2,000 micromhos/cm are protective of agriculture uses within the downstream reaches of the Belle Fourche River drainage below this facility. The specific conductance limit of 2,000 micromhos/cm is based on the threshold value for alfalfa which is considered to be the most salt sensitive plant irrigated in northeastern Wyoming (USDA George E. Brown Jr. Salinity Laboratory, Salt Tolerance Database, Grasses and Forage Crops). The SAR limit of 14 was determined from site specific data for the Belle Fourche River drainage (CBM Associates, Inc., Evaluation of WDEQ Chapter 1 Section 20 Protections for the Belle Fourche River Watershed, April 29, 2005). Monitoring will be required for dissolved calcium, dissolved magnesium, dissolved sodium, sodium adsorption ratio and specific conductance monthly at the outfall(s) during the irrigation months of April, May, June, July, August and September. Monitoring for total alkalinity and bicarbonate will be required annually at the outfall(s).

Originally drafted:
Kathy Shreve
Water Quality Division
Department of Environmental Quality
October 17, 2001

Renewed:
Becky Peters
Water Quality Division
Department of Environmental Quality
March 8, 2006

Major Modification:
Nick Dornak
Water Quality Division
Department of Environmental Quality
February 22, 2007

AUTHORIZATION TO DISCHARGE UNDER THE
WYOMING POLLUTANT DISCHARGE ELIMINATION SYSTEM

In compliance with the provisions of the Federal Water Pollution Control Act, (hereinafter referred to as "the Act"), and the Wyoming Environmental Quality Act,

Pennaco Energy, Inc.

is authorized to discharge from the wastewater treatment facilities serving the

Schlautmann Ranch CBM facility

located in

the NWNE of Section 9, the SENW of Section 15, the NESW, NWNE of Section 10, the
NESW of Section 11, the NWNW, SWNW of Section 14, the NWNW of Section 3, the
NENE of Section 4, Township 45 North, Range 74; and the SESE of Section 33, Township
46 North, Range 74 West in Campbell County

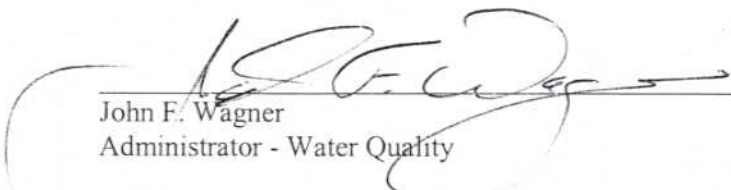
to receiving waters named

unnamed ephemeral tributaries to Wild Horse Creek, to South Prong Wild Horse Creek and
to Middle Prong Wild Horse Creek (all class 3B waters) in the Belle Fourche River (class
2ABWW) watershed

in accordance with effluent limitations, monitoring requirements and other conditions set forth in Parts I,
II and III hereof.

This modification shall become effective on the date of signature by the Director of the Department of
Environmental Quality. **With the exception of items explicitly delineated in the major modification,
all terms and conditions of permit WY0044318, including Parts II and III of the renewed permit,
shall remain unchanged and in full force and effect.**

This permit and the authorization to discharge shall expire at midnight, January 31, 2010.



John F. Wagner
Administrator - Water Quality

5/8/07

Date



John V. Corra
Director - Department of Environmental Quality

5/2/07

Date

PART I

A. EFFLUENT LIMITATIONS AND MONITORING REQUIREMENTS

Effective immediately and lasting through January 31, 2010, the quality of effluent discharged by the permittee shall, at a minimum, meet the limitations set forth below. The permittee is authorized to discharge from outfall(s) serial number(s) 001-010.

1. Such discharges shall be limited as specified below:

Effluent Characteristic	Daily Maximum
Chlorides, mg/l	46
Dissolved Iron, µg/l	1000
pH, su	6.5 – 9.0
Sodium Adsorption Ratio	14
Specific Conductance, micromhos/cm	2000
Total Recoverable Arsenic, µg/l	3.1
Total Recoverable Barium, µg/l	1800
Total Flow, MGD*	0.69

*This shall be the combined flow from outfall(s) 001-010. The daily maximum permitted discharge flow rate for this facility is 0.69 million gallons per day (MGD). The effluent discharged at this facility will originate from the Wyodak and Big George coal seams.

The pH shall not be less than 6.5 standard units nor greater than 9.0 standard units in any single grab sample.

The permittee may, if so desired, discharge produced water from any authorized well to any permitted outfall, as long as all permit limits and requirements can be met.

Information gathered from the water quality monitoring stations may result in modification of the permit to protect existing uses on the tributary and the mainstem.

There shall be no discharge of floating solids or visible foam in other than trace amounts, nor shall the discharge cause formation of a visible sheen or visible hydrocarbon deposits on the bottom or shoreline of the receiving water.

All waters shall be discharged in a manner to prevent erosion, scouring, or damage to stream banks, stream beds, ditches, or other waters of the state at the point of discharge. In addition, there shall be no deposition of substances in quantities which could result in significant aesthetic degradation, or degradation of habitat for aquatic life, plant life or wildlife; or which could adversely affect public water supplies or those intended for agricultural or industrial use.

2. Discharges shall be monitored by the permittee as specified below:

a. Monitoring of the Initial Discharge

Within **60** days of commencement of discharge, a sample shall be collected from ***each outfall that has not been previously sampled for initial monitoring*** and analyzed for all the constituents specified below, at the required detection limits and chemical states. Within **120** days of commencement of discharge, a summary report on the produced water must be submitted to the Wyoming Department of Environmental Quality and the U.S. EPA Region 8 at the addresses listed below. This summary report must include the results and detection limits for each of the constituents listed below. In addition, the report must include written notification of the established location of the discharge point (refer to Part I.B.11). This notification must include a confirmation that the location of the established discharge point(s) is within 1,510 feet of the location of the identified discharge point(s), is within the same drainage, and discharges to the same landowner's property as identified on the original application form. The legal description and location in decimal degrees of the established discharge point(s) must also be provided. After receiving the monitoring results for the initial discharge, the effluent limits and monitoring requirements established in this permit may be modified.

Parameter**	Required Detection Limits & Units
Alkalinity, Total	1 mg/l as CaCO ₃
Aluminum, Dissolved	50 µg/l
Arsenic, Total Recoverable	1 µg/l
Barium, Total Recoverable	100 µg/l
Bicarbonate	10 mg/l
Cadmium, Dissolved	5 µg/l
Calcium, Dissolved	50 µg/l, report as mg/l
Chlorides	5 mg/l
Copper, Dissolved	10 µg/l
Dissolved Solids, Total	5 mg/l
Fluoride, Dissolved	0.1 mg/l
Hardness, Total	10 mg/l as CaCO ₃
Iron, Dissolved	50 µg/l
Lead, Dissolved	2 µg/l
Magnesium, Dissolved	100 µg/l, report as mg/l
Manganese, Dissolved	50 µg/l
Mercury, Dissolved	1 µg/l
pH	to 0.1 standard units
Radium ²²⁶ , Total Recoverable	0.2 pCi/l
Selenium, Total Recoverable	5 µg/l
Sodium Adsorption Ratio	Calculated as unadjusted ratio
Sodium, Dissolved	100 µg/l, report as mg/l
Specific Conductance	5 micromhos/cm
Sulfates	10 mg/l
Zinc, Dissolved	50 µg/l

**Dissolved is the value based on the dissolved amount, which is the amount that will pass through a 0.45 µm membrane filter prior to acidification to pH 1.5 - 2.0 with nitric acid. Total is the value expressed in terms of total recoverable metal in the water column.

Initial monitoring reports are to be sent to the following addresses:

Planning and Targeting Program, 8ENF-PT
Office of Enforcement, Compliance, and Environmental Justice
U.S. EPA Region 8
999 18th St., Suite 300
Denver, CO 80202-2466

and

Wyoming Department of Environmental Quality
Water Quality Division
Herschler Building, 4 West
122 West 25th Street
Cheyenne, WY 82002

b. Routine Monitoring End of Pipe Outfall(s) 001-010

For the duration of the permit, at a minimum, samples for the constituents described below shall be collected at the indicated frequencies. The first routine monitoring for the time frame during which the monitoring of initial discharge occurs will, at a minimum, consist of flow measurements for the duration of the six-month monitoring time frame. Monitoring will be based on semi-annual time frames, from January through June, and from July through December.

Parameter	Measurement Frequency	Sample Type
Bicarbonate, mg/l	Annually	Grab
Chloride, mg/l	Annually	Grab
Dissolved Calcium, mg/l	Monthly April through September	Grab
Dissolved Iron, µg/l	Annually	Grab
Dissolved Magnesium, mg/l	Monthly April through September	Grab
pH, su	Once Every Six Months	Grab
Dissolved Sodium, mg/l	Monthly April through September	Grab
Sodium Adsorption Ratio	Monthly April through September	Calculated
Specific Conductance, µmhos/cm	Monthly April through September	Grab
Total Alkalinity, mg/l	Annually	Grab
Total Recoverable Arsenic, µg/l	Annually	Grab
Total Recoverable Barium, µg/l	Annually	Grab
Total Flow - (MGD)	Monthly	Continuous

Samples taken in compliance with the monitoring requirements specified above shall be taken at the following location(s): At the outfall of the final treatment unit which is located out of the natural drainage and prior to admixture with diluent waters at outfall(s) 001-010.

B. MONITORING AND REPORTING

1. Representative Sampling

Samples and measurements taken as required herein shall be representative of the volume and nature of the monitored discharge. All samples shall be taken at the monitoring points specified in this permit and, unless otherwise specified, before the effluent joins or is diluted by any other waste stream, body of water, or substance. Monitoring points shall not be changed without notification to and approval by, the permit issuing authority.

2. Reporting

Results of initial monitoring, including the date the discharge began, shall be summarized on a Monitoring Report Form for Monitoring of Initial Discharge and submitted to the state water pollution control agency at the address below postmarked no later than 120 days after the commencement of discharge.

Results of routine end of pipe and water quality station monitoring during the previous six (6) months shall be summarized and reported semiannually on a Discharge Monitoring Report Form (DMR). If the discharge is intermittent, the date the discharge began and ended must be included. The information submitted on the first semiannual DMR shall contain a summary of flow measurements and any additional monitoring conducted subsequent to the submittal of the initial monitoring report. If required by this permit, whole effluent toxicity (biomonitoring) results must be reported on the most recent version of EPA Region VIII's Guidance for Whole Effluent Reporting. Monitoring reports must be submitted to the state water pollution control agency at the following address postmarked no later than the 15th day of the second month following the completed reporting period. The first report is due on August 15, 2007.

Legible copies of these, and all other reports required herein, shall be signed and certified in accordance with the Signatory Requirements contained in Part II.A.11.

Wyoming Department of Environmental Quality
Water Quality Division
Herschler Building, 4 West
122 West 25th Street
Cheyenne, WY 82002
Telephone: (307) 777-7781

If no discharge occurs during the reporting period, "no discharge" shall be reported. If discharge is intermittent during the reporting period, sampling shall be done while the facility is discharging.

3. Definitions

- a. The "monthly average" shall be determined by calculating the arithmetic mean (geometric mean in the case of fecal coliform) of all composite and/or grab samples collected during a calendar month.
- b. The "weekly average" shall be determined by calculating the arithmetic mean (geometric mean in the case of fecal coliform) of all composite and/or grab samples collected during any week.

- c. The "daily maximum" shall be determined by the analysis of a single grab or composite sample.
- d. "MGD", for monitoring requirements, is defined as million gallons per day.
- e. "Net" value, if noted under Effluent Characteristics, is calculated on the basis of the net increase of the individual parameter over the quantity of that same parameter present in the intake water measured prior to any contamination or use in the process of this facility. Any contaminants contained in any intake water obtained from underground wells shall not be adjusted for as described above and, therefore, shall be considered as process input to the final effluent. Limitations in which "net" is not noted are calculated on the basis of gross measurements of each parameter in the discharge, irrespective of the quantity of those parameters in the intake waters.
- f. A "composite" sample, for monitoring requirements, is defined as a minimum of four grab samples collected at equally spaced two hour intervals and proportioned according to flow.
- g. An "instantaneous" measurement for monitoring requirements is defined as a single reading, measurement, or observation.
- h. A "pollutant" is any substance or substances which, if allowed to enter surface waters of the state, causes or threatens to cause pollution as defined in the Wyoming Environmental Quality Act, Section 35-11-103.
- i. "Total Flow" is the total volume of water discharged, measured on a continuous basis and reported as a total volume for each month during a reporting period. The accuracy of flow measurement must comply with Part III.A.1.

4. Test Procedures

Test procedures for the analysis of pollutants, collection of samples, sample containers, sample preservation, and holding times, shall conform to regulations published pursuant to 40 CFR, Part 136, unless other test procedures have been specified in this permit.

5. Recording of Results

For each measurement or sample taken pursuant to the requirements of this permit, the permittee shall record the following information:

- a. The exact place, date and time of sampling;
- b. The dates and times the analyses were performed;
- c. The person(s) who performed the analyses and collected the samples;
- d. The analytical techniques or methods used; and
- e. The results of all required analyses including the bench sheets, instrument readouts, computer disks or tapes, etc., used to determine the results.

6. Additional Monitoring by Permittee

If the permittee monitors any pollutant at the location(s) designated herein more frequently than required by this permit, using approved analytical methods as specified above, the results of such monitoring shall be included in the calculation and reporting of the values required in the Discharge Monitoring Report Form. Such increased frequency shall also be indicated.

7. Records Retention

The permittee shall retain records of all monitoring information, including all calibration and maintenance records and all original strip chart recordings for continuous monitoring instrumentation, copies of all reports required by this permit, and records of all data used to complete the application for this permit, for a period of at least three years from the date of the sample, measurement, report or application. This period may be extended by request of the administrator at any time. Data collected on site, copies of Discharge Monitoring Reports and a copy of this WYPDES permit must be maintained on site during the duration of activity at the permitted location.

8. Penalties for Tampering

The Act provides that any person who falsifies, tampers with or knowingly renders inaccurate, any monitoring device or method required to be maintained under this permit shall, upon conviction, be punished by a fine of not more than \$10,000 per violation, or by imprisonment for not more than two years per violation, or both.

9. Compliance Schedules

Reports of compliance or noncompliance with, or any progress reports on interim and final requirements contained in any Compliance Schedule of this permit shall be submitted no later than 14 days following each schedule date.

10. Facility Identification

All facilities discharging produced water shall be clearly identified with an all-weather sign posted at each outfall and flow monitoring locations (points of compliance). This sign shall, as a minimum, convey the following information:

- a. The name of the company, corporation, person(s) who holds the discharge permit, and the WYPDES permit number;
- b. The contact name and phone number of the person responsible for the records associated with the permit,
- c. The name of the facility (lease, well number, etc.) and the outfall number as identified by the discharge permit.

11. Identification and Establishment of Discharge Points

According to 40 CFR 122.21(k)(1), the permittee shall identify the expected location of each discharge point on the appropriate WYPDES permit application form. The location of the discharge point must be identified to within an accuracy of 15 seconds. This equates to a distance of 1,510 feet.

In order for the permit not to be subjected to additional public notice, the location of the established discharge point must be within 1,510 feet of the location of the discharge point originally identified on the permit application. In addition, the discharge must be within the same drainage and must discharge to the same landowner's property as identified on the original application form. If the three previously stated requirements are not satisfied, modification of the discharge point location(s) constitutes a major modification of the permit as defined in Part I.B.12. The permittee shall provide written notification of the establishment of each discharge point in accordance with Part I.A.2.a above.

12. Location of Discharge Points

As of the date of permit issuance, authorized points of discharge were as follows:

TABLE 1

Outfall	Immediate Receiving Stream	Mainstem	Q/Q	sec	tw (N)	rng (W)	lat	long
*001	South Prong Wild Horse Creek	Belle Fourche River	NWNE	9	45	74	43.89415	-105.75782
*002	**UET to Wild Horse Creek	Belle Fourche River	SENE	15	45	74	43.87802	-105.74197
*003	**UET to Wild Horse Creek	Belle Fourche River	NESW	10	45	74	43.88681	-105.74121
004	**UET to Wild Horse Creek	Belle Fourche River	NWNE	10	45	74	43.89327	-105.73444
*005	**UET to Wild Horse Creek	Belle Fourche River	NESW	11	45	74	43.88732	-105.72163
*006	**UET to Wild Horse Creek	Belle Fourche River	NWNW	14	45	74	43.88067	-105.72943
*007	**UET to Wild Horse Creek	Belle Fourche River	SWNW	14	45	74	43.87779	-105.72706
008	South Prong Wild Horse Creek	Belle Fourche River	NWNW	3	45	74	43.90778	-105.74847
009	Middle prong Wild Horse Creek	Belle Fourche River	NENE	4	45	74	43.91038	-105.75168
*010	Middle Prong Wild Horse Creek	Belle Fourche River	SESE	33	46	74	43.9131	-105.75404

*WDEQ verified latitude and longitude (NAD 1983)

**UET=unnamed ephemeral tributary

Requests for modification of the above list will be processed as follows. If the requested modification satisfies the definition of a minor permit modification as defined in 40 CFR 122.63 modifications will not be required to be advertised in a public notice. A minor modification constitutes a correction of a typographical error, increase in monitoring and/or reporting, revision to an interim compliance schedule date, change in ownership, revision of a construction schedule for a new source discharger, deletion of permitted outfalls, and/or the incorporation of an approved local pretreatment program.

A request for a minor modification must be initiated by the permittee by completing the form titled National Pollutant Discharge Elimination System Permit Modification Application For Coal Bed Methane. Incomplete application forms will be returned to the applicant.

The outfalls listed in the above table may be moved from the established location without submittal of a permit modification application provided all of the following conditions are satisfied:

1. The new outfall location is within 2640 feet of the established outfall location.
2. The new outfall location is within the same drainage or immediate permitted receiving waterbody.
3. There is no change in the affected landowners.
4. Notification of the change in outfall location must be provided to the WYPDES Permits Section on a form provided by the WQD Administrator within 10 days of the outfall location change. The form must be provided in duplicate and legible maps showing the previous and new outfall location must be attached to the form.

Moving an outfall location without satisfying the four above listed conditions will be considered a violation of this permit and subject to full enforcement authority of the WQD.

An outfall relocation as described above will not be allowed if the new outfall location is less than one mile from the confluence of a Class 2 waterbody and the dissolved iron limits established in the permit for the outfall are based upon Class 3 standards.