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**Jim Ruby, Executive Secretary
Environmental Quality Council**

Attorneys for Pennaco Energy, Inc.

**BEFORE THE ENVIRONMENTAL QUALITY COUNCIL
STATE OF WYOMING**

In the Matter of the Appeal of)
Clabaugh Ranch, Inc. from WYPDES) Docket No. 09-3803
Permit No. WY0039616)
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)

PENNACO ENERGY, INC.'S ANSWER TO PETITION

Pennaco Energy, Inc. (Pennaco), by and through counsel, Holland & Hart LLP, submits the following answer in response to Clabaugh Ranch, Inc.'s (Clabaugh Ranch) Petition in appeal of DEQ's renewal of WYPDES Permit No. WY0039616 dated December 31, 2008 (Permit):

1. Upon the extent of Pennaco's information and belief, Pennaco admits the allegations contained in Paragraph 1 of Clabaugh Ranch's Petition.
2. Pennaco admits the allegations contained in Paragraph 2 of Clabaugh Ranch's Petition.
3. Statement of Facts
 - a. Upon the extent of Pennaco's information and belief, Pennaco admits the allegations contained in Paragraph 3(a) of Clabaugh Ranch's Petition.
 - b. Pennaco admits the allegations contained in Paragraph 3(b) of Clabaugh Ranch's Petition.
 - c. Pennaco admits that the Permit authorizes Pennaco to discharge water produced from coalbed methane wells located upgradient from Clabaugh Ranch into on-channel reservoirs of Wild Horse Creek which is a tributary to the Powder River.

Pennaco denies the remaining allegations of Paragraph 3(c) of Clabaugh Ranch's Petition.

d. Pennaco admits that the outfalls are located up drainage of the Clabaugh Ranch. Pennaco denies the remaining allegations contained in Paragraph 3(d) of Clabaugh Ranch's Petition.

e. Pennaco denies the allegations contained in Paragraph 3(e) of Clabaugh Ranch's Petition.

f. Pennaco denies that its discharged treated water will pass through the bottomlands on the Clabaugh Ranch. Pennaco is without sufficient information or belief to admit or deny the remaining allegations contained in Paragraph 3(f) of Clabaugh Ranch's Petition and therefore denies the same.

g. Pennaco denies the allegations contained in Paragraph 3(g) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

h. Pennaco denies the allegations contained in Paragraph 3(h) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

i. Pennaco denies the allegations contained in Paragraph 3(i) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

j. Pennaco denies the allegations contained in Paragraph 3(j) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

k. Pennaco denies the allegations contained in Paragraph 3(k) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

l. Pennaco denies the allegations contained in Paragraph 3(l) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

m. Pennaco denies the allegations contained in Paragraph 3(m) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the

Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

n. Pennaco denies the allegations contained in Paragraph 3(n) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

o. Pennaco denies the allegations contained in Paragraph 3(o) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

p. Pennaco denies the allegations contained in Paragraph 3(p) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

q. Pennaco denies the allegations contained in Paragraph 3(q) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

r. Pennaco denies the allegations contained in Paragraph 3(r) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

s. Pennaco denies the allegations contained in Paragraph 3(s) of Clabaugh Ranch's Petition. The Permit complies with applicable requirements of the Wyoming Environmental Quality Act and Wyoming Water Quality Rules and Regulations.

t. To the extent Paragraph 3(t) of Clabaugh Ranch's Petition calls for a legal conclusion, it requires no response. Pennaco denies any remaining allegations contained in Paragraph 3(t) of Clabaugh Ranch's Petition.

4. Pennaco denies that Clabaugh Ranch is entitled to a hearing or the remaining relief requested in Paragraph 4 of Clabaugh Ranch's Petition.

GENERAL DENIAL

Pennaco denies each and every allegation not specifically admitted herein.

AFFIRMATIVE DEFENSES

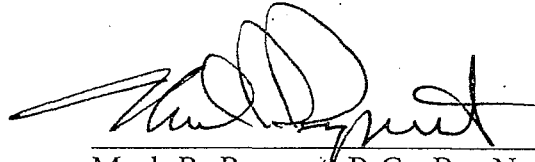
1. The Environmental Quality Council lacks subject matter jurisdiction over Clabaugh Ranch's Petition.

2. Clabaugh Ranch lacks standing to bring this Petition.

3. Clabaugh Ranch has failed to state a claim on which relief may be granted.

WHEREFORE, Pennaco respectfully requests the Environmental Quality Council dismiss the Petition and/or affirm issuance of the Permit.

Respectfully submitted March 19, 2009.



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ATTORNEYS FOR PENNACO
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CERTIFICATE OF SERVICE

I hereby certify that on March 19, 2009, I served the foregoing **Pennaco Energy, Inc.'s Answer to Petition** to the following by:

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A handwritten signature in black ink, appearing to read "Tom C. Toner", is written over a horizontal line.