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ANGIE SPARKS, Clerk of District Court BAMBER M MULLEN

## MONTANA FIRST JUDICIAL DISTRICT COURT LEWIS AND CLARK COUNTY

CLARK FORK COALITION, ROCK CREEK ALLIANCE, EARTHWORKS, and MONTANA ENVIRONMENTAL CENTER,

Plaintiffs,

V.

MONTANA DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION and RC RESOURCES, INC.,

Defendants.

Cause No. CDV-2018-150

# ORDER ON PETITION FOR JUDICIAL REVIEW

## PROCEDURAL HISTORY

Petitioners Clark Fork Coalition, Rock Creek Alliance and the Montana Environmental Information Center (MEIC) filed a petition for judicial review of a Final Order of the Department of Natural Resources (DNRC)

granting a beneficial water use permit in application number 76N-30068837. The application filed by RC Resources, Inc., is to appropriate groundwater for mining operations. DNRC determined the application was correct and complete, then evaluated it to determine whether RC Resources had proven the criteria of Montana Code Annotated § 85-2-311(1) by a preponderance of the evidence. On June 22, 2016, the agency issued a preliminary determination to grant the application. The preliminary determination was publicly noticed pursuant to Montana Code Annotated § 85-2-307(2)(b). Petitioners filed objections. DNRC determined five objections to be valid, and therefore held a contested case hearing under the Montana Administrative Procedure Act, codified at Title 2, chapter 4. Mont. Code Ann. § 85-2-309(1). Following an administrative hearing on January 29, 2018, the hearing examiner issued a Final Order granting RC Resources a beneficial water use permit and granting its motion to dismiss objections filed by Petitioners.

Petitioners ask this Court to reverse the dismissal of their objections, to vacate RC Resources' water use permit, and to remand this matter to DNRC. Petitioners also raise a constitutional challenge to DNRC's interpretation of Montana Code Annotated § 85-2-311(2), which precludes interested members of the public from raising a water classification challenge. Petitioners assert the statute, as applied by the agency, is in violation of the clean and healthful environment provisions of the Montana Constitution, art. II, § 3 and art. IX, § 1. The constitutional challenge was not addressed in the Final Order.

#### STANDARD OF REVIEW

The Montana Administrative Procedure Act (MAPA) directs the district court to review an administrative decision in a contested case to

determine whether the findings of fact are clearly erroneous and whether the agency correctly interpreted the law. The standard of review of an administrative decision is provided in Montana Code Annotated § 2-4-704(2):

The court may not substitute its judgment for that of the agency as to the weight of the evidence on questions of fact. The court may affirm the decision of the agency or remand the case for further proceedings. The court may reverse or modify the decision if substantial rights of the appellant have been prejudiced because:

- (a) the administrative findings, inferences, conclusions, or decisions are:
  - (i) in violation of constitutional or statutory provisions;
  - (ii) in excess of the statutory authority of the agency;
  - (iii) made upon unlawful procedure;
  - (iv) affected by other error of law;
- (v) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record;
- (vi) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion; or
- (b) findings of fact, upon issues essential to the decision, were not made although requested.

"A finding is clearly erroneous if it is not supported by substantial evidence or, if it is supported by substantial evidence, because the agency misapprehended the effect of the evidence." *Mont. Solid Waste Contrs. v. Mont. Dep't of Pub. Serv. Regulation*, 2007 MT 154, ¶ 17, 338 Mont. 1, 161 P.3d 837. Even if substantial evidence exists and the effect of the evidence has not been misapprehended, a court may still conclude that a finding is clearly erroneous when "a review of the record leaves the court with the definite and firm conviction that a mistake has been committed." *Weitz v. Dep't of Natural Resources & Conservation*, 284 Mont. 130, 134, 943 P.2d 990, 992 (1997) (citations omitted).

A conclusion of law is reviewed to determine if the agency's interpretation is correct, without applying an abuse of discretion standard. *Steer, Inc. v. Dep't of Revenue*, 245 Mont. 470, 474-75, 803 P. 2d 601, 603 (1990); see also *Mont. Fish, Wildlife & Parks v. Trap Free Mont. Pub. Lands*, 2018 MT 120, ¶ 11, 391 Mont. 328, 417 P.3d 1100. Mixed questions of law and fact are reviewed de novo to determine if they are correct. *City of Missoula v. Mt. Water Co.*, 2018 MT 114, ¶ 11, 391 Mont. 288, 417 P.3d 321.

The parties agree that the issues raised in this case are legal issues.

#### DISCUSSION

At the administrative level, Petitioners raised objections challenging the issuance of a beneficial water use permit. Petitioners allege error in dismissing their legal availability objection by misinterpreting the term "legal demands" as described in Montana Code Annotated § 85-2-311(1)(a)(ii). Petitioners claim the hearing examiner also erred in precluding their water classification objection under Montana Code Annotated § 85-2-311(1)(g).

Montana Code Annotated § 85-2-311(1)(a), (b) and (g) provides:

[T]he department shall issue a permit if the applicant proves by a preponderance of evidence that the following criteria are met:

- (a) (i) there is water physically available at the proposed point of diversion in the amount that the applicant seeks to appropriate; and
- (ii) water can reasonably be considered legally available during the period in which the applicant seeks to appropriate, in the amount requested, based on the records of the department and other evidence provided to the department. Legal availability is determined using an analysis involving the following factors:
  - (A) identification of physical water availability;

- (B) identification of existing legal demands on the source of supply throughout the area of potential impact by the proposed use; and
- (C) analysis of the evidence on physical water availability and the existing legal demands, including but not limited to a comparison of the physical water supply at the proposed point of diversion with the existing legal demands on the supply of water.
- (b) the water rights of a prior appropriator under an existing water right, a certificate, a permit, or a state water reservation will not be adversely affected. In this subsection (1)(b), adverse effect must be determined based on a consideration of an applicant's plan for the exercise of the permit that demonstrates that the applicant's use of the water will be controlled so the water right of a prior appropriator will be satisfied.
- (g) the proposed use will be substantially in accordance with the classification of water set for the source of supply pursuant to 75-5-301(1);

RC Resources suggests that because the Petitioners raise the same objection under both subsections -311(1)(a)(ii) and -311(1)(g), they are simply reframing a water quality objection under subsection (1)(g) into a legal availability objection under subsection (1)(a)(ii). Respondents contend the hearing examiner correctly dismissed Petitioners' objections as invalid, finding their position renders § 85-2-311(2) superfluous. Mont. Code Ann. § 85-2-311(2) states:

(2) The applicant is required to prove that the criteria in subsections (1)(f) through (1)(h) have been met only if a valid objection is filed. A valid objection must contain substantial credible information establishing to the satisfaction of the department that the criteria in subsection (1)(f), (1)(g), or (1)(h), as applicable, may not be met. For the criteria set forth in subsection (1)(g), only the department of environmental quality or a local water

quality district established under Title 7, chapter 13, part 45, may file a valid objection.

### Legal Availability of Water

DNRC's hearing examiner found that the legal availability analysis of "existing legal demands on the source of supply throughout the area of potential impact by the proposed use" required by Montana Code Annotated § 85-2-311(1)(a)(ii) means an analysis of only existing water rights. Petitioners contend that "existing legal demands" does not equate to only existing water rights. They assert "existing legal demands" include existing water rights, but do not exclude impacted streams in the Cabinet Mountains Wilderness that will be depleted by a permit for groundwater appropriation and subsequent pumping for mining operations.

As quoted above, an applicant for a beneficial water use permit must prove by a preponderance of the evidence that specific statutory criteria are met, including that water is "legally available during the period in which the applicant seeks to appropriate, in the amount requested."

The hearing examiner affirmed DNRC's decision that water is legally available as requested in the application of RC Resources. DNRC explains that legal availability is determined by reviewing the median of the mean water flow in a source, compared to senior water rights already appropriated. After a determination of legal availability, DNRC looks at adverse effects on senior water rights during times of water shortage. A permit applicant must show DNRC that during a year with less than average flows, senior water rights will not be sufficiently adversely affected by an applicant's groundwater pumping.

This narrow analysis of "adverse effect" is described in Administrative Rule of Montana 36.12.1706.

Petitioners contend that this interpretation of the term "legal demands" in Montana Code Annotated § 85-2-311(1)(a)(ii) is erroneous because it provides no real distinction between the analysis for legal availability and for adverse effect. Further, Petitioners allege DNRC ignored data in the application indicating that the planned groundwater pumping will dewater or deplete the water in Cabinet Mountain Wilderness streams in violation of Montana Code Annotated § 75-5-315(1), which provides protection for "outstanding resource waters," stating:

The legislature, understanding the requirements of applicable federal law and the uniqueness of Montana's water resource, recognizes that certain state waters are of such environmental, ecological, or economic value that the state should, upon a showing of necessity, prohibit, to the greatest extent practicable, changes to the existing water quality of those waters. Outstanding resource waters must be afforded the greatest protection feasible under state law, after thorough examination.

Administrative Rule of Montana 17.30.617 provides that "[a]ll state surface waters located wholly within the boundaries of designated national parks or wilderness areas as of October 1, 1995, are outstanding resource waters (ORWs)..." The Cabinet Mountain Wilderness was designated by the U.S. Congress in 1964.

DNRC and RC Resources support the finding in the Final Order that the agency's interpretation of "legal demands" as meaning "water rights" is within the discretion of the agency. Respondents assert that, when read holistically in the context of the relevant statutes, it is clear that "legal demands"

means "legal rights." They argue that such an interpretation is necessary to prevent statutory construction with absurd results.<sup>2</sup>

Petitioners assert that if the legislature intended the phrase "existing legal demands" as used in Montana Code Annotated § 85-2-311(1)(a)(ii) to mean existing "water rights of a prior appropriator," the legislature would have used the more restrictive language. A reading of the relevant sections supports Petitioners' argument. After finding water is legally available by applying the criteria of § 311(1)(a), DNRC must then determine any adverse effect as required in § 311(1)(b), which specifies that "the water rights of a prior appropriator under an existing water right, a certificate, a permit, or a state water reservation will not be adversely affected." (Emphasis added.) When a different term is used, a different definition should apply.

In interpreting a statute or legislation, this Court must "simply ascertain and declare what is in terms or in substance contained therein, not to insert what has been omitted or to omit what has been inserted." Mont. Code Ann. § 1-2-101; *Mont. Power Co. v. Mont. Pub. Service Comm'n*, 2001 MT 102, ¶ 26, 305 Mont. 260, 26 P.3d 91. Here the legislature saw fit to specify in § 85-2-311(1)(b) that any adverse effect of a proposed appropriation of water does not impact prior appropriators. The term "legal demands" as used in the analysis of legal availability in §311(1)(a) is different than "water rights of a prior appropriator." "Because the enacting Legislature did not use identical language in the two provisions, it is proper for us to assume that a different statutory

<sup>&</sup>lt;sup>1</sup> See State v. Heath, 2004 MT 126, ¶ 24, 321 Mont. 280, 90 P.3d 426.

<sup>&</sup>lt;sup>2</sup> See Van der hule v. Mukasev, 2009 MT 20, ¶ 10, 349 Mont, 88, 217 P.3d 1019.

meaning was intended. . . ." Zinvest, LLC v. Gunnersfield Enters., 2017 MT 284, ¶ 26, 389 Mont. 334, 405 P.3d 1270.

Citing Montana Power Co. v. Carey, 211 Mont. 91, 98, 685 P.2d 336, 340 (1984), DNRC asserts the purpose of the Montana Water Users Act (MWUA) "is to protect senior water rights holders from encroachment by junior appropriators adversely affecting those senior rights." DNRC is correct that protection of senior water rights is a significant purpose of the MWUA, but the Montana Power decision also sets out the history of the MWUA which stems from a need to "regulate water uses to accommodate available water flows and protect existing senior water rights [and] insure that the public interest [is] being protected." Id. at 97, 685 P.2d at 339. The Supreme Court recited the rationale for water rights reform as legislated in the 1973 MWUA, quoting Wyoming Hereford Ranch v. Hammond Packing Co., 236 P. 764, 769 (1925):

[I]f state ownership is to be anything but a delusion, if it is to be more than nominal, there must be the same authority and control over streams and over diversion of water as is now exercised by the general government over the occupation and settlement of public lands . . . Such oversight and precaution is necessary for the proper protection of public interests . . . and in order that controversies growing out of extravagant and injurious claims may be avoided.

The history of the MWUA makes clear that the intent of the Act includes protection of the "public interest" in water use, not only protection of senior appropriators rights. "When interpreting a statute, our objective is to implement the objectives the legislature sought to achieve." Westmoreland Res. Inc. v. Dep't of Revenue, 2014 MT 212, ¶ 11, 376 Mont. 180, 330 P.3d 1188 (citation omitted).

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Respondents ask this Court to give deference to DNRC's interpretation of "legal demands." DNRC showed a practice of not requiring water use applicants to address any legal demands beyond those of existing water rights but presented no formal interpretation of the term "legal demands." Furthermore, when the agency interpretation and practice is inconsistent with statutory language, it does not establish precedence which must be given deference by the Court. See *United States v. Mead Corp.*, 533 U.S. 218, 228, (2001) ("The weight accorded to an administrative judgment 'will depend upon the thoroughness evident in its consideration, the validity of its reasoning, its consistency with earlier and later pronouncements, and all those factors which give it power to persuade, if lacking power to control." (citing *Skidmore v. Swift & Co.*, 323 U.S. 134, 140 (1944)).

The MWUA itself states policy considerations beyond protection of senior water users' rights, including that "[t]he water resources of the state must be protected and conserved to assure adequate supplies for public recreational purposes and for the conservation of wildlife and aquatic life." Mont. Code Ann. § 85-1-101(5). The application submitted to DNRC by RC Resources includes modeling data indicating that its proposed groundwater pumping could reduce baseflows in wilderness streams, up to 100 percent reduction of baseflow in at least one stream. Degradation shown to violate the applicable legal restrictions must be considered as part of the "legal demands" "within the area of potential impact."

In the context of Montana Code Annotated § 85-2-311 and the MWUA, when deciding of legal availability, the term "legal demands" requires

<sup>&</sup>lt;sup>3</sup> Admin, R. Mont. 36.12.1705.

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DNRC to include analysis of relevant data provided in the application of potentially unlawful dewatering.

DNRC argues the Department of Environmental Quality (DEQ) rules on water quality are not applicable to their analysis of legal availability or water quantity. While true that DNRC's responsibilities and authority regarding water use permitting extend primarily to water quantity, water quantity and quality inherently overlap as evidenced in the regulations for legal availability and for water quality, or degradation. The rule regarding degradation of Outstanding Resource Waters requires DEQ to determine whether activities would "decrease the mean monthly flow of a surface water by . . . [more] than 10 percent[.]" Admin. R. Mont. 17.30.715(1)(a). This is a question of water quantity. Likewise, when analyzing criteria for a water use permit, DNRC is required to evaluate whether "the water quality of a prior appropriator will not be adversely affected," and that "the ability of a discharge permitholder to satisfy effluent limitations of a permit issued in accordance with Title 75, chapter 5, part 4, will not be adversely affected." Mont. Code Ann. §§ 85-2-311(1)(f), (h). This relates to water quality. Water quality and water quantity are not solely in the province of either agency. Protecting stream flows in Outstanding Resource Waters from significant dewatering, is also a matter of water quantity.<sup>4</sup>

This Court concludes that dewatering Outstanding Resource Waters is a known legal demand on the water to be appropriated in this case and must be

<sup>&</sup>lt;sup>4</sup> Petitioners assert DNRC's analysis of legal availability must include quantitative restrictions on the depletion of the affected water required by Administrative Rules of Montana 17.30.705 and .715. Whether the proposed pumping would reduce streamflow in excess of restrictions in Administrative Rule of Montana 17.30.715(1)(a) is a question of fact, but whether the regulation creates a "legal demand" under Montana Code Annotated § 85-2-311(1)(a)(ii) is a question of law.

included in the analysis of legal availability of water prior to issuing a permit granting an appropriation to RC Resources.

Water Classification Objection and Application of Montana Code Annotated § 85-2-311(2)

Montana Code Annotated § 85-2-311(2) states,

The applicant is required to prove that the criteria in subsections (1)(f) through (1)(h) have been met only if a valid objection is filed. A valid objection must contain substantial credible information establishing to the satisfaction of the department that the criteria in subsection (1)(f), (1)(g), or (1)(h), as applicable, may not be met. For the criteria set forth in subsection (1)(g), only the department of environmental quality or a local water quality district established under Title 7, chapter 13, part 45, may file a valid objection.

Petitioners contend the hearing examiner erred in concluding that Montana Code Annotated § 85-2-311(2) bars their water classification objection to RC Resources permit application raised pursuant to § 85-2-311(1)(g).<sup>5</sup> Petitioners argue this interpretation leaves them with no adequate remedy to protect their interests in preserving public waters in the Cabinet Mountain Wilderness. They contend that if § 311(2) prohibits them from objecting, it violates their fundamental right to a clean and healthful environment, violating Montana's Constitution, article I, § 3 and Article IX, § 1.

The hearing examiner found that no valid objection was submitted by Petitioners, because only DEQ or a local water quality district may file a valid objection under Montana Code Annotated § 85-2-311(1)(g). Therefore, RC Resources was not required to prove whether "the proposed use will be

<sup>&</sup>lt;sup>5</sup> "[T]he proposed use will be substantially in accordance with the classification of water set for the source of supply pursuant to 75-5-301(1)[.]"

substantially in accordance with the classification of water set for the source of supply pursuant to § 75-5-301(1)[.]" Mont. Code Ann. § 85-2-311(1)(g).

Petitioners assert their objection may be raised under both subsection 85-2-311(1)(a)(ii) and (1)(g), with the first section applying to legal availability and the second to water classification. The Final Order concluded, and Respondents argue, that if an objection may be made under either subsection, as was done by Petitioners, then Montana Code Annotated §§ 85-2-311(1)(f)-(h) and -311(2) are rendered superfluous.

Petitioners counter that there are many potential water classification objections based on water quality issues that are not related to legal availability. Water classification is based on present and future beneficial uses to which specific water is suited. Mont. Code Ann. § 75-5-301. An example given for a typical objection to water classification is when a proposed appropriation might affect water quality, thereby compromising source water which may provide drinking water.<sup>6</sup>

The Montana Constitution provides that "[a]ll surface, underground, flood, and atmospheric waters within the boundaries of the state are the property of the state for the use of its people . . . and are subject to appropriation as provided by law." Mont. Const., art. IX, § 3. The Constitution further provides that Montanans have a right to a clean and healthful environment, pecifically stating:

The hearing examiner found that Petitioners' objection raised pursuant to § 85-2-311(1)(g) was not a water classification issue, making a distinction that water classification is controlled by the Water Quality Act in Title 75, chapter 5, and this section of law falls under the MWUA, which cannot alter a classification of water. Nonetheless, the hearing examiner found Petitioners' objection invalid because Petitioners did not meet the standing requirements of § 85-2-311(2) that only the DEQ or a local water quality district may submit a valid objection to § 311(1)(g).

- (1) The state and each person shall maintain and improve a clean and healthful environment in Montana for present and future generations.
- (2) The legislature shall provide for the administration and enforcement of this duty.
- (3) The legislature shall provide adequate remedies for the protection of the environmental life support system from degradation and provide adequate remedies to prevent unreasonable depletion and degradation of natural resources.

Mont. Const. art IX, § 1.

"The right to a clean and healthful environment is a fundamental right," and "a statute that impacts that right to the extent it interferes with the exercise of that right, is subject to strict scrutiny." *N. Plains Rec. Council v. Mont. Bd. of Land Comm'rs*, 2012 MT 234, ¶ 18, 366 Mont. 399, 288 P.3d 169 (citing *Mont. Envtl. Info. Ctr. V: Mont. Dep't of Envtl. Quality (MEIC)*, 1999 MT 248, ¶ 63, 296 Mont. 207, 988 P.2d 1236). A statute "can only survive strict scrutiny if the State established a compelling state interest and that its action is closely tailored to effectuate that interest and is the least onerous path that can be taken to achieve the State's objective." *MEIC*, ¶ 63.

We conclude, based on the eloquent record of the Montana Constitutional Convention that to give effect to the rights guaranteed by Article II, Section 3 and Article IX, Section 1 of the Montana Constitution they must be read together and consideration given to all of the provisions of Article IX, Section 1 as well as the preamble to the Montana Constitution. In doing so, we conclude that the delegates' intention was to provide language and protections which are both anticipatory and preventative.

<sup>&</sup>lt;sup>7</sup> Mont. Const., art. II, § 3.

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MEIC, ¶ 77. A statute or administrative rule which excludes "certain 'activities' from nondegradation review . . . violates those environmental rights guaranteed by Article II, Section 3 and Article IX, Section 1 of the Montana Constitution." MEIC, ¶ 80.

Although the Court in MEIC limited its decision to a specific code section as applied to the facts of that case, it is safe to assume that the drafters of the Montana Constitution would have considered potential degradation of wilderness streams to be a covered "activity" under Article II, section 3, and Article IX, section 1. As applied to this case, however, this Court has already concluded that Petitioners submitted a valid objection regarding Montana Code Annotated § 85-2-311(1)(a)(ii), finding that depletion of outstanding resource waters, as submitted in RC Resources application, must be considered by DNRC in its analysis of legal availability. Petitioners therefore have redress as to the objection presented under both §§ 85-2-311(1)(a)(ii) and 311(1)(g).8 The remedy for each objection is the same. That is, DNRC must include the relevant data provided in the application on the depletion of the water in the Cabinet Mountain Wilderness as a legal demand on the requested appropriation. Consequently, this Court need not address whether Petitioners' fundamental constitutional rights are violated by the statutory limitations and restricted standing to object imposed by Montana Code Annotated § 85-2-311(2).

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Based on the foregoing, IT IS ORDERED that the Final Order on Application for Beneficial Water Use Permit No. 76N-30068837 is REVERSED,

<sup>&</sup>lt;sup>8</sup> Although the same objection was submitted as to different requirements of § 311, the basis for each objection is the modeling data provided by applicant regarding depletion of outstanding resource waters.

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and this matter is REMANDED to the agency for further consideration consistent with this decision.

DATED this <u>9</u> day of April 2019.

Barth of E. e. Pade me

KATHY SEELEY District Court Judge

pc: Katherin K. O'Brien/Timothy J. Preso/Joshua R. Purtle, 313 East Main Street, Bozeman MT 59715

Laura J. Farkas/Danna R. Jackson, PO Box 201601, Helena MT 59620-2601 Holly Jo Franz/Ryan McLane, PO Box 1155, Helena MT 59624-1155

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and this matter is REMANDED to the agency for further consideration consistent with this decision.

DATED this \_\_\_\_ day of April 2019.

KATHY SEELEY
District Court Judge

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