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Ms. Pamela Creedon, Executive Officer
11020 Sun Center Drive, Suite 200
Rancho Cordova, CA 95670

Mr. Patrick Pulupa, Advisory Counsel
State Water Board, Office of Chief Counsel
P.O. Box 100
Sacramento, CA 95812

June 30, 2015

Ref: Valley Water Management Company Tentative Cease and Desist Order Hearing for July 30, 2015

Dear Ms. Creedon & Mr. Pulupa,

My name is Neil Malpiede and I am a registered professional engineer in the State of California. I am employed by NafTex Operating Company as their senior petroleum engineer. I have requested and have been granted by the Advisory Team time to make a statement at the above captioned hearing as an interested person. I have been allotted 10 minutes to present my statement.

The following represents a written version of the topics I will cover in my statement.

STATEMENT:

NafTex is a small privately owned Independent Oil Company founded in 1988 with producing operations located in the Edison Field. We produce about 900 barrels of oil per day. NafTex employs cyclic steaming and continuous steam flooding to enhance the recovery of the oil. We employ 25 individuals at the Edison facilities. Our team is made up of operators, maintenance and construction personnel along with technical and management staff.

Of the 14,000 barrels of water we produce daily, 4,000 barrels (28%) of that water is sent to Valley Water Management Company (Valley Water) for processing and handling at their Race Track Hill facilities. Oil producing companies like NafTex have been using Valley Water's water handling services for nearly 60 years.

Two hundred and fifty barrels of oil production per day, or 28% of NafTex's total oil production, are associated with the 4,000 barrels of water currently being sent to Valley Water. Should Valley Water's facilities be ordered to cease irrigation at the Race Track Facility, then these 250 barrels of oil production per day will potentially be lost. Lost production will likely result in layoffs at NafTex, and loss of

associated contractor and service sector work directly and negatively impacting state, county and local tax revenues.

The loss of 250 barrels of oil production equates to a loss of \$14,000 per day at today's oil price, or \$5 million of lost gross revenue per year. This revenue alone supports nearly one third of Naftex's manpower that potentially would have to be let go.

Additionally, capital projects planned for the expansion of developments on properties associated with the 250 barrels of oil production would be curtailed. These are significant projects encompassing the drilling of new wells, performing the recompletion of old wells, and the upgrading and expansion of existing surface facilities such as dehydration and steam generation facilities. This translates into no new procurement of equipment and materials and no contracting of labor and service providers, all resulting in no growth for Naftex and no new jobs. Jobs and tax revenues will be lost.

Naftex is aggressively pursuing two of its own alternative methods to handle its 4,000 barrels of water in addition to the alternatives Valley Water is considering. Naftex's alternatives are:

- Subsurface Injection of Produced Water
- Recycling of Produced Water

SUBSURFACE INJECTION OF PRODUCED WATER

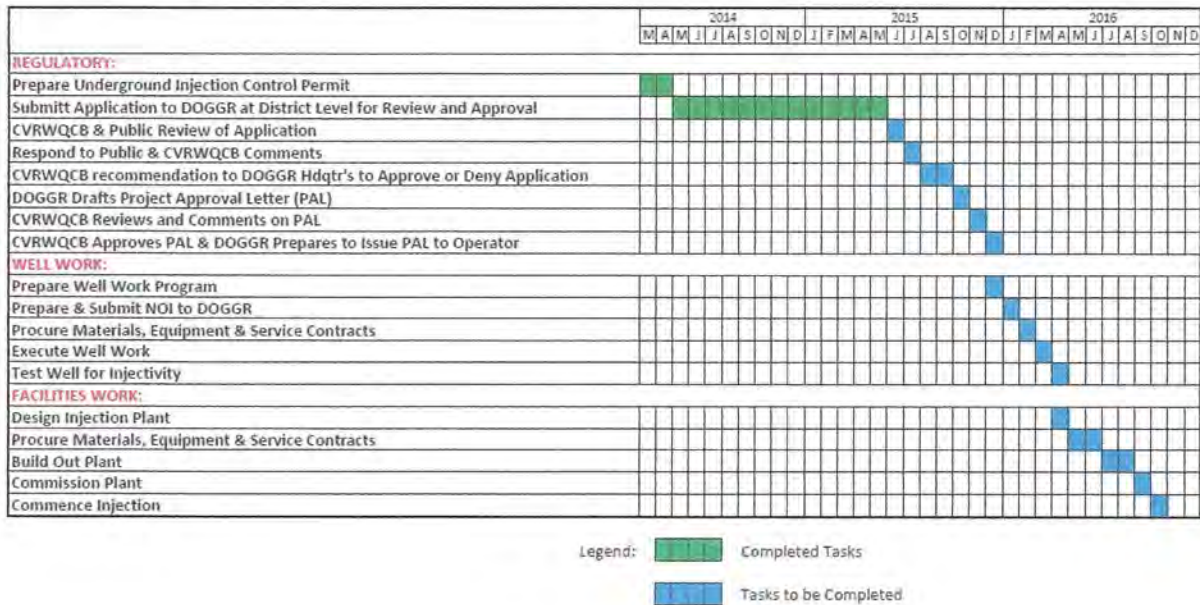
Naftex recognized early on that alternative produced water handling would be necessary in the event that Valley Water would be required to cease their current operations. Consequently, we identified a good candidate well for water injection and subsequently applied for an Underground Injection Control permit through the Division of Oil, Gas and Geothermal Resources (DOGGR) in May 2014. Once a UIC permit is granted this would allow us to inject the 4,000 barrels per of produced water into two oil reservoirs. These reservoirs have been declared as approved aquifers for Class II injection.

One year later, in May 2015, our application had finally moved to the next level of review within DOGGR. Questions were raised by DOGGR, which we immediately and in a timely fashion responded to that satisfied all of their concerns. One month later, in June 2015, we were informed that our application was going out for both public and Regional Water Board comment, which should take 30 days to complete.

Naftex can only speculate how much more time will be necessary to respond to any public and agency comments and to complete the balance of the review and approval processes with the DOGGR, CVRWQCB, and the USEPA. In the past, on a previous UIC application, we waited six additional months to get to the Project Approval Letter (PAL) stage.

Following the issuance of the PAL, the real work starts. We must convert the selected well from a producing oil well to an injection well, build a surface injection facility, and install a new pipeline. All of which takes time to design, permit, procure materials and equipment for and to install. Reference is made to our Exhibit 1 schedule in which we show both historic and planned tasks that must be completed for this alternative water handling method to come to fruition. As can be seen from the Exhibit 1 schedule, the earliest we commence injection is in September 2016. Thus, time is needed to pursue any alternative.

EXHIBIT - 1: Subsurface Produced Water Injection



RECYCLING PRODUCED WATER

Naftex is pursuing the conversion of 1,200 barrels of the 4,000 barrels per day of produced water currently going to Valley Water to soft water for the purpose of generating steam. However, this still leaves 2,800 barrels per day to be handled by some other means if Valley Water is not available to take it. Water recycling is not a complete solution for Naftex and if Valley Water is asked to cease operations by August 15th, Naftex’s revenue from oil production and their employee’s jobs will be significantly impacted.

We have heard during the course of various meetings and workshops with personnel from the Regional Water Board and DOGGR that “it is not our intention to leave you with no alternative for the handling of your produced water.” Leaving us with insufficient time to pursue alternatives leaves us with no alternative.

Valley Water’s Race Track Hill Facilities has been operating in compliance for more than a half century.

Valley Water has informed us that after significant and costly scientific investigative work which had begun voluntarily and was later required by the issued 13267 Order, the results show that there is no “immediate threat” to any existing beneficial use of local waters in the Race Track Hill area caused by their facilities. In light of this, we see no justification for this CDO proposing an unnecessarily accelerated timeframe that would result in a devastating impact to small oil producing operators like Naftex.

Implementation of any alternatives under the current permitting environment is not practical within the timeframe that is proposed in the CDO.

Naftex recommends an extension of the August 15, 2015 date for the cessation of irrigation. This date must be re-set to no earlier than December 31, 2016.

Sincerely,

A handwritten signature in black ink, appearing to read "Neil Malpiede", written over a horizontal line.

Neil Malpiede, P.E.

(Calif. Reg. Prof. Eng. M 20033)

Sr. Petroleum Engineer

Naftex Operating Company