

E & B
NATURAL RESOURCES MANAGEMENT CORPORATION

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Good Morning Mr. Chairman, Congressman McCarthy, Assemblywoman Grove, guests and panelists. My name is Steve Layton and I am President of E&B Natural Resources Management Corporation. Before I begin with my prepared testimony, I would like to state that it is an honor to be called before this committee as a representative of the independent oil and gas producers operating here in the San Joaquin Valley, and I certainly want to thank you for this opportunity.

As background, E&B Natural Resources Management is a California based privately owned Independent oil and gas Company. We produce approximately 7,000 barrels equivalent of oil and gas on a daily basis and employ 140 personnel. As a company, our primary emphasis is growth and replacement of our reserves. Thus it is important to note that E&B, along with many other independent oil and gas producers, reinvest virtually every single dollar earned in order to replace produced reserves and hopefully grow our respective companies. This significant and ongoing reinvestment

of cash flow by oil and gas companies is an vital but often overlooked part of the way this Industry must manage its business in order to STAY in business.

This in fact is what has happened at E&B as well as many other companies in the United States over the past five to ten years. In 2003, when management and operations were consolidated in California, E&B Natural Resources produced approximately 1,500 barrels of oil equivalent on a daily basis. Using our cash flow and along with the support of our banks, we implemented an acquisition, growth, and field redevelopment program. We have been successful in this endeavor and today our production is in excess of 7,000 barrels of oil equivalent per day. I would also like to mention that this production growth has also been matched by employee growth. In 2003, E&B Natural Resources employed approximately 20 personnel. Today we employ 140 – a fact that I am certainly proud of.

This growth in production and personnel has come through a combination of acquisitions and development of our existing fields; however for today I would like to focus on our development, or organic growth, because it is this type of production growth that is most important to all of us.

Furthermore, as I will soon discuss, our Industry's ability to grow production has been enhanced significantly by advances in exploration, drilling and production technologies, but as I will mention later, those gains can be offset to some or even to a great degree by the ever increasing burden of statutory and regulatory impediments that we face

First – Technology. California, and in particular our fields, are very mature; having produced in some cases for more than 100 years. Thus the easily captured, easily produced oil has already been exploited. For this reason, technology has been employed throughout the region to increase the recovery of oil in these mature fields. Perhaps the greatest evolution of technology in this valley is the use of steam to heat and mobilize oil that would otherwise be almost impossible to extract. Steam has been used for over 40 years in this area, yet the technology continues to be refined, augmented and improved which continues to unlock large volumes of previously inaccessible reserves. More specifically I would like to reference a small parcel we own in one of the nearby large heavy oil fields. Five years ago, this 5 acre lease of land located within the Kern River was producing just a few barrels of oil each day. In 2007, we made a significant investment in the property and now have drilled more than 20 wells and

have implemented a steam drive. With the help of new drilling, completion and thermal technology, this little five acre parcel is now producing almost 300 barrels of oil per day and we believe will produce in well in excess of 1,000,000 barrels of oil before it is depleted.

In other areas we have benefited significantly from the use of horizontal wells to sweep or capture larger untapped areas of oil producing reservoirs than the standard vertical well would reach. In E&B's case, the use of horizontals has added substantial new reserves to our flagship asset in California. This field is the primary driver of our growth and is the site of a significant drilling and redevelopment program. In the 1990's this field was on its last legs and appeared to be headed for abandonment. About five years ago we began a redevelopment program that started with redrills and eventually new vertical wells. With the help of advances in well completion technology and improvements in artificial lift systems, our redevelopment efforts proved successful.. In 2010, we stepped things up a notch with the addition of a horizontal well development program. Not only are we now able to access reserves that would have been left behind but even at this early stage we are now generating over 10% of our production with less

than 3% of our wells. The use of this technology most likely gives us the ability to double our production over the next 3-5 years.

Finally, when it comes to technology, I would like to highlight the use of 3D seismic imaging to capture untested and undrilled sands and blocks containing significant quantities of oil and gas. In our case, we have acquired 3D seismic data over several hundred square miles including several very mature oil and gas fields, some having produced since the early 40s and 50s. 3D seismic is usually thought of as a tool to help explore for new oil and gas fields and that it is, but it is also a very valuable tool to help hunt for untapped reserves in and around many of the tired old oil fields that are all over California and many other states. Many have said that the best place to find oil is in an old oil field. With the help of 3D seismic and the numerous other technological assets we have at our disposal, that statement is truer than ever.

Now I would like to move on to the impediments we face in our continuing effort to grow and produce more oil. In a nutshell, just as technology unlocks new oil and gas resources for companies such as E&B to exploit, new rules and regulations, permitting delays, and uncertain accounting

rules combine to hamper that growth. While unregulated and environmentally destructive practices have no business within our industry, I would like to point out a few examples of what I view as unnecessary and burdensome regulation that has directly impacted our ability to produce additional oil, as well as hire additional employees.

The first example concerns the difficulty of receiving various permits – especially when multiple Federal Agencies are involved. In our case, permits necessary to proceed with one of the 3D surveys were delayed by the US Fish and Wildlife Service (USFWS) on two occasions. Our first permit to conduct the survey was submitted to the Bureau of Land Management (BLM) on December 18, 2007. More than 16 months later on April 29, 2009 the USFWS finally issued its Biological Opinion. The USFWS delay created a timing uncertainty that paralyzed the project for almost 2 years. In early 2010, a decision was made to expand the project area by about 30% which required a modification of the project area with the BLM. Upon review, the BLM believed that the modified survey area met all criteria of the original permit and approved the plan and notified the USFWS of their decision. Unfortunately the USFWS didn't see it that way and offered no explanation of why they did not agree with the BLM. The net

result of these conflicting messages was a delay in this project for almost one additional year.

A second example I would like to bring to the Committees attention concerns the impact of various environmental laws and more specifically articles and tenants of the Endangered Species Act. This region has numerous threatened and endangered animals and plants including Kit Foxes, the Tipton Kangaroo Rat, and the Blunt Nose Leopard Lizard. Regulations are in place that require oil and gas operators to survey and determine whether any of these species would be impacted by new development. This, of course, is common sense and is environmentally sound. Yet these same laws also apply to expansions and development within existing fields. For example, in one of our largest fields, we intend to implement a steam flood that is directly adjacent to a very successful steam flood operation owned and operated by a larger company. To produce the steam necessary to heat the oil, we need to install a 4-inch gas pipeline to fuel the steam generators . As part of the permitting process for receiving permission to operate a steam generator, a biologic study/review is required, including one to determine if Blunt-Nosed Leopard Lizards live within the area of the pipeline. This actually requires two biologic surveys;

one in April and another in October. What makes this particular survey unique is that it is already in a highly impacted area adjoining existing thermal operations. Furthermore, much of the planned pipeline route follows existing pipelines. Yet none of this is given any consideration within the permitting process. It will be October before we can complete the survey and this delay will keep this potential 10 million barrel reservoir which is capable of producing, 1,500 barrels of oil per day reservoir from being developed by up to and possibly more than a year.

Finally, I would like to bring to the Committees attention an example of some of the issues and impediments we face on the State level. In this case, the impediment concerns permitting delays related to a steam drive project west of Bakersfield, or more accurately a steam drive reactivation. In July of 2010, E&B submitted an application to the California DOGGR to reactivate previous steam drive operations within this field. The formal proposal requested the drilling of 26 inverted 7-spot steam drive patterns, which could produce in excess of 1,000 barrels of oil per day based on other thermal operations that completely surround our property. Ten months later, we have yet to receive authorization, even though steamfloods are currently underway in sections directly adjacent to our.

Again, no explanation or timeline has ever been offered by the Department of Oil and Gas for this delay.

In summary, it is without argument that the San Joaquin Valley, despite its age, holds significant additional oil and gas reserves that companies like E&B, using the latest technology, can exploit. If we can access these reserves in a timely and reasonable fashion, I have no doubt that all of the companies operating here in the Valley can add significantly to our nation's domestic oil and gas production; hire, train, and continue to employ thousands of new workers across all professions; improve and increase economic growth throughout this region, and perhaps most importantly assist our nation with energy security and independence.

Once again, I would like to thank the Committee for giving me this opportunity to represent the many oil and gas producers located in this region, and I would be glad to answer any questions you may have.

Steve Layton, President – Mr. Layton has served as President of E&B since 2000. During his career, Mr. Layton has been actively involved in building and managing several oil and gas companies including two that were acquired by Francesco Galesi in 2000 along with E&B Natural Resources. Mr. Layton is a member of the Board of Directors of the Louisiana Independent Oil and Gas Association and the California Independent Producers Association. Mr. Layton has also served as a Director and as Governor of the Houston Region for the Independent Petroleum Association of America and as President of the National Stripper Well Association. Mr. Layton earned a BS and MBA from the University of Tulsa.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – “Truth in Testimony”
Required by House Rule XI, Clause 2(g)(5)

Name:

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

E&B Natural Resources has not received or participated in any Federal grants or contracts.

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

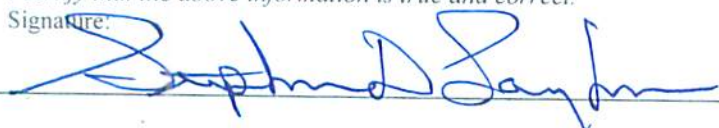
I will be testifying on behalf of myself

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

Not applicable

I certify that the above information is true and correct.

Signature:



Date:

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