



# RAILROAD COMMISSION OF TEXAS

## HEARINGS DIVISION

OIL & GAS DOCKET NO. 09-0289119

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THE APPLICATION OF KRAMER OPERATING, LLC, TO CONSIDER UNITIZATION AND SECONDARY RECOVERY AUTHORITY FOR THE KRAMER-SOUTH BEND UNIT, KRAMER AND SOUTH BEND LEASES, YOUNG COUNTY (REGULAR) FIELD, YOUNG COUNTY, TEXAS

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**HEARD BY:** Paul Dubois – Technical Examiner  
Terry Johnson – Hearings Examiner

**DATE OF HEARING:** July 25, 2014

**APPEARANCES:**

**REPRESENTING:**

**APPLICANT:**

Colby Kramer  
Frank Kramer

Kramer Operating, LLC

### EXAMINERS' REPORT AND RECOMMENDATION

#### STATEMENT OF THE CASE

Kramer Operating, LLC ("Kramer") requests Commission authority for unitization of Kramer-South Bend Unit, in the Young County (Regular) Field, Young County, Texas, and approval of secondary recovery operations on the Unit. The application is unopposed and the examiners recommend approval of the authority for unitization and approval of secondary recovery operations on the Unit.

Notice of the application was published in the *Graham Leader*, a newspaper of general circulation in Young County, on June 25 and July 2, 9, and 16, 2014. Notice of the application and notice of the hearing were served on the working interest owners, royalty interest owners, surface owner, offset operators, and overriding royalty interest owners. A unit agreement has been ratified by 100 percent of the working interest owners and is in the process of being ratified by royalty interest owners, currently with about 84 percent approval.

### DISCUSSION OF THE EVIDENCE

The proposed unit includes three wells on two adjacent leases with a total land area of about 180 acres. The South Bend Lease (No. 26940) covers 65 acres and contains one well, the South Bend No. 1 (API 42-503-39694). This well is marginally productive with current production of less than one barrel of oil per day. The Kramer Lease (No. 25819) covers 112 acres and contains two wells, the Kramer No. 2 (API No. 42-503-39022) and the Kramer No. 3 (API No. 42-503-39559). The Kramer No. 2 is currently shut-in, and the Kramer No. 3 well is a permitted injection well (Project No. F-17264). All three wells were drilled between 1985 and 1990. The three wells were completed in a conglomerate reservoir at a depth of about 3,950 feet. There has been no prior attempt at secondary recovery from any wells included in the proposed unit.

The area proposed for unitization covers all acreage known to be productive from the unitized horizon. The proposed unitized formation is a conglomerate reservoir that trends in an east-west direction across the two leases. The unitized formation is the subsurface portion of the unit area described as the geologic stratigraphic equivalent of the conglomerate formation encountered in the interval from 3,941 feet to 3,963 feet in the dual induction and density log of the Kramer Lease Well No. 3 (API No. 42-503-39559) located in the TE&L Co. No. 1015 Survey, A-824, Young County, Texas. The interval has an average pay thickness of 22 feet.

A reservoir study was performed by POCO, LLC, and sealed by Ryan Price, P.E. This study states that the average porosity in the unitized interval is 21 percent and the average water saturation is 13.5 percent. The initial reservoir pressure was measured to be 650 psig in 1987 and the current reservoir pressure is about 40 psig. Kramer plans to initiate the waterflood with one injection well and two producing wells. The Kramer No. 3 well has been permitted for injection. Up to 500 to 1,000 bbl per day of salt water will be provided by a water supply well located approximately one-quarter mile away.

POCO estimates the original oil in place (OOIP) to be 1,488,158 bbl. The reservoir is believed to be at the end of primary production with cumulative oil production at 237,309 bbl, or 15.9 percent of OOIP. Cumulative gas production to date is 441,768 MCF. Ultimate oil recover at the end of secondary recovery operations is estimated at 516,958 bbl oil (34.7 percent of OOIP). Thus, POCO estimates that secondary recovery can be expected to produce an additional 279,649 bbl oil beyond primary recovery production. Kramer estimates the cost to implement the unitization and secondary recovery project to be about \$200,000, and the revenue from secondary production to be \$23 million.

The injection and subsequent sweep pattern will likely cause hydrocarbon reserves to cross lease lines. Based on the existing well configuration, it is estimated that there are 32.154 acres of productive conglomerate in the proposed unit area. Of this area, 6.332 acres (19.69 percent) of the pattern area are on the South Bend lease and 25.822 acres (80.31 percent) of the pattern area is on the Kramer lease; thus the unit production will be allocated accordingly to each lease based on its share of the pattern acreage.

Mr. Colby Kramer, Agent for Kramer Operating, LLC, testified that the proposed unitization of the Kramer-South Bend Unit and unit agreements conform to Texas Natural Resources Code § 101 et seq. He further stated that these hydrocarbons could not be recovered without the proposed unitization and secondary recovery. A unit agreement has been ratified by 100 percent of the working interest owners. The agreement is in the process of being ratified by royalty interest owners. Currently, 85.4 percent of royalty owners on the Kramer lease and 84.375 percent of the royalty owners on the South Bend Lease have ratified the unit agreement.

#### FINDINGS OF FACT

1. Notice of the application was published in the *Graham Leader*, a newspaper of general circulation in Young County, on June 25 and July 2, 9, and 16, 2014.
2. Notice of the application and notice of the hearing were served on the working interest owners, royalty interest owners, surface owner, offset operators, and overriding royalty interest owners. Notice of this hearing was sent to all operators and royalty interest owners within and adjacent to the proposed unit at least ten days prior to the hearing.
3. The proposed Kramer-South Bend Unit consists of two tracts which cover 177 acres in Young County, Texas.
4. The unitized formation is the subsurface portion of the unit area described as the geologic stratigraphic equivalent of the conglomerate formation encountered in the interval from 3,941 feet to 3,963 feet in the dual induction and density log of the Kramer Lease Well No. 3 (API No. 42-503-39559) located in the TE&L Co. No. 1015 Survey, A-824, Young County, Texas.
5. At the time of the hearing, 100% of the working interest ownership had signed the unit agreement.
6. At the time of the hearing, 85.4 percent of royalty owners on the Kramer lease and 84.375 percent of the royalty owners on the South Bend Lease of the royalty interest ownership had signed the unit agreement.
7. Secondary recovery operations are expected to result in the recovery of an estimated 279,649 BO, which would otherwise go unrecovered.
8. The total cost to implement the secondary recovery project is expected to be \$200,000. The cost does not exceed the value of additional reserves to be recovered.

9. The unit production will be allocated accordingly to each lease based on its share of the pattern acreage: 6.332 acres (19.69 percent) of the pattern area are on the South Bend lease and 25.822 acres (80.31 percent) of the pattern area is on the Kramer lease.
10. The secondary recovery project will not be successful unless the area is unitized.
11. The agreement was voluntarily executed by all parties affixing their signatures thereto and no person has been compelled or required to enter into the agreement. The unit agreement binds only those persons who have executed it, their heirs, successors, assigns and legal representatives. The rights of all owners of interests in the field will be protected under the operation of the unit, regardless of whether an owner signed the unit agreement.
12. The owners of interests in the oil and gas under each tract of land within the area reasonably defined by development have been given an opportunity to enter into the unit on the same yardstick basis as owners of interests in the oil and gas under the other tracts in the unit.
13. The proposed injection program will move hydrocarbons across lease lines, and unitization is necessary in order to protect the correlative rights of the various interest owners.
14. The unitization agreement is necessary to accomplish the purposes of establishing a unit to effect secondary recovery operations for water injection and operating cooperative facilities necessary thereto. Other available or existing methods or facilities for secondary recovery operations are inadequate for the purpose of secondary recovery.
15. The unit agreement does not provide, either directly or indirectly, for the cooperative refining or marketing of crude petroleum, distillate, condensate, or gas, or any by-product thereof.
16. The unit agreement is subject to all valid orders, rules and regulations of the Railroad Commission.
17. The unit agreement contains no provision regarding field rules, nor does it limit the amount of production of oil or gas from the unitized area. The unit agreement does not release the operator from his obligation to reasonably develop lands or leases as a whole.
18. The unit agreement is a voluntary agreement entered into for the purpose of conducting secondary recovery operations.

19. There are no state owned lands in the proposed unit.
20. The unit agreement is in the interest of public welfare as being reasonably necessary to prevent waste and to promote conservation.
21. The reservoir described in the unit agreement is identified as a single reservoir for Commission purposes and is a suitable reservoir for a water injection secondary recovery operation.
22. The unit agreement contains only the acreage reasonably necessary to accomplish the proposed secondary recovery project.
23. Well tests will be conducted to allocate production to wells on tracts for which 100% sign-up was not achieved.

**CONCLUSIONS OF LAW**

1. Resolution of the subject application is a matter committed to the jurisdiction of the Railroad Commission of Texas. Tex. Nat. Res. Code § 81.051.
2. All notice requirements have been satisfied. 16 Tex. Admin. Code § 1.45.
3. Applicant's proposed secondary recovery project satisfies all of the requirements set out in Tex. Nat. Res. Code Ann. §§101.001-052.
4. Approval of the proposed unit agreement for secondary recovery operations is in the public interest and is necessary to prevent waste and to promote the conservation of oil or gas or both.

**EXAMINERS' RECOMMENDATION**

Based on the above findings of fact and conclusions of law, the examiners recommend approval of the proposed Kramer-South Bend Unit and secondary recovery operations, as set out in the attached order.

Respectfully submitted,

  
Paul Dubois  
Technical Examiner

  
Terry Johnson  
Hearings Examiner