

CONFORMED COPY

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of  
the Securities and Exchange Act of 1934  
For the period ended September 30, 2002

or

☐ Transition Report Pursuant to Section 13 or 15(d) of  
the Securities and Exchange Act of 1934  
For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number 033-63635-04

I.R.S. Employer Identification Number 55-0751154

PDC 1996-D LIMITED PARTNERSHIP

(A West Virginia Limited Partnership)  
103 East Main Street  
Bridgeport, WV 26330  
Telephone: (304) 842-6256

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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PDC 1996-D LIMITED PARTNERSHIP  
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Balance Sheets

September 30, 2002 and December 31, 2001

<u>Assets</u>	<u>2002</u> (Unaudited)	<u>2001</u>
Current assets:		
Cash	\$ 3,201	2,833
Accounts receivable - oil and gas revenues	<u>143,305</u>	<u>144,728</u>
Total current assets	146,506	147,561
Oil and gas properties, successful efforts method	6,932,053	6,932,053
Less accumulated depreciation, depletion and amortization	<u>4,080,842</u>	<u>3,883,208</u>
	<u>2,851,211</u>	<u>3,048,845</u>
	<u>\$2,997,717</u>	<u>3,196,406</u>
 <u>Current Liabilities and Partners' Equity</u>		
Current liabilities:		
Accrued expenses	\$ <u>45,448</u>	<u>27,114</u>
Total current liabilities	45,448	27,114
 Partners' Equity	 <u>2,952,269</u>	 <u>3,169,292</u>
	 <u>\$2,997,717</u>	 <u>3,196,406</u>

See accompanying notes to financial statements.

PDC 1996-D LIMITED PARTNERSHIP  
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Statement of Operations

Three Months and Nine Months ended September 30, 2002 and 2001  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Revenues:				
Sales of oil and gas	\$ 255,641	347,779	633,245	1,137,954
Interest income	<u>321</u>	<u>998</u>	<u>593</u>	<u>3,418</u>
	<u>255,962</u>	<u>348,777</u>	<u>633,838</u>	<u>1,141,372</u>
Expenses:				
Lifting cost	129,264	132,781	386,716	398,622
Direct administration cost	127	61	223	212
Depreciation, depletion, and amortization	<u>64,341</u>	<u>87,952</u>	<u>197,634</u>	<u>270,928</u>
	<u>193,732</u>	<u>220,794</u>	<u>584,573</u>	<u>669,762</u>
Net income	<u>\$ 62,230</u>	<u>127,983</u>	<u>49,265</u>	<u>471,610</u>
Net income per limited and additional General partner unit	<u>\$ 66</u>	<u>134</u>	<u>52</u>	<u>493</u>

See accompanying notes to financial statements.

PDC 1996-D LIMITED PARTNERSHIP  
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Statement of Partners' Equity and Comprehensive Income

Nine months ended September 30, 2002  
(Unaudited)

	Limited and Additional General Partners	Managing General Partner	Accumulated Other Comprehensive Income	<u>Total</u>
Balance, December 31, 2001	\$2,256,550	912,742	-	3,169,292
Distributions to partners	(214,042)	(43,759)	-	(257,801)
Comprehensive income:				
Net income	39,412	9,853	-	49,265
Change in fair value of outstanding hedging positions			(8,487)	
Less reclassification adjustments for settled contracts included in net income			<u>-</u>	
Other comprehensive loss			(8,487)	<u>(8,487)</u>
Comprehensive income	<u>          </u>	<u>          </u>	<u>          </u>	<u>40,778</u>
Balance, September 30, 2002	<u>\$ 2,081,920</u>	<u>878,836</u>	<u>(8,487)</u>	<u>2,952,269</u>

See accompanying notes to financial statements.

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Statement of Cash Flows

Nine months ended September 30, 2002 and 2001  
(Unaudited)

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income	\$49,265	471,610
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation, depletion and amortization	197,634	270,928
Changes in operating assets and liabilities:		
Decrease in accounts receivable	24,791	1,639
Decrease in accrued expenses	<u>(13,521)</u>	<u>(8,409)</u>
Net cash provided from operating activities	<u>258,169</u>	<u>735,768</u>
Cash flows from financing activities:		
Distributions to partners	<u>(257,801)</u>	<u>(738,463)</u>
Net cash used by financing activities	(257,801)	(738,463)
Net increase (decrease) in cash	368	(2,695)
Cash at beginning of period	<u>2,833</u>	<u>4,732</u>
Cash at end of period	<u>\$ 3,201</u>	<u>2,037</u>

See accompanying notes to financial statements.

PDC 1996-D LIMITED PARTNERSHIP  
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Notes to Financial Statements  
(Unaudited)

1. Accounting Policies

Reference is hereby made to the Partnership's Annual Report on Form 10-K for 2001, which contains a summary of significant accounting policies followed by the Partnership in the preparation of its financial statements. These policies were also followed in preparing the quarterly report included herein except as noted below.

On January 1, 2002 the Partnership adopted SFAS No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Adoption of these statements did not have a material effect on the Partnership's financial position, results of operations, or cash flows.

2. Basis of Presentation

The Management of the Partnership believes that all adjustments (consisting of only normal recurring accruals) necessary to a fair statement of the results of such periods have been made. The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for the full year.

3. Oil and Gas Properties

The Partnership follows the successful efforts method of accounting for the cost of exploring for and developing oil and gas reserves. Under this method, costs of development wells, including equipment and intangible drilling costs related to both producing wells and developmental dry holes, and successful exploratory wells are capitalized and amortized on an annual basis to operations by the units-of-production method using estimated proved developed reserves which will be determined at year end by the Managing General Partner's petroleum engineer. If a determination is made that an exploratory well has not discovered economically producible reserves, then its costs are expensed as dry hole costs.

4. Derivative Instruments and Hedging Activities

The Managing General Partner utilizes commodity based derivative instruments as hedges to manage a portion of the Partnership's exposure to price volatility stemming from natural gas production. These instruments consist of costless collars and option contracts traded on the New York Mercantile Exchange. The costless collars and option contracts hedge committed and anticipated natural gas sales generally forecasted to occur within a 12 month period. The Managing General Partner does not hold or issue derivatives for trading or speculative purposes.

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Notes to Financial Statements  
(Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Partnership was funded with initial Limited and Additional General Partner contributions of \$15,301,726 and the Managing General Partner contributed \$3,328,126 in accordance with the Agreement. Syndication and management fee costs of \$1,989,224 were incurred leaving available cash of \$16,640,628 for Partnership activities.

The Partnership began exploration and development activities subsequent to the funding of the Partnership and completed well drilling activities by March 31, 1997. Eighty-four wells have been drilled of which seventy-nine have been completed as producing wells.

The Partnership had net working capital at September 30, 2002 of \$101,058.

Operations are expected to be conducted with available funds and revenues generated from oil and gas activities. No bank borrowings are anticipated.

Results of Operations

Three Months Ended September 30, 2002 Compared with 2001

Sales of oil and gas decreased 26.5% during the third quarter of 2002 compared to 2001 due to lower average sales prices of natural gas and lower sales volumes of natural gas. While the Partnership experienced a modest net income of \$62,230, depreciation, depletion and amortization is a non-cash expense and therefore the partnership distributed \$127,545 to the partners during the third quarter of 2002.

Nine Months Ended September 30, 2002 Compared with 2001

Natural gas sales decreased approximately 44.4% during the first nine months of 2002 compared with the same period in 2001 primarily due to lower average sales prices of natural gas and lower sales volumes of natural gas. While the Partnership experienced a modest net income of \$49,265, depreciation, depletion and amortization is a non-cash expense and therefore the Partnership distributed \$257,801 to the partners during the first nine months of 2002.

The Partnership's revenue from oil and gas will be affected by changes in prices. As a result of changes in federal regulations, gas prices are highly dependent on the balance between supply and demand. The Partnership's gas sales prices are subject to increase and decrease based on various market sensitive indices.

Critical Accounting Policies

Certain accounting policies are very important to the portrayal of Partnership's financial condition and results of operations and require management's most subjective or complex judgments. The policies are as follows:

Impairment of Long-Lived Assets. The Partnership assesses impairment of capitalized costs of proved oil and gas properties by comparing net capitalized costs to undiscounted future cash flows on a field-by-field basis using expected prices. Prices utilized in each year's calculation for measurement purposes and expected costs are held constant throughout the life of the properties. If net capitalized costs exceed undiscounted future net cash flow, the measurement of impairment is based on estimated fair value which would consider future discounted cash flows.



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The judgment used in applying the above policies are based on management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates. See additional discussions in this Management's Discussion and Analysis.

New Accounting Standards

In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 requires the Partnership to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Partnership also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Partnership is required to adopt SFAS No. 143 on January 1, 2003. At this time, the Partnership cannot reasonably estimate the effect of the adoption of this Statement on either its financial position, results of operations, or cash flows.

Item 3. Quantitative and Qualitative Disclosure About Market Rate Risk

Market-Sensitive Instruments and Risk Management

The Partnership's primary market risk exposure is commodity price risk. This exposure is discussed in detail below:

Commodity Price Risk

Natural gas and oil prices have been unusually volatile for the past 24 months, and the Partnership anticipates continued volatility in the future. Currently, the NYMEX futures reflect a market expectation of gas prices close to or above \$4 per million Btu's (mmbtu) for the balance of 2002 and even higher beyond the end of the year. This price level apparently reflects market concern about the adequacy of natural gas deliverability given a normal winter and/or a recovery of the economy. In contrast natural gas storage levels are at historically high levels, a situation that in the past has resulted in low gas prices. The Managing General Partner believes this situation creates the possibility of both periods of low prices and of significantly higher prices.

Because of the uncertainty surrounding gas prices the Managing General Partner used hedging agreements to reduce some of the impact of fluctuations in prices. Through October of 2003 the Partnership has in place a series of costless collars. Under the collar arrangements, if the applicable index rises above the ceiling price, the Partnership pays the counterparty, however if the index drops below the floor the counterparty pays the Partnership. These floor and ceiling prices were set at levels which allowed the Partnership to set floors on two units of production for each unit of production with a ceiling. For the month of October 2002 the Partnership has floors in place in a range from \$2.20 to \$2.85 on 15,445 Mmbtu of monthly production and ceilings in place in a range from \$3.20 to \$3.75 on 7,722 Mmbtu of monthly production. For the period from November 2002 through March 2003, the Partnership has floors in place in a range from \$2.75 to \$3.59 on 15,445 Mmbtu of monthly production and ceilings in place in a range from \$3.87 to \$4.19 on 7,722 Mmbtu of monthly production. For the period April 2003 through October 2003, the Partnership has floors in place in a range from \$2.50 to \$3.41 on 7,722 Mmbtu of monthly production and ceilings in place in a range from \$3.13 to \$3.80 on 3,861 Mmbtu of monthly production. The fair value of these floors and ceilings as of September 30, 2002 is (\$8,487).

As of September 30, 2002 the Partnership had option contracts for the sale of 73,363 dt of natural gas with an average ceiling price of \$4.00 and for the sale of 146,726 dt of natural gas with an average floor price of \$3.45.

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Notes to Financial Statements  
(Unaudited)

Disclosure of Limitations

As the information above incorporates only those exposures that exist at September 30, 2002, it does not consider those exposures or positions which could arise after that date. As a result, the Partnership's ultimate realized gain or loss with respect to commodity price fluctuations will depend on the exposures that arise during the period, the Partnership's hedging strategies at the time and commodity prices at the time.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 6. Exhibits and Reports on Form 8-K

(a) None.

(b) No reports on Form 8-K have been filed during the quarter ended September 30, 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PDC 1996-D Limited Partnership  
(Registrant)

By its Managing General Partner  
Petroleum Development Corporation

Date: October 23, 2002

/s/ Steven R. Williams  
Steven R. Williams  
President

Date: October 23, 2002

/s/ Dale G. Rettinger  
Dale G. Rettinger  
Executive Vice President  
and Treasurer