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VIA EMAIL (rule-comment@SEC.gov)

Ms. Nancy M. Morris  
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**Re:** Advisory Committee on Smaller Public Companies  
File No. 265-23

Dear Ladies and Gentlemen:

We are writing on behalf of Petroleum Development Corporation, a Nevada corporation ("PDC"), to express our strong support of the following proposals published by the Advisory Committee on Smaller Public Companies (the "Committee") on February 28, 2006 entitled "*Exposure Draft of Final Report of Advisory Committee on Smaller Public Companies*":

- establishment of a new system of scaled or proportional securities regulation for smaller public companies based on a stratification of smaller public companies into two groups: (i) "microcap companies" (consisting of companies whose common stock (or equivalent) in the aggregate comprises the lowest 1% of total U.S. equity market capitalization), and "smallcap companies" (consisting of companies whose common stock (or equivalent) in the aggregate comprises the next lowest 5% of total U.S. equity market capitalization); and
- provision of exemptive relief from the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX") to microcap companies with less than \$125 million in annual revenue and to smallcap companies with less than \$10 million in annual product revenue that have or expand their corporate governance controls to include: (i) adherence to standards relating to audit committees in conformity with Rule 10A-3 under the Securities Exchange Act of 1934 ("Exchange Act"); and (ii) adoption of a code of ethics within the meaning of Item 406 of Regulation S-K applicable to all directors, officers and employees and compliance with the further obligations under Item 406(c) relating to the disclosure of the code of ethics.

In this letter, we refer to the proposals of the Committee described above as the "Endorsed Proposals."

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## **Background**

PDC is engaged in the business of drilling natural gas and oil wells in the continental United States, producing natural gas and oil and selling the production in the marketplace. PDC is an independent natural gas and oil producer based in Bridgeport, West Virginia. PDC's common stock is registered under § 12(g) of the Exchange Act and is listed for trading on the Nasdaq National Market and trades under the symbol "PETD." As of March 29, 2006, the market cap for PDC's stock was approximately \$750 million. PDC has lived through the difficult, expensive and onerous process of becoming compliant with the requirements of SOX, notably § 404 and the implementing regulations of the SEC and the Public Company Accounting Oversight Board ("PCAOB").

An integral part of PDC's business is its sponsorship of publicly registered limited partnerships ("Partnerships"). Since 1989, the Company has filed SEC Form S-1 registration statements under the Securities Act of 1933 to register general partnership interests and limited partnership interests ("Partnership Interests")<sup>1</sup> for sale to qualified investors throughout the United States. None of the Partnerships has a market capitalization in excess of \$40,000,000. PDC serves as managing general partner for each of the Partnerships. Each Partnership is a separate and distinct business entity from each of the other Partnerships and conducts its drilling and production operations separately from the operations of each other Partnership. Currently, under PDC's auspices as managing general partner of each limited partnership, 74 investor limited partnerships are conducting their business operations. As required by § 12(g) or § 15(d) under the Exchange Act, the Partnership Interests of the various Partnerships have been registered under § 12(g) or are subject to the reporting requirements of § 15(d). Currently, 25 Partnerships are subject to the requirements of § 12(g) or § 15(d).

PDC markets and sells the Partnership Interests as long term investments. Investors in the Partnership Interests benefit from cash flow of the Partnership derived from the sale of gas and oil it extracts, as well as certain tax benefits attendant to the drilling of new oil and gas wells. As a result of various restrictions on transfer imposed by the Partnerships, there is no market for the Partnership Interests, and no market will ever develop for the Partnership Interests. Thus, each investor is required hold his or her investment and bear the economic risk of the investment for the entire term of the Partnership.

Each Partnership is currently subject to §13(b)(2) of the Exchange Act, and in furtherance thereof:

- Makes and keeps books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of each respective Partnership; and

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<sup>1</sup> The Partnerships offer for sale Units of "Additional Partnership Interest" and Units of "Limited Partnership Interest." Because of the federal tax treatment afforded investors in the Partnerships, substantially all of the investors choose to invest in Additional Partnership Interests.

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- Has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that:
  - Transactions are executed in accordance with management's general or specific authorization;
  - Transactions are recorded as necessary: (I) to permit preparation of financial statements in conformity with GAAP or any other criteria applicable to such statements, and (II) to maintain accountability of assets;
  - Access to assets is permitted only in accordance with management's general or specific authorization; and
  - The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **Impact of SOX on the Partnerships**

We believe that the imposition of Section 404 of SOX ("SOX 404") and the regulations of the SEC and PCAOB thereunder on smaller public companies, such as the Partnerships, would result in substantial, needless expense with no corresponding benefit, other than a windfall to the smaller public company's independent public accountants. Our discussion in this letter regarding the impact of SOX 404 pertains specifically to the Partnerships, although we believe that many of these comments will be equally applicable to many smaller public companies.

Imposing SOX 404 on the Partnerships will not produce any meaningful benefit to the purchasers of Partnership Interests, nor to the investing public at large, as:

- PDC, the managing general partner of the Partnerships, is already subject to and compliant with SOX 404, thereby allowing the Partnerships indirectly obtain benefits of internal controls on PDC's processes without incurring direct expenses associated therewith;
- The Partnerships' annual financial statements are and will continue to be audited by an independent public accounting firm, which is registered with the PCAOB;
- Investors in the Partnerships receive detailed monthly accounting reports along with monthly cash distributions, as well as timely tax reporting information and periodic statements of the Partnership's estimated oil and natural gas reserves;
- Our experiences with SOX 404 to date have proved that compliance involves substantial expense – far in excess of the Partnerships' annual audits, which, if imposed on the Partnerships, would directly and significantly reduce the amount of cash available for

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distribution to the investors in Partnership Interests; in making their investment decision, both initially and on a continuing basis, our investors focus heavily upon their receipt of regular monthly cash distributions;

- Because no market exists, and no market will ever exist, for the Partnership Interests, such Partnership Interests are not publicly traded (and will never be traded) and therefore no outside investors would be relying on the Partnerships' statements as to SOX 404 compliance in making an investment decision;
- The availability of qualified independent public accounting firms to perform audit-related services is already limited. The addition of a large number of smaller public companies which must become SOX 404 compliant would place a huge additional burden on these accounting firms and likely materially disrupt the ability of many companies to file annual and other periodic reports in a timely manner.

#### **Endorsed Proposals**

We believe that the Endorsed Proposals would be a great benefit to the Partnerships and the investors in their Partnership Interests. Each Partnership would qualify as a microcap company and therefore, if the Endorsed Proposals were adopted, the Partnerships would enjoy exemptive relief from SOX 404 compliance. Such relief would allow the Partnerships to avoid the substantial expenses associated with SOX 404 compliance and thereby help assure that cash distributions to investors would continue to be maximized. Moreover, for the reasons discussed above under the heading "Impact of SOX on the Partnerships," such exemptive relief would not deprive those investors from any meaningful additional protection.

For the reasons outlined in this letter, we hereby respectfully endorse the Endorsed Proposals. If you would like to discuss these matters further, please contact me at 202/776-7815 or Mr. Steven R, Williams, CEO of PDC, at 304/842-6256.

Sincerely,

Laurence S. Lese

LSL/\*

cc: Mr. Steven R. Williams