



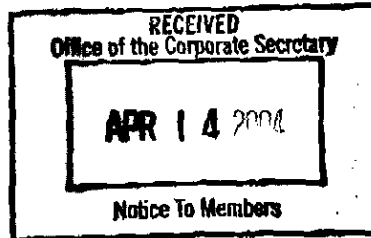
FIRM and AFFILIATE OFFICES

NEW YORK
LONDON
CHICAGO
HOUSTON
PHILADELPHIA
SAN DIEGO
SAN FRANCISCO
DETROIT
BOSTON
WASHINGTON, DC
ATLANTA
MIAMI
PITTSBURGH
NEWARK
ATLANTOWN
WILMINGTON
CHERRY HILL
HARRISBURG
BANGOR
PRINCETON
PALM BEACH
WESTCHESTER

LAURENCE S. LESE
DIRECT DIAL: 202.776.7815
E-MAIL: lese@duanemorris.com

www.duanemorris.com

March 31, 2004



VIA E-MAIL (minhle@nasd.com)
ORIGINAL BY US MAIL

Mr. Minh Le
Analyst Manager
NASD
9509 Key West Avenue
Rockville, Maryland 20850

Re: NASD Notice to Members 04-07
Submission of Comments

Dear Mr. Le:

Steve Williams and I would like to **thank** you for the opportunity on Monday to discuss issues concerning the NASD rules relating to the sales of direct participation programs ("DPP"). In this regard, there are several issues that **we request** the NASD to consider in its development of final regulations in furtherance of NASD Notice to Members 04-07 ("Notice 04-07"). We respectfully request that the NASD **receive the following comments and observations and consider them in its development of final regulations regarding allocations of fees and expenses under Notice 04-07.**

Mr. Williams is the President, CEO **and** Chairman of Petroleum Development Corporation ("PDC"), a Nasdaq NMS listed company. PDC is an independent energy company engaged primarily in the development, **production** and marketing of natural gas and oil. PDC's operating activities can be divided into **four major** segments: drilling and development, natural gas marketing, oil and gas sales, and well **operations**. PDC conducts development drilling activities for its own account and for **other investors**.

As a part of its operations, PDC is **the sponsor** and managing general partner of numerous publicly-registered limited partnerships, **which** PDC markets through its NASD-registered brokerage subsidiary, PDC Securities Incorporated, the dealer-manager of the PDC-sponsored DPP drilling programs. In 1984, PDC **began** sponsoring private drilling limited partnerships; in 1989, PDC began to register with the SEC under the Securities Act of 1933 the partnership interests it was sponsoring in public drilling programs. PDC's public partnerships had \$78.3 million in subscriptions in 2003, \$56.9 million in subscriptions in 2002 and \$57.1 million in

DUANE MORRIS LLP

1667 K STREET, N.W., SUITE 700 WASHINGTON, D.C. 20006-1608
WSH\110865.1

PHONE: 202.776.7800 FAX: 202.776.7801



Mr. Minh Le
March 31, 2004
Page 2

subscriptions in 2001. You may wish to refer to PDC's Form 10-K for additional information regarding PDC's operations.

1. In all areas of the marketplace, companies entering new areas of business routinely expect to spend money to develop new markets, even to the point that those new businesses are not profitable during the start-up phase. As we understand Notice 04-07, we believe that the proposals will strongly discourage, if not prevent, the entry of new businesses into the DPP market. Because Notice 04-07 will require the inclusion of costs such as meetings and training sessions as underwriting compensation subject to the 10% limit, new sponsors will have an extremely difficult time entering the market, with uncertain sales and/or very low sales in initial periods. The reality of the market already is that established sponsors and large programs have a decided advantage. This proposal will further exacerbate that situation. We see a result of fewer sponsors, less competition and fewer investment products available to investors.

2. The proposal will also tend to favor larger sponsors over smaller sponsors. Frequently, sponsors, whether large or small, charge the same or very similar meeting costs. A sponsor selling \$2 billion in units and retaining 1/2% for marketing expenses has a \$10 million budget, whereas a sponsor selling \$100 million has a \$500,000 budget and a sponsor selling \$50 million has a \$250,000 budget.

3. The requirement by the NASD to include all of the compensation of anyone "engaged in wholesaling" in the 10% underwriting compensation limit could result in denying both brokers and investors access to the best sources of information with regard to a program and the investment product, particularly with regard to smaller programs. For example, would the NASD deem an employee of the sponsor who answers a technical or tax question regarding the program to be "engaged in wholesaling" – even if that person is better qualified to answer the question than the designated wholesalers? Would the principals of the sponsor, such as Mr. Williams, also be considered to be wholesalers if they responded to information requests by brokers or investors, or if someone wanted to talk to them to "get a feel" for the type of people they were investing with? If so, a sponsor of a small program would have to forbid such contacts and conversations, regardless of the educational merit, because it is likely that the sponsor in that situation would violate the compensation limits of Notice 04-07, if required to include those persons' entire compensation as underwriting compensation. This would be the unfortunate result, particularly if the sponsor (such as PDC) has substantial business interests in addition to its DPP activities. We believe that this allocation paradigm if adopted by the NASD will result in a reduction in the quality and amount of information available to brokers and investors.

4. Similarly, the inclusion of the costs of legitimate training sessions as part of the 10% underwriting compensation limit will have a chilling effect on the availability of such training sessions, particularly for smaller programs. Again, the smaller programs will be forced to curtail



Mr. Minh Le
March 31, 2004
Page 3

these activities simply because they don't have the scale economies of larger programs. The result is that in many cases brokers will have less knowledge of smaller and start-up programs. The unintended consequence will be more risky and unsuitable investments and more complaints for the NASD to resolve.

5. It is our understanding that Notice 04-07 does not apply to SEC Regulation D programs. Since some sponsors offer both Regulation D programs and public programs, we don't understand how sponsors (and ultimately the NASD) will determine whether the private or public program should incur marketing expenses, particularly expenses such as meetings which occur once a year, even though the meetings might benefit both the public and private offerings. Will smaller sponsors be forced to offer both types of programs to effectively shelter certain marketing expenses in the private program that would otherwise be allocated to the public programs' underwriting compensation, in order that their public program might be competitive?

6. Notice 04-07 does not appear to allow partial allocation of dual employee expenses. Smaller sponsors in particular may find that a functional allocation, even with the attendant recordkeeping headaches, will more fairly represent the various expenditures among the various entities where the dealer-manager, sponsor and even the operating entities are related. We believe that functional allocation should be retained as an option.

Again, I appreciate the opportunity for Mr. Williams and me to have spoken with you and to be able to submit these comments to the NASD for consideration regarding the proposals of Notice 04-07.

Sincerely,

Laurence S. Lese

LSL/*

cc: Mr. Steven R. Williams, President
Petroleum Development Corporation