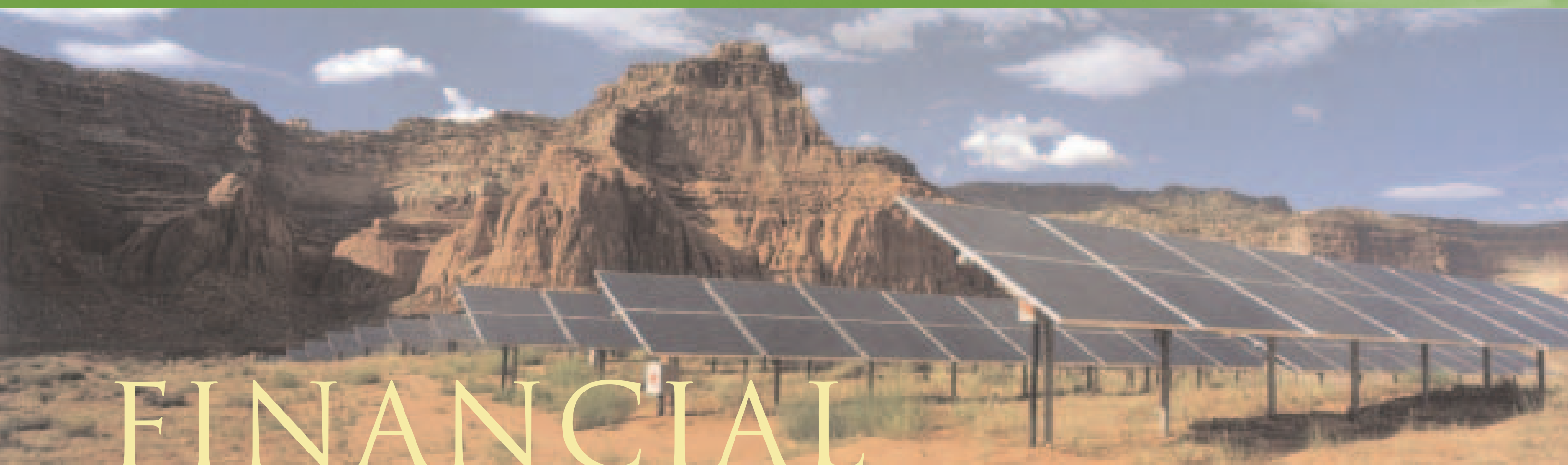

FINANCIAL RESULTS

MESSAGE FROM THE DEPUTY CHIEF FINANCIAL OFFICER

The Department has continued to make significant progress in improving its financial management processes and practices over the past year. The Secretary, Deputy Secretary and the entire senior leadership team place great emphasis on ensuring that the financial systems, as well as the business processes used by the Department, produce accurate and timely information for decision makers. With the submission of this year's Performance and Accountability Report, we have successfully met, for the third consecutive year, the Office of Management and Budget's accelerated due date of 45 days after the close of the fiscal year.

Fiscal year 2006 was the first full year in which the Department operated with a new, integrated core accounting system that standardizes key business and financial processes used throughout the complex. Combined with its companion data warehouse, our Program Offices have the most up-to-date financial and programmatic information at their fingertips, facilitating better decision making. However, many issues and challenges related to system start-up and reconciliations, data conversion and process definition and training demanded our attention throughout the year.

The Department made great strides toward resolving these issues and the prior material weakness on financial reporting and controls identified during the fiscal year 2005 audit. Many of the conditions which existed at the time of that audit have been successfully remediated and others are well on the road to completion.
For example:

- major process improvements were made to facilitate the timely closing and strengthening of controls over month-end accounting processing;
- transaction processing backlogs experienced in the initial start-up of our new accounting system are now under control; and
- key reconciliations between system modules, integrated contractor data feeds and the general ledger are being conducted monthly.

The Department's fiscal year 2006 financial statements have been reviewed by independent auditors. The audit opinion on the Department's Balance Sheet was upgraded from a disclaimer last year to a qualified opinion for fiscal year 2006. The qualification was limited to concerns relating to the Department's controls over the reporting of undelivered orders, and this issue is reported as a material weakness. The auditors did not issue an opinion on the remaining fiscal year 2006 financial statements because of opening balance issues related to fiscal year 2005 for which the auditors issued a disclaimer of opinion. We plan to significantly improve controls over accounting for and reporting undelivered orders in fiscal year 2007, positioning the Department to achieve an unqualified audit opinion on next year's financial statements.

One of the Department's strategic themes is to enable mission success through sound management principles. I believe that this report demonstrates that we are institutionalizing a fully integrated resource management strategy that supports mission needs and postures the Department for continuous business process improvement. In the coming years we look forward to meeting this commitment to the American people.

James T. Campbell

James T. Campbell
November 15, 2006

CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The Department's financial statements have been prepared to report the financial position and results of operations of the Department of Energy, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Circular A-136, "Financial Reporting Requirements."

The responsibility for the integrity of the financial information included in these statements rests with the management of the Department of Energy. The audit of the Department's principal financial statements was performed by an independent certified public accounting firm selected by the Department's Office of Inspector General. The auditors' report issued by the independent certified public accounting firm is included in this report.

The following provides a brief description of the nature of each required financial statement.

The *Consolidated Balance Sheets* describe the assets, liabilities and net position components of the Department.

The *Consolidated Statements of Net Cost* summarizes the Department's operating costs by the seven long-term general goals identified in the Department's FY 2003 Strategic Plan.

All operating costs reported reflect full costs, including all direct and indirect costs, consumed by a program or responsibility segment. The full costs are reduced by earned revenues to arrive at net costs. The Net Cost of Operations is reported on the *Consolidated Statements of Net Cost* and also on the *Consolidated Statements of Financing*.

The *Consolidated Statements of Changes in Net Position* identify appropriated funds used as a financing source for goods, services, or capital acquisitions. This statement presents the accounting events that caused changes in the net position section of the *Consolidated Balance Sheets* from the beginning to the end of the reporting period.

The *Combined Statements of Budgetary Resources* identify the Department's budget authority. Budget authority is the authority that Federal law gives to agencies to incur financial obligations that will eventually result in outlays or expenditures. Specific forms of budget authority that the Department receives are appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. The *Combined Statements of Budgetary Resources* provides information on budgetary resources available to the Department during the year and the status of those resources at the end of the year. Detail on the amounts shown in the *Combined Statements of Budgetary Resources* is included in the Required Supplementary Information section on the schedule *Budgetary Resources by Major Account*.

The *Consolidated Statements of Financing* reconcile the obligations incurred to finance operations with the net cost of operations. Obligations incurred include amounts of orders placed, contracts awarded, services received, and similar transactions that require payment during the same or future period. Obligations incurred link the *Combined Statements of Budgetary Resources* to the *Consolidated Statements of Financing*.

The *Consolidated Statements of Custodial Activities* identify revenues collected by the Department on behalf of others. These revenues primarily result from power marketing administrations that sell power generated by hydroelectric facilities owned by the Corps of Engineers and the Bureau of Reclamation.

U. S. Department of Energy
Consolidated Balance Sheets

As of September 30, 2006 and 2005
($ in millions)

	FY 2006	FY 2005 (Unaudited)
ASSETS: (Note 2)		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$ 17,189	$ 15,634
Investments, Net (Note 4)	23,767	22,197
Accounts Receivable, Net (Note 5)	615	652
Regulatory Assets (Note 6)	5,476	4,536
Other Assets	1	21
Total Intragovernmental Assets	$ 47,048	$ 43,040
Investments, Net (Note 4)	210	230
Accounts Receivable, Net (Note 5)	4,020	3,990
Inventory, Net: (Note 7)		
Strategic Petroleum and Northeast Home Heating Oil Reserve	19,172	19,314
Nuclear Materials	21,199	21,285
Other Inventory	456	444
General Property, Plant, and Equipment, Net (Note 8)	24,122	23,190
Regulatory Assets (Note 6)	5,961	5,653
Other Non-Intragovernmental Assets (Note 9)	3,864	4,591
Total Assets	$ 126,052	$ 121,737
LIABILITIES: (Note 10)		
Intragovernmental Liabilities:		
Accounts Payable	$ 82	$ 56
Debt (Note 11)	10,780	9,958
Deferred Revenues and Other Credits (Note 12)	52	125
Other Liabilities (Note 13)	257	169
Total Intragovernmental Liabilities	$ 11,171	$ 10,308
Accounts Payable	3,663	3,883
Debt Held by the Public (Note 11)	6,605	6,574
Deferred Revenues and Other Credits (Note 12)	23,661	21,592
Environmental Cleanup and Disposal Liabilities (Note 14)	230,321	189,710
Pension and Other Actuarial Liabilities (Note 15)	12,059	11,727
Other Non-Intragovernmental Liabilities (Note 13)	2,831	3,664
Contingencies and Commitments (Note 16)	6,836	5,058
Total Liabilities	$ 297,147	$ 252,516
NET POSITION:		
Unexpended Appropriations		$ 8,978
Unexpended Appropriations - Earmarked Funds (Note 17)	$ 47	
Unexpended Appropriations - Other Funds	9,864	
Cumulative Results of Operations		(139,757)
Cumulative Results of Operations - Earmarked Funds (Note 17)	(1,345)	
Cumulative Results of Operations - Other Funds	(179,661)	
Total Net Position	$ (171,095)	$ (130,779)
Total Liabilities and Net Position	$ 126,052	$ 121,737

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Net Cost

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (Unaudited)	FY 2005 (Unaudited)
STRATEGIC GOALS:		
Defense:		
Nuclear Weapons Stewardship:		
Total Program Costs	$ 6,841	$ 6,779
Nuclear Nonproliferation:		
Total Program Costs	$ 1,210	$ 1,191
Naval Reactors:		
Program Costs	782	810
Less: Earned Revenues (Note 18)	(11)	(18)
Net Cost of Naval Reactors	$ 771	$ 792
Net Cost of Defense	$ 8,822	$ 8,762
Energy:		
Program Costs	6,832	6,617
Less: Earned Revenues (Note 18)	(5,025)	(4,182)
Net Cost of Energy	$ 1,807	$ 2,435
Science:		
Total Program Costs	$ 3,720	$ 3,565
Environment:		
Environmental Management:		
Program Costs	5,601	6,719
Less: Earned Revenues (Note 18)	(300)	(151)
Net Cost of Environmental Management	$ 5,301	$ 6,568
Nuclear Waste:		
Program Costs	475	521
Less: Earned Revenues (Note 18)	(220)	(321)
Net Cost of Nuclear Waste	$ 255	$ 200
Net Cost of Environment	$ 5,556	$ 6,768
Net Cost of Strategic Goals	$ 19,905	$ 21,530
OTHER PROGRAMS:		
Reimbursable Programs:		
Program Costs	3,389	3,314
Less: Earned Revenues (Note 18)	(3,385)	(3,251)
Net Cost of Reimbursable Programs	$ 4	$ 63
Other Programs: (Note 19)		
Program Costs	660	667
Less: Earned Revenues (Note 18)	(206)	(235)
Net Cost of Other Programs	$ 454	$ 432
Costs Applied to Reduction of Legacy Environmental Liabilities (Notes 14 and 20)	$ (6,207)	$ (6,637)
Costs Not Assigned (Note 21)	$ 49,724	$ 25,499
Net Cost of Operations	$ 63,880	$ 40,887

The accompanying notes are an integral part of these statements

U. S. Department of Energy

Consolidated Statements of Changes in Net Position (Note 17)

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (Unaudited)				FY 2005 (Unaudited)
	Earmarked Funds	All Other Funds	Eliminations	Consolidated	Consolidated
CUMULATIVE RESULTS OF OPERATIONS:					
Beginning Balances	$ 3,264	$ (143,021)	$ -	$ (139,757)	$ (129,187)
Budgetary Financing Sources:					
Appropriations Used	$ 14	$ 22,706	$ -	$ 22,720	$ 23,711
Nonexchange Revenue	60	2	-	62	35
Donations and Forfeitures of Cash	-	13	-	13	13
Transfers - In/(Out) Without Reimbursement	(216)	-	-	(216)	(154)
Other Financing Sources (Non-Exchange):					
Donations and Forfeitures of Cash	1	-	-	1	1
Transfers - In/(Out) Without Reimbursement (Note 27)	(611)	(15)	-	(626)	2,132
Imputed Financing from Costs Absorbed by Others	2	621	-	623	4,279
Other	502	11	(459)	54	300
Total Financing Sources	$ (248)	$ 23,338	$ (459)	$ 22,631	$ 30,317
Net Costs of Operations	(4,361)	(59,978)	459	(63,880)	(40,887)
Net Change	$ (4,609)	$ (36,640)	$ -	$ (41,249)	$ (10,570)
Total Cumulative Results of Operations	$ (1,345)	$ (179,661)	$ -	$ (181,006)	$ (139,757)
UNEXPENDED APPROPRIATIONS:					
Beginning Balances	$ 10	$ 8,968	-	$ 8,978	$ 8,784
Budgetary Financing Sources:					
Appropriations Received (Note 23)	$ 52	$ 23,847	$ -	$ 23,899	$ 23,782
Appropriations Transferred - In/(Out)	-	17	-	17	312
Other Adjustments	(1)	(262)	-	(263)	(189)
Appropriations Used	(14)	(22,706)	-	(22,720)	(23,711)
Total Budgetary Financing Sources	$ 37	$ 896	$ -	$ 933	$ 194
Total Unexpended Appropriations	$ 47	$ 9,864	$ -	$ 9,911	$ 8,978
Net Position	$ (1,298)	$ (169,797)	$ -	$ (171,095)	$ (130,779)

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Combined Statements of Budgetary Resources

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (Unaudited)	FY 2005 (Unaudited)
BUDGETARY RESOURCES		
Unobligated balance, Brought Forward, October 1 (Note 23)	$ 4,244	$ 4,036
Recoveries of Prior Year Unpaid Obligations	47	34
Budget Authority:		
Appropriations (Note 23)	$ 25,374	$ 25,062
Borrowing Authority	270	315
Contract Authority	871	1,018
Spending Authority from Offsetting Collections:		
Earned:		
Collected	7,727	7,224
Change in Receivables from Federal Sources	16	131
Change in Unfilled Customer Orders:		
Advances Received	30	30
Without Advance from Federal Sources	(603)	212
Subtotal	$ 33,685	$ 33,992
Nonexpenditure Transfers, Net, Anticipated and Actual	(52)	169
Temporarily not Available Pursuant to Public Law	(266)	(266)
Permanently Not Available	(1,838)	(1,848)
Total Budgetary Resources (Note 23)	$ 35,820	$ 36,117
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$ 24,701	$ 24,879
Exempt from Apportionment	3,047	3,253
Reimbursable	3,908	3,744
Total Obligations Incurred (Note 23)	$ 31,656	$ 31,876
Unobligated Balance:		
Apportioned	2,552	2,588
Exempt from Apportionment	32	24
Unobligated Balance Not Available (Note 23)	1,580	1,629
Total Status of Budgetary Resources	$ 35,820	$ 36,117
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1 (Note 23)	$ 17,229	$ 17,247
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(4,687)	(4,344)
Total Unpaid Obligated Balance, Net, October 1	$ 12,542	$ 12,903
Obligations Incurred (Note 23)	31,656	31,876
Less: Gross Outlays	(30,642)	(31,856)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(47)	(34)
Change in Uncollected Customer Payments from Federal Sources	587	(343)
	$ 14,096	$ 12,546
Obligated Balance, Net, End of Period:		
Unpaid Obligations {Note 23)	$ 18,196	$ 17,232
Less: Uncollected Customer Payments from Federal Sources	(4,100)	(4,687)
Total, Unpaid Obligated Balance, Net, End of Period	$ 14,096	$ 12,545
NET OUTLAYS		
Gross Outlays	$ 30,642	$ 31,856
Less: Offsetting collections	(7,757)	(7,253)
Less: Distributed Offsetting Receipts (Note 23)	(3,264)	(3,236)
Net Outlays (Note 23)	$ 19,621	$ 21,367

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Financing

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (Unaudited)	FY 2005 (Unaudited)
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 31,656	$ 31,876
Less: Spending Authority from Offsetting Collections and Recoveries	(7,217)	(7,631)
Obligations, Net of Offsetting Collections and Recoveries	$ 24,439	$ 24,245
Less: Offsetting Receipts	(3,264)	(3,236)
Net Obligations	$ 21,175	$ 21,009
Other Resources:		
Donations	1	1
Imputed Financing from Costs Absorbed by Others (Note 28)	623	4,279
Transfers-In/(Out) Without Reimbursement (Note 27)	(626)	2,132
Nuclear Waste Fund Offsetting Receipts, Deferred (Note 22)	2,345	2,520
Other	54	(36)
Net Other Resources Used to Finance Activities	$ 2,397	$ 8,896
Total Resources Used to Finance Activities	$ 23,572	$ 29,905
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	$ (1,235)	$ 72
Resources that Finance the Acquisition of Assets	(3,103)	(5,750)
Resources that Fund Expenses Recognized in Prior Periods	(7,279)	(6,347)
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	62	153
Other Resources and Adjustments	(485)	(375)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (12,040)	$ (12,247)
Total Resources Used to Finance the Net Cost of Operations	$ 11,532	$ 17,658
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Unfunded Liability Estimates (Note 24)	$ 50,832	$ 21,196
Increase/(Decrease) in Exchange Revenue Receivable from the Public	(1)	2
Total Components Requiring or Generating Resources in Future Periods	$ 50,831	$ 21,198
Components Not Requiring or Generating Resources:		
Depreciation and Amortization (Note 26)	920	1,328
Revaluation of Assets and Liabilities	(190)	(178)
Other	787	881
Total Components Not Requiring or Generating Resources	$ 1,517	$ 2,031
Total Net Cost of Items that Do Not Require or Generate Resources in Current Period	$ 52,348	$ 23,229
NET COST OF OPERATIONS	$ 63,880	$ 40,887

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Custodial Activities
For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (Unaudited)	FY 2005 (Unaudited)
SOURCES OF COLLECTIONS:		
Cash Collections: (Note 25)		
Interest	$ 17	$ 20
Federal Energy Regulatory Commission	44	53
Power Marketing Administration Custodial Revenue	545	657
Other Custodial Revenue	-	3
Total Cash Collections	$ 606	$ 733
Accrual Adjustment	13	(19)
Total Custodial Revenue	$ 619	$ 714
DISPOSITION OF REVENUE:		
Transferred to Others:		
Department of the Treasury	(200)	(624)
Army Corps of Engineers	3	(5)
Bureau of Reclamation	(333)	(79)
Others	(5)	(3)
Decrease in Amounts to be Transferred	(84)	(3)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the U.S. Department of Energy (Department or DOE). The statements were prepared from the books and records of the Department in accordance with generally accepted accounting principles applicable to Federal entities.

B. Description of Reporting Entity

The Department is a cabinet level agency of the Executive Branch of the U.S. Government. The Department is not subject to Federal, state, or local income taxes. The Department's headquarters organizations are located in Washington, D.C., and Germantown, Maryland, and consist of an executive management structure that includes the Secretary; the Deputy Secretary; the Under Secretary of Energy; the Under Secretary for National Nuclear Security/Administrator for the National Nuclear Security Administration; the Under Secretary for Science; Secretarial staff organizations; and program organizations that provide technical direction and support for the Department's principal programmatic missions. The Department also includes the Federal Energy Regulatory Commission, which is an independent regulatory organization responsible for setting rates and charges for the transportation and sale of natural gas and for the transmission and sale of electricity and the licensing of hydroelectric power projects.

The Department has a complex field structure comprised of operations offices, field offices, power marketing administrations (Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration), laboratories, and other facilities. The majority of the Department's environmental cleanup, energy research and development, and testing and production activities are carried out by major contractors. The contractors operate, maintain, or support the Department's Government-owned facilities on a day-to-day basis and provide other special work under the direction of DOE field organizations. The Department indemnifies these contractors against financial responsibility from nuclear accidents under the provisions of the Price-Anderson Act.

These contractors have unique contractual relationships with the Department. In most cases, their charts of accounts and accounting systems are integrated with the Department's accounting system through a home office-branch office type of arrangement. Additionally, the Department is responsible for funding certain defined benefit pension plans, as well as postretirement benefits such as medical care and life insurance, for the employees of these contractors. As a result, the Department's financial statements reflect not only the costs incurred by these contractors, but also include certain contractor assets (e.g., employee advances and prepaid pension costs) and liabilities (e.g., accounts payable, accrued expenses including payroll and benefits, and pension and other actuarial liabilities) that would not be reflected in the financial statements of other Federal agencies that do not have these unique contractual relationships.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All material intra-departmental balances and transactions have been eliminated in the *Consolidated Balance Sheets*, *Consolidated Statements of Net Cost*, *Consolidated Statements of Changes in Net Position*, *Consolidated Statements of Financing*, and *Consolidated Statements of Custodial Activities*. The *Combined Statements of Budgetary Resources* are prepared on a combined basis and do not include intra-departmental eliminations.

Throughout these financial statements, assets, liabilities, earned revenue, and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other Federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other Federal entities, and intragovernmental costs are payments or accruals to other Federal entities.

D. Fund Balance with Treasury

Funds with the Department of the Treasury (Treasury) primarily represent appropriated and revolving funds that are available to pay current liabilities and finance authorized purchases. Disbursements and receipts are processed by Treasury, and the Department's records are reconciled with those of Treasury (see Note 3).

E. Investments, Net

All investments are reported at cost net of amortized premiums and discounts as it is the Department's intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see Note 4).

F. Accounts Receivable, Net

The amounts due for non-intragovernmental (non-Federal) receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances (see Note 5).

G. Inventory, Net

Stockpile materials are recorded at historical cost in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, except for certain nuclear materials identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value (see Note 7).

H. General Property, Plant, and Equipment, Net

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. The Department's property, plant, and equipment capitalization threshold is $50,000 except for the power marketing administrations (PMAs), which use thresholds ranging from $5,000 to $10,000. The capitalization threshold for internal use software is $750,000, except for the PMAs, which use thresholds ranging from $5,000 to $100,000 (see Note 8).

Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy or use, the cost is transferred to the appropriate property account. Property, plant, and equipment related to environmental management facilities storing and processing the Department's environmental legacy wastes are not capitalized.

Depreciation expense is generally computed using the straight line method. The units of production method is used only in special cases where applicable, such as depreciating automotive equipment on a mileage basis and construction equipment on an hourly use basis. The ranges of service lives are generally as follows:

- Structures and facilities – 25 - 50 years
- Automated Data Processing Software – 3 - 7 years
- Equipment – 5 - 40 years
- Land and land rights – duration of period or 50 years, whichever is less

I. Liabilities

Liabilities represent amounts of monies or other resources likely to be paid by the Department as a result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent an authorized appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources (see Note 10), and there is no certainty that the appropriations will be enacted. Also, liabilities of the Department arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

J. Earmarked Funds

The Department implemented SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, in FY 2006, which required separate identification of earmarked funds on the *Consolidated Balance Sheets*, *Consolidated Statements of Changes in Net Position*, and selected other footnotes in FY 2006.

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues (see Note 17).

In accordance with the implementation guidance, earmarked funds are not separately identified in FY 2005.

K. Accrued Annual, Sick, and Other Leave

Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

L. Retirement Plans

Federal Employees

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, the Department also contributes the employer's matching share for Social Security. The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System. The Department does report, as an imputed financing source (See Note 28) and a program expense, the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the Office of Personnel Management. The PMAs make additional annual contributions to the U.S. Treasury to ensure that all post-retirement benefit programs provided to their employees are fully funded and such costs are both recovered through rates and properly expensed.

Contractor Employees

Most of the Department's major contractors maintain a defined benefit pension plan under which they promise to pay employees specific benefits, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of employer contributions to the pension plans. Amounts are calculated for employers to contribute to their pension plan to ensure the plan assets are sufficient or provide for accrued benefits of contractor employees. The level of contributions is dependent on plan provisions and actuarial assumptions about the future, such as interest rates, employee turnover and mortality, age of retirement, and compensation increases. The Department's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits which are generally funded on a pay-as-you-go basis. Since the Department is ultimately responsible for the allowable costs of funding the pension and PRB plans, it reports assets and liabilities for these plans (see Note 15).

M. Net Cost of Operations

Program costs are summarized in the *Consolidated Statements of Net Cost* by the seven long-term general goals identified in the Department's September 30, 2003, Strategic Plan. Program costs reflect full costs including all direct and indirect costs consumed by these general goals. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see Notes 18 and 19). The general goals are summarized on the next page.

- Nuclear Weapons Stewardship – Ensure that our nuclear weapons continue to serve their essential deterrence role by maintaining and enhancing the safety, security, and reliability of the U.S. nuclear weapons stockpile.
- Nuclear Nonproliferation – Provide technical leadership to limit or prevent the spread of materials, technology, and expertise relating to weapons of mass destruction; advance the technologies to detect the proliferation of weapons of mass destruction worldwide; and eliminate or secure inventories of surplus materials and infrastructure usable for nuclear weapons.
- Naval Reactors – Provide the Navy with safe, militarily effective nuclear propulsion plants and ensure their continued safe and reliable operation.
- Energy Security – Improve energy security by developing technologies that foster a diverse supply of reliable, affordable, and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.
- World-Class Scientific Research Capacity – Provide world-class scientific research capacity needed to: ensure the success of Department missions in national and energy security; advance the frontiers of knowledge in physical sciences and areas of biological, medical, environmental, and computational sciences; or provide world-class research facilities for the Nation's science enterprise.
- Environmental Management – Accelerate cleanup of nuclear weapons manufacturing and testing sites, completing cleanup of 108 contaminated sites by 2035.
- Nuclear Waste – License and construct a permanent repository for nuclear waste at Yucca Mountain.

N. Revenues and Other Financing Sources

The Department receives the majority of the funding needed to perform its mission through Congressional appropriations. These appropriations may be used, within statutory limits, for operating and capital expenditures. In addition to appropriations, financing sources include exchange and non-exchange revenues, imputed financing sources, and custodial revenues.

Exchange and Non-Exchange Revenues: In accordance with Federal Government accounting standards, the Department classifies revenues as either exchange (earned) or non-exchange. Exchange revenues are those that derive from transactions in which both the Government and the other party receive value (see Note 18). Non-exchange revenues derive from the Government's sovereign right to demand payment, including fines and penalties. These revenues are not considered to reduce the cost of the Department's operations and are reported on the *Consolidated Statements of Changes in Net Position*.

Imputed Financing Sources: In certain instances program costs of the Department are paid out of the funds appropriated to other Federal agencies. For example, certain costs of retirement programs are paid by the Office of Personnel Management, and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. When costs that are directly attributable to the Department's operations are paid by other agencies, the Department recognizes these amounts on the *Consolidated Statements of Net Cost*. In addition, these amounts are recognized as imputed financing sources on the *Consolidated Statements of Changes in Net Position* and the *Consolidated Statements of Financing* (see Note 28).

Custodial Revenues: The Department collects certain revenues on behalf of others which are designated as custodial revenues. The Department incurs virtually no costs to generate these revenues, nor can it use these revenues to finance its operations. The revenues are returned to Treasury and others and are reported on the *Consolidated Statements of Custodial Activities* (see Note 25).

O. Use of Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from these estimates.

P. Comparative Data

Certain FY 2005 amounts have been reclassified to conform to the FY 2006 presentation.

2. Non-Entity Assets

(in millions)

		FY 2006		FY 2005 (unaudited)
Intragovernmental				
Fund balance with Treasury				
Naval Petroleum Reserve Deposit Fund (Note 13)	$	323	$	323
Elk Hills School Lands Fund (Note 13)		-		82
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 13)		72		280
Subtotal	$	395	$	685
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 13)		210		230
Inventories - Department of Defense stockpile oil (Notes 7 and 13)		123		106
Other		18		9
Total non-entity assets	$	746	$	1,030
Total entity assets		125,306		120,707
Total assets	**$**	**126,052**	**$**	**121,737**

Assets in the possession of the Department that are not available for its use are considered non-entity assets.

Naval Petroleum Reserve Deposit Fund

The balance in this fund represents proceeds from the sale of the Naval Petroleum Reserve at Elk Hills that are being held until final disposition in accordance with the Decoupling Agreement. Approximately $288 million is being held for a contingency payment to Chevron, Inc., pending the outcome of equity finalization. The remaining $35 million is reserved for anticipated adjustments to Occidental's final payment and for possible reimbursement to the investment banker for an advance on its commission.

Petroleum Pricing Violation Escrow Fund

The Petroleum Pricing Violation Escrow Fund represents custodial receipts collected as a result of agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s. These receipts are invested in Treasury securities and certificates of deposit at minority-owned financial institutions pending determination by the Department as to how to distribute the fund balance. The investments are liquidated, as needed, to make payments from this fund.

3. Fund Balance with Treasury

(in millions)

September 30, 2006	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	$ 2,367	$ 95	$ 122	$ -	$ 2,584
Unavailable (Note 23)	39	1,441	100	-	1,580
Obligated balance not yet disbursed					
Unpaid obligations (Note 23)	15,115	2,452	628	1	18,196
Uncollected customer payments from Federal sources	(3,697)	(386)	(17)	-	(4,100)
Deposit fund liabilities	-	-	-	377	377
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	257	(871)	-	-	(614)
Unavailable receipt accounts	-	-	881	-	881
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(183)	-	(183)
Uranium Enrichment D&D Fund	-	-	(110)	-	(110)
Pajarito Plateau Homesteaders Compensation Fund	-	-	(8)	-	(8)
U.S. Enrichment Corporation revolving fund	-	(1,414)	-	-	(1,414)
Total FY 2006 fund balance with Treasury	**$ 14,081**	**$ 1,317**	**$ 1,413**	**$ 378**	**$ 17,189**
September 30, 2005 (unaudited)					
Unobligated budgetary resources					
Available	$ 2,382	$ 95	$ 135	$ -	$ 2,612
Unavailable (Note 23)	240	1,388	1	-	1,629
Obligated balance not yet disbursed					
Unpaid obligations (Note 23)	14,762	1,954	511	5	17,232
Uncollected customer payments from Federal sources	(4,378)	(296)	(13)	-	(4,687)
Deposit fund liabilities	-	-	-	391	391
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	257	(1,019)	-	-	(762)
Unavailable receipt accounts	-	-	963	-	963
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(284)	-	(284)
Uranium Enrichment D&D Fund	-	-	(68)	-	(68)
Pajarito Plateau Homesteaders Compensation Fund	-	-	(8)	-	(8)
U.S. Enrichment Corporation revolving fund	-	(1,384)	-	-	(1,384)
Total FY 2005 fund balance with Treasury	**$ 13,263**	**$ 738**	**$ 1,237**	**$ 396**	**$ 15,634**

4. Investments, Net

(in millions)

Pursuant to statutory authorizations, the Department invests monies in Treasury securities and commercial certificates of deposit that are secured by the Federal Deposit Insurance Corporation. The Department's investments primarily involve the Nuclear Waste Fund (NWF) and the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund. Fees paid by owners and generators of spent nuclear fuel and high-level radioactive waste and fees collected from domestic utilities are deposited into the respective funds. Funds in excess of those needed to pay current program costs are invested in Treasury securities.

Upon privatization of the United Stated Enrichment Corporation (USEC) on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. Funds in excess of those needed to liquidate USEC liabilities are invested in Treasury securities.

The Federal Government does not set aside assets to pay for expenditures associated with the funds for which the Department holds Treasury securities. These Treasury securities are an asset to the Department of Energy and a liability to Treasury. Because the Department of Energy and Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the Department with authority to draw upon the U.S. Treasury to make expenditures, subject to available appropriations and OMB apportionments. When the Department requires redemption of these securities, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way the Government finances all other expenditures.

	Face	Unamortized Premium (Discount)	Investments Net	Unrealized Market Gains (Losses)	Market Value
September 30, 2006					
Intragovernmental Non-Marketable					
Nuclear Waste Fund	$ 36,481	$ (18,529)	$ 17,952	$ 1,393	$ 19,345
D&D Fund	4,228	82	4,310	(68)	4,242
U.S. Enrichment Corporation	1,414	11	1,425	-	1,425
Petroleum Pricing Violation Escrow Fund	72	-	72	-	72
Pajarito Plateau Homesteaders Compensation Fund	8	-	8	-	8
Subtotal	$ 42,203	$ (18,436)	$ 23,767	$ 1,325	$ 25,092
Petroleum Pricing Violation Escrow Fund	210	-	210	-	210
Total FY 2006 investments	**$ 42,413**	**$ (18,436)**	**$ 23,977**	**$ 1,325**	**$ 25,302**
September 30, 2005 (unaudited)					
Intragovernmental Non-Marketable					
Nuclear Waste Fund	$ 33,549	$ (17,037)	$ 16,512	$ 2,008	$ 18,520
D&D Fund	3,891	122	4,013	(46)	3,967
U.S. Enrichment Corporation	1,387	(3)	1,384	1	1,385
Petroleum Pricing Violation Escrow Fund	281	(1)	280	-	280
Pajarito Plateau Homesteaders Compensation Fund	8	-	8	-	8
Subtotal	$ 39,116	$ (16,919)	$ 22,197	$ 1,963	$ 24,160
Petroleum Pricing Violation Escrow Fund	230	-	230	-	230
Total FY 2005 investments	**$ 39,346**	**$ (16,919)**	**$ 22,427**	**$ 1,963**	**$ 24,390**

5. Accounts Receivable, Net

(in millions)

	FY 2006			FY 2005 (unaudited)		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Intragovernmental	$ 615	$ -	$ 615	$ 652	$ -	$ 652
Nuclear Waste Fund	3,153	-	3,153	3,024	-	3,024
Uranium Enrichment D&D Fund	181	-	181	375	-	375
Power marketing administrations	586	(42)	544	465	(40)	425
Credit programs	51	(26)	25	54	(26)	28
Other	156	(39)	117	179	(41)	138
Subtotal	$ 4,127	$ (107)	$ 4,020	$ 4,097	$ (107)	$ 3,990
Total accounts receivable	**$ 4,742**	**$ (107)**	**$ 4,635**	**$ 4,749**	**$ (107)**	**$ 4,642**

Intragovernmental accounts receivable primarily represent amounts due from other Federal agencies for reimbursable work performed pursuant to the Economy Act, Atomic Energy Act, and other statutory authority, as well as interest earned on investments held in Treasury securities.

Non-intragovernmental receivables primarily represent amounts due for NWF and D&D Fund fees. NWF receivables are supported by contracts and agreements with owners and generators of spent nuclear fuel and high-level radioactive waste that contribute resources to the fund. D&D Fund receivables from public utilities are supported by public law. Other receivables due from the public include reimbursable work billings and other amounts related to trade receivables, and other miscellaneous receivables.

6. Regulatory Assets

(in millions)

	FY 2006	FY 2005 (unaudited)
Intragovernmental		
Refinanced and additional appropriated capital	$ 5,476	$ 4,536
Non-operating regulatory assets	3,928	3,955
Investor owned utilities exchange benefits	1,296	964
Conservation and fish and wildlife projects	401	412
Other regulatory assets	336	322
Subtotal	$ 5,961	$ 5,653
Total regulatory assets	**$ 11,437**	**$ 10,189**

The Department's power marketing administrations (PMAs) record certain amounts as assets in accordance with Statement of Financial Accounting Standard (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*. The provisions of SFAS No. 71 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

In order to defer incurred costs under SFAS No. 71, a regulated entity must have the statutory authority to establish rates that recover all costs. Rates so established must be charged to and collected from customers. Due to increasing competitive pressures, Bonneville Power Administration (BPA) may be required to seek alternative solutions in the future to avoid raising rates to a level that is no longer competitive. If BPA's rates should become market-based, SFAS No. 71 would no longer be applicable, and all of the above costs deferred under that standard would be expensed.

Refinanced and Additional Appropriated Capital

The BPA Appropriations Refinancing Act of 1996, 16 U.S.C. 8381, required that historic interest rates set on the Federal Columbia River Power System (FCRPS) capital appropriations, which BPA is obligated to set rates to recover, be reset and assigned prevailing market rates and the unpaid balance as of September 30, 1996, be reduced by a matching amount. These appropriations include the unpaid balance of capital appropriations of the power generating assets of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation associated with the FCRPS as well as additional capital investment post-Refinancing Act. The Corps and the Bureau of Reclamation continue to own and operate these assets, with BPA having the responsibility to recover the costs of the assets from power ratepayers. BPA established an intragovernmental regulatory asset representing the repayment amount of the transmission and power generating assets that will be recovered in BPA rates. This regulatory asset is being amortized on a straight-line method over the service lives of the assets. BPA recognized annual amortization costs of $120 million as of September 30, 2006 (unaudited), and $77 million as of September 30, 2005 (unaudited). The *Consolidated Balance Sheets* include a regulatory asset and an offsetting related debt (see Note 11).

Non-Operating Regulatory Assets

BPA has acquired all or part of the potential generating capability of four terminated nuclear power plants. The Government's contracts require BPA to pay all or part of the annual projects' budgets, including debt services of the terminated plants. These projects' current and future costs are recovered through BPA's rates. The *Consolidated Balance Sheets* include a regulatory asset and offsetting related debt (see Note 11).

Investor Owned Utilities (IOU) Exchange Benefits

The IOU Exchange Benefits consist of future payments to be made to BPA's IOUs to be passed on to the utilities' qualified small-farm and residential customers. The regulatory asset offsets the liability on the balance sheet (see Note 12) as these amounts will be collected in future rates. It is possible that the agreements for these future payments may be revised in connection with legal challenges that have been filed with the U.S. Court of Appeals for the Ninth Circuit which could result in a remand and potential changes to the IOU Exchange Benefit amounts to be provided to the IOU customers. BPA believes it is likely that the agreements will be sustained.

Conservation and Fish and Wildlife Assets

The conservation assets consist of capitalized power resource acquisitions resulting from investment conservation measures. The fish and wildlife assets consist of capitalized costs to fund the protection of fish and wildlife, and the mitigation of losses attributed to the development and operation of hydroelectric projects on the Columbia River and its tributaries pursuant to Section 4(h) of the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. 839. BPA pays for the facilities and recovers the costs in rates but does not retain ownership of the facilities. Amortization of capitalized conservation and fish and wildlife costs are computed on a straight-line method based on estimated service lives, which are up to 20 years for conservation and 15 years for fish and wildlife.

Other Regulatory Assets

Other regulatory assets consist of other BPA deferred expenses where the costs are included in power and transmission rates charged to customers. These primarily include monetary and power benefits to certain customers which will be recovered in power rates; settlement payments due to customers or counterparties as a result of contractual settlement agreements or proposed settlements stemming from litigation where BPA intends to recover costs in power rates; capital premiums, which represent the deferred losses related to refinanced debt, and are amortized over the life of the new debt instruments; and the expected amount of future payments for current recipients of BPA workers' compensation benefits. Costs are amortized over the original life of the contract or the rate period.

7. Inventory, Net

Inventory includes stockpile materials consisting of crude oil held in the Strategic Petroleum Reserve and the Northeast Home Heating Oil Reserve, nuclear materials, highly enriched uranium, and other inventory consisting primarily of operating materials and supplies.

Strategic Petroleum Reserve

The Strategic Petroleum Reserve consists of crude oil stored in salt domes, terminals, and pipelines. As of September 30, 2006, and September 30, 2005 (unaudited), the Reserve contained crude oil with a historical cost of $19,095 million and $19,237 million, respectively. The Reserve provides a deterrent to the use of oil as a political instrument and provides an effective response mechanism should a disruption occur. Included in the Strategic Petroleum Reserve is crude oil held for future Department of Defense (DOD) use. The FY 1993 Defense Appropriations Act authorized the Department to acquire, transport, store, and prepare for ultimate drawdown of crude oil for DOD. The crude oil purchased with DOD funding is commingled with the Department's stock and is valued at its historical cost of $123 million at September 30, 2006, and $106 million as of September 30, 2005 (unaudited) (see Notes 2 and 13).

In August 2005, Hurricane Katrina hit the Gulf Coast near the Louisiana/ Mississippi border. Although the Strategic Petroleum Reserve storage facilities were unaffected, its leased office facilities in the New Orleans area were evacuated and remained inactive until October 2005. Because of the disruption to crude oil supplies, the Department responded by entering into exchange agreements for the delivery of crude oil to affected companies. To further address the supply disruption, the President ordered a drawdown of the Reserve, resulting in the competitive sale of 11 million barrels of oil in September 2005 (unaudited). As of September 30, 2006, oil sale proceeds totaled $615 million (See Notes 18 and 27) (unaudited).

Northeast Home Heating Oil Reserve

The Northeast Home Heating Oil Reserve was established in FY 2000 pursuant to the Energy Policy and Conservation Act. As of September 30, 2006, and September 30, 2005 (unaudited), the Reserve contained petroleum distillate in the New England, New York, and New Jersey geographic areas valued at historical costs of $77 million.

Nuclear Materials

Nuclear materials include weapons and related components, including those in the custody of the DOD under Presidential Directive, and materials used for research and development purposes. Certain surplus plutonium carried at zero value (a provision for disposal is included in environmental liabilities) has significant arms control and nonproliferation value and is instrumental to the U.S in ensuring that Russia continues toward the disposition of its weapons grade plutonium.

The Office of Nuclear Energy has inventories amounting to a total of 17,796 metric tons of uranium hexafluoride. This total is segmented into three separate stockpiles. First, the Department in 1996 received from USEC a transfer of 5,521 metric tons of uranium associated with the natural uranium component of low enriched uranium (LEU) delivered under the U.S. and Russia Highly Enriched Uranium (HEU) Purchase Agreement in 1995 and 1996. About 1,279 metric tons remain in the Department's inventories as a result of: (1) 2,228 metric tons transferred consistent with section 3112 of the USEC Privatization Act between 1996 and 2001; (2) 1,105 metric tons transferred to USEC for sale in FY 2005 and FY 2006; (3) 906 metric tons sold by the Department in FY 2006 (see Note 18); and (4) about 3 metric tons remain unrecoverable as cylinder heels from the technetium cleanup program.

The second stockpile of uranium, amounting to 11,000 metric tons, was purchased from Russia for $325 million consistent with P.L. 105-277. This material is the natural uranium component of LEU delivered under the U.S. and Russia HEU Agreement in 1997 and 1998. Final disposition of the material cannot occur until after March 2009 based upon an international agreement between the U.S. and Russia that requires the Department to maintain a 22,000 metric ton stockpile and restricts the entry of the uranium into the commercial market until after March 2009. The Department has an inventory of U.S. origin uranium of 5,517 metric tons, of which 5,462 metric tons is also restricted from sale into the commercial market until after March 2009. Sampling and analysis indicate that a portion of the Department's stockpile of uranium hexafluoride contains technetium exceeding nuclear fuel specifications. Based on current market data, the carrying value of this material is not impaired as of September 30, 2006.

The nuclear materials inventory includes numerous items for which future use and disposition decisions have not been made. Decisions for most of these items will be made through analysis of the economic benefits and costs, and the environmental impacts of the various use and disposition alternatives. The carrying value of these items is not significant to the nuclear materials stockpile inventory balance. The Department will recognize disposition liabilities and record the material at net realizable value when disposal as waste is identified as the most likely alternative and disposition costs can be reasonably estimated. Inventory values are reduced by costs associated with decay or damage.

Highly Enriched Uranium

The Nuclear Weapons Council declared in December 1994, leading to the Secretary of Energy's announcement in February 1996, that 174.3 metric tons (MT) of the Department's HEU were excess to national security needs. Most of this material (about 151 MT) has been blended for sale as LEU and used over time as commercial or research nuclear reactor fuel to recover its value. The remaining portion (about 23 MT) of the material is already in the form of irradiated fuel or other waste forms, which require no processing prior to disposal. In November 2005, the Secretary of Energy declared that an additional 200 MT of HEU will never be used for nuclear weapons. Out of the 200 MT, approximately 20 MT will be down blended to LEU for use in commercial or research reactors. Down-blending of this material will occur over the next 25 to 30 years.

8. General Property, Plant and Equipment, Net

(in millions)

	FY 2006			FY 2005 (unaudited)		
	Acquisition Costs	Accumulated Depreciation	Net Book Value	Acquisition Costs	Accumulated Depreciation	Net Book Value
Land and land rights	$ 1,564	$ (753)	$ 811	$ 1,506	$ (729)	$ 777
Structures and facilities	33,665	(22,312)	11,353	33,543	(21,937)	11,606
Internal use software	471	(203)	268	419	(149)	270
Equipment	15,796	(10,563)	5,233	15,203	(10,322)	4,881
Natural resources	65	(16)	49	65	(9)	56
Construction work in process	6,408	-	6,408	5,600	-	5,600
Total property, plant and equipment	**$ 57,969**	**$ (33,847)**	**$ 24,122**	**$ 56,336**	**$ (33,146)**	**$ 23,190**

9. Other Non-Intragovernmental Assets

(in millions)

	FY 2006	FY 2005 (unaudited)
Purchased generating capability	$ 2,435	$ 2,389
Prepaid pension plan costs (Note 15)	868	1,260
Oil due from others	83	224
Prepayments	21	321
Other	457	397
Total other non-intragovernmental assets	**$ 3,864**	**$ 4,591**

Purchased Generating Capability

Through contracts, BPA has acquired all or part of the generating capability of one nuclear power plant and two hydroelectric projects. The contracts require BPA to pay operating expenses and debt service for these facilities. The *Consolidated Balance Sheets* include an offsetting related debt for these amounts.

Oil Due from Others

The Department has a Royalty-In-Kind exchange arrangement with the Department of the Interior's Mineral Management Service (MMS) to receive crude oil from Gulf of Mexico Federal offshore leases. The oil from the MMS offshore leases was exchanged for other crude oil (exchange oil) to be delivered to the Strategic Petroleum Reserve. As a result of companies deferring the delivery of some of the exchange oil, the Department earned additional oil as a premium. All Royalty-In-Kind exchange oil has been received as of October 2005. Due to Hurricane Katrina and the rise of oil prices, the SPR was directed to stop filling the reserve. Accordingly, there was no activity in the Royalty-In-Kind exchange arrangement during fiscal year 2006.

Due to Hurricane Katrina, the SPR contracted with six oil companies to loan SPR oil in exchange for the return of contracted plus premium barrels related to the exchange. As of September 30, 2006, the majority of the oil due to the SPR has been returned.

In June 2006, the SPR delivered 750,000 barrels of oil from the reserve in exchange for 772,400 barrels to be returned back to the reserve by October 2006. As of September 30, 2006, the value of the oil due for this exchange was $21 million.

10. Liabilities Not Covered by Budgetary Resources

(in millions)

	FY 2006	FY 2005 (unaudited)
Intragovernmental		
Debt (Notes 11 and 17)	$ 10,780	$ 9,958
Other	17	15
Total intragovernmental	$ 10,797	$ 9,973
Debt (Notes 11 and 17)	6,605	6,574
Deferred revenues		
Nuclear Waste Fund (Note 12)	21,116	19,564
Environmental liabilities (Note 14)	228,301	187,784
Pension and other actuarial liabilities (Note 15)	12,059	11,727
Other liabilities		
Environment, safety and health compliance activities (Note 13)	861	1,164
Accrued annual leave for Federal employees	121	113
Other	187	350
Contingencies and commitments (Note 16)	6,836	5,058
Total liabilities not covered by budgetary resources	$ 286,883	$ 242,307
Total liabilities covered by budgetary resources	10,264	10,209
Total liabilities	**$ 297,147**	**$ 252,516**

11. Debt

(in millions)

	FY 2006			FY 2005 (unaudited)		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Intragovernmental (Note 10)						
Borrowing from Treasury	$ 2,777	$ (295)	$ 2,482	$ 2,900	$ (123)	$ 2,777
Appropriated capital	2,972	230	3,202	3,111	(139)	2,972
Refinanced and additional appropriations	2,219	951	3,170	2,401	(182)	2,219
Capitalization adjustment	1,990	(64)	1,926	2,056	(66)	1,990
Subtotal	$ 9,958	$ 822	$ 10,780	$ 10,468	$ (510)	$ 9,958
Non-Federal projects (Note 10)	6,574	31	6,605	6,531	43	6,574
Total debt	**$ 16,532**	**$ 853**	**$ 17,385**	**$ 16,999**	**$ (467)**	**$ 16,532**

Borrowing from Treasury

To finance its capital programs, BPA is authorized by Congress to issue to Treasury up to $4,450 million of interest-bearing debt with terms and conditions comparable to debt issued by U.S. Government corporations. A portion ($1,250 million) is reserved for conservation and renewable resource loans and grants. As of September 30, 2006, and September 30, 2005 (unaudited), of the total $2,482 million and $2,777 million of outstanding debt respectively, $765 million and $780 million, respectively, were conservation and renewable resource loans and grants (including Corps, Bureau of Reclamation and U.S. Fish and Wildlife capital investments). The weighted average interest rates for Treasury borrowing as of September 30, 2006, and September 30, 2005 (unaudited), were 5.08 percent and 4.76 percent, respectively. The fair value of BPA's long-term debt, based on discounting future cash flows using rates offered by Treasury as of September 30, 2006, and September 30, 2005 (unaudited), for similar maturities, exceeds carrying value by approximately $132 million and $169 million respectively. BPA's policy is to refinance debt that is callable when associated benefits exceed costs of refinancing.

Appropriated Capital

Appropriated capital owed represents the balance of appropriations provided to the Department's power marketing administrations for construction and operation of power projects which will be repaid to Treasury's General Fund and the Department of the Interior's (Interior) Reclamation Fund. The amount owed also includes accumulated interest on the net unpaid Federal investment in the power projects. The Federal investment in these facilities is to be repaid within 50 years from the time the facilities are placed in service or are commercially operational. Replacements of Federal investments are generally to be repaid over their expected useful service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis.

Each of the power marketing administrations, except for BPA, receives an annual appropriation to fund operation and maintenance expenses. These appropriated funds are repaid to the Treasury's General Fund and Interior from the revenues generated from the sale of power and transmission services. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenues prior to any repayment of Federal investment. The Department treats these appropriations as a borrowing from the Treasury's General Fund and Interior, and as such, the *Consolidated Statements of Changes in Net Position* do not reflect these funds as appropriated capital used.

Except for the appropriation refinancing asset described in Note 6 and in the next paragraph, the Department's financial statements do not reflect the Federal investment in power generating facilities owned by the Department of Defense, U.S Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. The Department's power marketing administrations, except BPA, are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities (see Note 25). BPA makes annual payments to the Treasury from its net proceeds.

Refinanced and Additional Appropriations

As discussed in Note 6, BPA refinanced its unpaid capital appropriations as of September 30, 1996, and is responsible for the repayment of additional appropriated capital investment post-Refinancing Act. The weighted average interest rate on outstanding appropriations was 6.7 percent as of September 30, 2006, and September 30, 2005 (unaudited). The remaining period of repayment on refinanced appropriations is 30 years. Repayment amounts were determined based on the date the respective facilities were placed in service using the weighted average service lives of the associated investments, not to exceed 50 years. BPA repays amounts owed to Treasury's General Fund and Interior's Reclamation Fund.

Capitalization Adjustment

The amount of appropriations refinanced as a result of the BPA Appropriations Refinancing Act of 1996 was $6.6 billion. After refinancing, the appropriations outstanding were $4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over 40 years of which 30 years remain. The weighted average interest was 6.7 percent as of September 30, 2006, and September 30, 2005 (unaudited).

Non-Federal Projects

As discussed in Notes 6 and 9, the non-Federal projects debt represents BPA's liability to pay all or part of the annual budgets, including debt service, of the generating capability of one operating and four nonoperating nuclear power plants as well as two hydroelectric projects.

The following table summarizes future principal payments required for the debt described above (unaudited).

(in millions)

Fiscal Year	Borrowing from Treasury	Appropriated Capital	Refinanced Appropriations	Capitalization Adjustment	Non-Federal Projects
2007	$ 556	$ 10	$ 24	$ 65	$ 234
2008	480	21	11	65	290
2009	440	21	10	65	282
2010	145	13	26	65	288
2011	115	75	21	65	285
2012+	746	3,062	3,078	1,601	5,226
Total	**$ 2,482**	**$ 3,202**	**$ 3,170**	**$ 1,926**	**$ 6,605**

12. Deferred Revenues and Other Credits

(in millions)

	FY 2006	FY 2005 (unaudited)
Intragovernmental	$ 52	$ 125
Nuclear Waste Fund (Note 10)	$ 21,116	$ 19,564
Power marketing administrations	2,263	1,812
Reimbursable work advances	240	168
Other	42	48
Subtotal	$ 23,661	$ 21,592
Total deferred revenues and other credits	**$ 23,713**	**$ 21,717**

Nuclear Waste Fund (NWF)

NWF revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and interest accrued on investments in Treasury securities. These revenues are recognized as a financing source as costs are incurred for NWF activities. Annual adjustments are made to defer revenues that exceed the NWF expenses.

Power Marketing Administrations

The power marketing administrations' deferred revenues primarily represent amounts paid to BPA from participants under various alternating current intertie capacity agreements, various customer reimbursable projects and generator funds held as security for network upgrades and interconnection which will be returned as credits against future transmission service and load diversification fees paid to BPA by various customers. These one-time payments cover the remaining term of the customer's existing contractual agreement and are recognized as revenues as contract commitments are satisfied except for the generator funds which will be returned as credits against future transmission services. Also included in Deferred Revenues and Other Credits is BPA's offset to IOU Exchange Benefits (see Note 6).

13. Other Liabilities

(in millions)

Intragovernmental	FY 2006	FY 2005 (unaudited)
Oil held for Department of Defense (Notes 2 and 7)	$ 123	$ 106
Other	134	63
Total other intragovernmental liabilities	$ 257	$ 169
Environment, safety and health compliance activities (Notes 10 and 24)	$ 861	$ 1,164
Accrued payroll, benefits and withholding taxes	942	959
Petroleum Pricing Violation Escrow Fund (Note 2)	282	510
Naval Petroleum Reserve Deposit Fund (Note 2)	323	323
Capital leases	173	174
Elk Hills School Lands Fund (Note 2)	-	82
Other	250	452
Subtotal	$ 2,831	$ 3,664
Total other liabilities	**$ 3,088**	**$ 3,833**

Environment, Safety and Health Compliance Activities

The Department's environment, safety, and health liability represents those activities necessary to bring facilities and operations into compliance with existing environmental safety and health (ES&H) laws and regulations (e.g., Occupational Safety and Health Act; Clean Air Act; Safe Drinking Water Act). Types of activities included in the estimate relate to the following: upgrading site-wide fire and radiological programs; nuclear safety upgrades; industrial hygiene and industrial safety; safety related maintenance; emergency preparedness programs; life safety code improvements; and transportation of radioactive and hazardous materials. The estimate covers corrective actions expected to be performed in future years for programs outside the purview of the Department's Environmental Management (EM) Program. ES&H activities within the purview of the EM program are included in the environmental liability estimate. The September 30, 2006, change in the ES&H liability is due to: (1) additional corrective actions, activities, or programs that are required to improve the facilities' state of compliance and move them toward full compliance, or conformance with all applicable ES&H laws, regulations, agreements, and the Department's orders; (2) revised cost estimates for existing ES&H activities; and (3) costs of work performed during the year.

Accrued Payroll and Benefits

Accrued payroll and benefits represent amounts owed to the Department's Federal and contractor employees for accrued payroll, unfunded accrued annual leave for Federal employees, payroll withholdings owed to state and local governments, and Thrift Savings Plan withholdings and employer contributions.

Other Liabilities

The balance consists primarily of liabilities associated with custodial and non-custodial deposit funds, suspense accounts, receipts due to Treasury, and contract advances.

14. Environmental Cleanup and Disposal Liabilities

(in millions)

	FY 2006	FY 2005 (unaudited)
Environmental Management Program	$ 159,167	$123,419
Legacy environmental liabilities - other	18,222	17,465
Total legacy environmental liabilities	$ 177,389	$ 140,884
Active and surplus facilities	27,587	25,972
High-level waste and spent nuclear fuel disposition	15,472	15,059
Surplus plutonium and HEU disposition	9,873	7,795
Total environmental cleanup and disposal liabilities	$ 230,321	$ 189,710
Amount funded by current appropriations	(2,020)	(1,926)
Total unfunded environmental cleanup and disposal liabilities	**$ 228,301**	**$ 187,784**
Changes in environmental cleanup and disposal liabilities (unaudited)		
Total environmental cleanup and disposal liabilities, beginning balance	$ 189,710	$ 181,742
Changes to environmental cleanup and disposal liability estimates		
Legacy environmental liabilities	42,924	11,757
Active and surplus facilities	1,662	280
High-level waste and spent nuclear fuel disposition	802	380
Surplus plutonium and HEU disposition	2,325	4,102
Total changes in estimates (Notes 21 and 24)	$ 47,713	$ 16,519
Costs applied to reduction of legacy environmental liabilities (Note 20)	(6,207)	(6,637)
Capital expenditures related to remediation activities	(895)	(1,914)
Total environmental cleanup and disposal liabilities	**$ 230,321**	**$ 189,710**

During World War II and the Cold War, the United States developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads and conducted more than one thousand nuclear explosion tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. Approximately one-half million cubic meters of radioactive high-level, mixed, and low-level wastes must be stabilized, safeguarded, and dispositioned, including a quantity of plutonium sufficient to fabricate thousands of nuclear weapons.

Assumptions and Uncertainties

Estimating the Department's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental management program will depend on a number of fundamental technical and policy choices, many of which have not been made. The cost and environmental implications of alternative choices can be profound. For example, many contaminated sites and facilities could be restored to a condition suitable for any desired use; they could also be restored to a point where they pose no near-term health risks to surrounding communities but are essentially surrounded by fences and left in place. Achieving the former conditions would have a higher cost but may, or may not, warrant the costs and potential ecosystem disruption, or be legally required. The baseline estimates reflect applicable local decisions and expectations as to the extent of cleanup and site and facility reuse, which include consideration of Congressional mandates, regulatory direction, and stakeholder input. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Recent increases in project cost estimates have created a significant gap between preliminary EM budgetary funding levels and the estimated costs of performing the work as recorded in the environmental liability estimates. If additional funding is not received, cleanup work scope will need to be extended and delayed resulting in higher costs. Because the response to the Department's requests for additional funding is unknown, the amount of any potential cost increases resulting from funding shortfalls cannot be estimated at this time.

The liabilities as of September 30, 2006, and September 30, 2005 (unaudited), are stated in FY 2006 dollars and FY 2005 dollars, respectively, as required by generally accepted accounting principles for Federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

Components of the Liability

Environmental Management Program (EM) Estimates

EM is responsible for managing the legacy of contamination from the nuclear weapons complex. As such, EM manages thousands of contaminated facilities formerly used in the nuclear weapons program, oversees the safe management of vast quantities of radioactive waste and nuclear materials, and is responsible for the cleanup of large volumes of contaminated soil and water. The FY 2006 EM life-cycle cost estimate reflects a strategic vision to complete this cleanup mission. This strategy provides for a site-by-site projection of the work required to complete all EM projects, while complying with regulatory agreements, statutes, and regulations. Each project baseline estimate includes detailed projections of the technical scope, schedule, and costs at each site for the cleanup of contaminated soil, groundwater, and facilities; treating, storing, and disposing of wastes; and managing nuclear materials. The baseline estimates also include costs for related activities such as landlord responsibilities, program management, and legally prescribed grants and cooperative agreements for participation and oversight by native American tribes, regulatory agencies, and other stakeholders.

Over the past several years a number of management reforms have been implemented within the EM program. These reforms include: (1) redefining and aligning acquisition strategies; (2) instituting robust project management practices and procedures in executing the cleanup program; and (3) implementing a strict configuration control system for key management parameters of the cleanup program. In FY 2006, progress towards improving efficiency and management of the program continued. Field offices have prepared technical baselines that describe in detail the activities, schedule, and resources required to complete the EM cleanup mission at the respective sites. In addition, EM has implemented an earned value management reporting system to ascertain whether cleanup progress remains on schedule and within budget. Achievement of cleanup goals is largely contingent upon receipt of funding, yet to be approved by Congress, during FY 2007 and succeeding years. In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the EM baseline estimates:

- The Department has identified approximately 10,400 potential release sites from which contaminants could migrate into the environment. Although virtually all of these sites have been at least partially characterized, final remedial action and regulatory decisions have not been made for many sites. Site-specific assumptions regarding the amount and type of contamination and the remediation technologies that will be utilized were used in estimating the environmental liability related to these sites.
- Cost estimates for management of the Department's high-level waste are predicated upon assumptions as to the timing and rate of acceptance of the waste by the first geological repository. Delays in opening the repository could cause EM project costs to increase.
- Estimates are based on remedies considered technically and environmentally reasonable and achievable by local project managers and appropriate regulatory authorities.
- Estimated cleanup costs at sites for which there is no current feasible remediation approach are excluded from the baseline estimates, although applicable stewardship and monitoring costs for these sites are included. The cost estimate would be higher if some remediation were assumed for these areas. However, because the Department has not identified effective remedial technologies for these sites, no basis for estimating costs is available. An example of a site for which cleanup costs are excluded is the nuclear explosion test area at the Nevada Test Site.

Changes to the EM baseline estimates during FY 2006 and FY 2005 (unaudited) resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work; revisions in acquisition strategies, technical approach or scope; regulatory changes; cleanup activities performed; additional scope and transfers into the EM baseline estimates; and additions for facilities transferred from the active and surplus category discussed below. Updates to the EM estimates during FY 2006 include provisions for increases in the cost and duration of high-level waste programs and related increases in contingency estimates.

Legacy Environmental Liabilities – Other

These liabilities are comprised of the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites after the EM program activities have been completed. The costs for these post-closure activities are estimated for a period of 75 years after balance sheet date, i.e. through 2081 in FY 2006 and through 2080 in FY 2005 (unaudited). Some postcleanup monitoring and other long-term stewardship activities are expected to continue beyond 2081, but the Department believes the costs of these activities cannot reasonably be estimated.

The Low-Level Radioactive Waste Policy Amendments Act of 1985 assigned responsibility to the Department for the disposal of certain low-level wastes generated by the Department and others that are not suitable for near-surface disposal. Although a final disposal path has not be determined, estimated costs for storage, monitoring and disposal have been included in the liability.

Active and Surplus Facilities

This liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in the EM baseline estimates to those active and surplus facilities with similar characteristics. Site-specific estimates are used when available. Cost estimates for active and surplus facilities are updated each year to reflect current year constant dollars; the transfer of cleanup and management responsibilities for these facilities by other programs to EM, as discussed above; changes in facility size or contamination assessments; and estimated cleanup costs for newly contaminated facilities. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in the liability amounted to $505 million at September 30, 2006, and $440 million at September 30, 2005 (unaudited).

High-Level Waste and Spent Nuclear Fuel Disposition

The Nuclear Waste Policy Act of 1982 established the Department's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel. The Act requires all owners and generators of high-level nuclear waste and spent nuclear fuel, including the Department, to pay their respective shares of the full cost of the program. To that end, the Act establishes a fee on owners and generators that the Department must collect and annually assess to determine its adequacy. The Department's liability reflects its share of the estimated future costs of the program based on its inventory of high-level waste and spent nuclear fuel. The Department's liability does not include the portion of the cost attributable to other owners and generators.

Changes to the high-level waste and spent nuclear fuel disposition liability during FY 2006 and FY 2005 (unaudited) resulted from inflation adjustments to reflect current year constant dollars, revisions in technical approach or scope, changes in the Department's allocable percentage share of future costs, and actual costs incurred by the Department that were allocated to the Department's share of the liability.

Surplus Plutonium and HEU Disposition

The surplus plutonium liability was increased in FY 2006 due to an update of its disposition cost estimate as a part of an external independent review process. The liability for highly enriched uranium was eliminated in FY 2006 because the remaining material has more value than its estimated disposition cost.

15. Pension and Other Actuarial Liabilities

(in millions)

	FY 2006	FY 2005 (unaudited)
Contractor pension plans	$ 2,234	$ 2,563
Contractor postretirement benefits other than pensions	9,707	9,041
Contractor disability and life insurance plans	21	24
Federal Employees' Compensation Act	97	99
Total pension and other actuarial liabilities	**$ 12,059**	**$ 11,727**

Most of the Department's contractors have defined benefit pension plans under which they promise to pay specified benefits to their employees, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual contractor contributions to these pension plans. The Department's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits. The Department approves the contractors' pension and postretirement benefit plans and is ultimately responsible for the allowable costs of funding the plans. The Department reimburses its major contractors for employee disability insurance plans, and estimates are recorded as unfunded liabilities for these plans.

Contractor Pension Plans

The Department follows SFAS No. 87, *Employers' Accounting for Pensions*, for contractor employees for whom the Department has a continuing pension obligation. As of September 30, 2006, the measurement date, the Department has prepaid pension costs of $930 million before minimum liability adjustment and $861 million after minimum liability adjustment; and accrued pension costs of $1,324 million before minimum liability adjustment and $2,234 million after minimum liability adjustment. The Department has a continuing obligation for a variety of contractor sponsored pension plans (39 qualified and 6 nonqualified). In this regard, benefit formulas consist of final average pay (30 plans), career average pay (8 plans), dollar per month of service (6 plans), and one defined contribution plan with future contributions for retired employees. Sixteen of the plans cover nonunion employees only; 9 cover union employees only; and 20 cover both union and nonunion employees.

For qualified plans, the Department's current funding policy is for contributions made to a trust during a plan year for a separate defined benefit pension plan not to exceed the greater of (1) the minimum contribution required by Section 302 of the Employee Retirement Income Security Act (ERISA) or (2) the amount estimated to eliminate the unfunded current liability as projected to the end of the plan year. The term "unfunded current liability" refers to the unfunded current liability as defined in Section 302(d)(8) of ERISA. For nonqualified plans, the funding policy is pay-as-you-go.

Plan assets generally include cash and equivalents, stocks, corporate bonds, government bonds, real estate, venture capital, international investments, and insurance contracts. There are three plans that have securities of the employer or related parties included in the plan assets. The total amount invested in such securities is $3.6 million.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include the discount rates, mortality assumptions, and an expected long-term rate of return on plan assets, salary scale, and any other economic assumption consistent with an expected long-term inflation rate of 3.0 percent for the entire U.S. economy with adjustments to reflect regional or industry rates as appropriate. In most cases, ERISA valuation actuarial assumptions for demographic assumptions were used.

The following specific assumptions and methods were used to determine the net periodic pension cost. The weighted average discount rate was 5.25 percent for FY 2006 and 5.75 percent for FY 2005 (unaudited); the average long-term rate of return on assets was 7.84 percent in FY 2006 and 7.88 percent in FY 2005 (unaudited); and the average rate of compensation was 4.5 percent in FY 2006 and 4.4 percent in FY 2005 (unaudited). The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no single overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligations as of September 30, 2006, and September 30, 2005 (unaudited), were 5.75 percent and 5.25 percent, respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The transition obligation was amortized over the greater of 15 years or the average remaining service.

Contractor Postretirement Benefits Other Than Pensions (PRB)

The Department follows SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, for contractor employees for whom the Department has a continuing obligation. SFAS No. 106 requires that the cost of PRB be accrued during the years that the employees render service. As of September 30, 2006, and September 30, 2005 (unaudited), the measurement dates, the Department has an accrued PRB liability of $9,707 million and $9,041 million, respectively. Generally, the PRB plans are unfunded, and the Department's funding policy is to fund on a pay-as-you-go basis. There are six contractors, however, that are prefunding benefits in part as permitted by law. The Department's contractors sponsor a variety of postretirement benefits other than pensions. Benefits consist of medical (41 contractors), dental (19 contractors), life insurance (23 contractors), and Medicare Part B premium reimbursement (5 contractors). Forty of the contractors sponsor a point of service plan, a PPO, an HMO, or similar plan. Twenty-one of these also have a traditional indemnity or similar plan. Two additional contractors have only a traditional indemnity or similar plan.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include medical and dental trend rates, discount rates, and mortality assumptions.

The following specific assumptions and methods were used in determining the PRB estimates. The medical trend rates for a point of service plan, an HMO, a PPO, or similar plan, grade from 10.0 percent in 2006 down to 5.5 percent in 2014 and later. The medical trend rates for a traditional indemnity plan, or similar plan, grade from 11.0 percent in 2006 down to 5.5 percent in 2014 and later. The dental trend rates at all ages grade down from 7.0 percent in 2006 to 5.0 percent in 2014 and later.

The weighted average discount rates of 5.25 percent for FY 2006 and 5.75 percent for FY 2005 (unaudited) and the average long-term rate of return on assets of 7.0 percent in FY 2006 and 6.58 percent in FY 2005 (unaudited) were used to determine the net periodic postretirement benefit cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligation as of September 30, 2006, and September 30, 2005 (unaudited), were 5.75 percent and 5.25 percent, respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service to full eligibility for benefits of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The Department chose immediate recognition of the transition obligation existing at the beginning of FY 1994.

(in millions)	Pension Benefits FY 2006	Pension Benefits FY 2005 (unaudited)	Other Postretirement Benefits FY 2006	Other Postretirement Benefits FY 2005 (unaudited)
Reconciliation of funded status				
Accumulated benefit obligation	$ 24,923	$ 24,656		
Effect of future compensation increases	3,684	4,054		
Benefit obligation	$ 28,607	$ 28,710	$ 11,500	$ 11,591
Plan assets	24,108	22,990	164	157
Funded status	$ (4,499)	$ (5,720)	$ (11,336)	$ (11,434)
Unrecognized net (asset)/obligation at transition	(503)	(626)		
Unrecognized prior service cost	748	938	(408)	(290)
Unrecognized actuarial loss	3,860	5,646	2,044	2,689
Net amount recognized	$ (394)	$ 238	$ (9,700)	$ (9,035)
Minimum liability adjustment	(979)	(1,547)	-	-
Prepaid/(accrued) benefit cost after minimum liability	$ (1,373)	$ (1,309)	$ (9,700)	$ (9,035)
Total prepaid benefit cost after minimum liability	861	1,254	7	6
Total (accrued) benefit cost after minimum liability	$ (2,234)	$ (2,563)	$ (9,707)	$ (9,041)
Components of net periodic costs				
Service costs	$ 927	$ 803	$ 292	$ 255
Interest costs	1,559	1,447	618	580
Expected return on plan assets	(1,722)	(1,625)	(11)	(11)
Net amortization	391	235	102	39
Impact of curtailment or special termination benefits	58	26	(4)	17
Total net periodic costs	$ 1,213	$ 886	$ 997	$ 880
Contributions and benefit payments				
Employer contributions	$ 530	$ 271	$ 328	$ 306
Participant contributions	3	3	71	64
Benefit payments	1,181	1,069	403 *	383 *

* Includes $6 million paid from plan assets for 2006 and $13 million paid from plan assets for 2005 (unaudited).

(in millions)	Pension Benefits	Other Postretirement Benefits
Expected contributions for fiscal year ending September 30, 2007		
Employer contributions	$517	$355
Participant contributions	3	79

(in millions)	Pension Benefits	Other Postretirement Benefits
Estimated future benefit payments		
Fiscal Year 2007	$1,162	$388
Fiscal Year 2008	1,237	427
Fiscal Year 2009	1,321	467
Fiscal Year 2010	1,414	508
Fiscal Year 2011	1,517	551
Fiscal Years 2012 to 2016	9,267	3,346

The following chart shows the average target allocation for the 38 pension benefit plans and six other postretirement benefit plans with assets. The average actual fiscal year 2006 and 2005 allocations of assets are also shown.

Pension Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2006	Percent of Plan Assets at September 30, 2005 (unaudited)
Cash and equivalents	2.2%	2.6%	3.0%
Government bonds	12.5%	9.8%	11.0%
Corporate bonds	21.6%	16.7%	15.7%
Domestic equities	42.5%	40.4%	45.5%
International equities	10.3%	12.4%	8.7%
Real estate	1.3%	0.8%	0.5%
Insurance contracts (general accounts)	8.2%	13.1%	11.9%
Insurance contracts (separate accounts)	0.0%	2.6%	2.6%
Employer securities	0.2%	0.0%	0.0%
Other	1.2%	1.6%	1.1%
Total	100.0%	100.0%	100.0%

Other Postretirement Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2006	Percent of Plan Assets at September 30, 2005 (unaudited)
Cash and equivalents	0.0%	0.8%	0.9%
Government bonds	0.0%	7.4%	11.0%
Corporate bonds	4.3%	8.2%	4.5%
Domestic equities	6.6%	9.2%	16.2%
International equities	6.4%	5.4%	0.0%
Real estate	2.7%	2.3%	0.7%
Insurance contracts (general accounts)	60.0%	50.0%	50.0%
Insurance contracts (separate accounts)	0.0%	0.0%	0.0%
Employer securities	0.0%	0.0%	0.0%
Other	20.0%	16.7%	16.7%
Total	100.0%	100.0%	100.0%

Each contractor develops its own investment policies and strategies for the plans it sponsors. Therefore, there is no one overall investment policy for the contractors' plans. Generally, their objectives provide for benefit security for plan participants through the maximization of total returns while limiting risk and providing liquidity coverage of benefit payments.

The Department is aware of the Pension Protection Act of 2006 and its revision of pension funding rules which will generally require accelerated funding of benefit obligations for contractor defined benefit pension plans.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The Department plans to implement this new accounting standard in FY 2007. The Department has not determined the impact of the new accounting standard on its consolidated financial statements; however, the new standard may have a significant impact on the amounts recognized as pension and PRB assets and liabilities on the consolidated balance sheet.

16. Contingencies and Commitments

(in millions)

	FY 2006	FY 2005 (unaudited)
Spent nuclear fuel litigation	$ 6,717	$ 5,000
Other	119	58
Total contingencies and commitments (Note 10)	**$ 6,836**	**$ 5,058**

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the Federal Government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where the loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the Government for which the Department, unless required by law, is not required to reimburse from its appropriated funds. The following are significant contingencies:

- *Spent Nuclear Fuel Litigation* – In accordance with the Nuclear Waste Policy Act of 1982 (NWPA), DOE entered into contracts with more than 45 utilities in which, in return for payment of fees into the Nuclear Waste Fund, the Department agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because DOE has no facility available to receive SNF under the NWPA, DOE has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation claiming damages for partial breach of contract has ensued as a result of this delay.

  To date, six suits have been settled involving utilities that collectively produce 18.6 percent of the nuclear-generated electricity in the United States. Under the terms of the settlements, the Judgment Fund, 31 U.S.C. 1304, paid $154 million to the settling utilities for delay damages they have incurred through 2005 and will make annual payments to them for future costs as they are incurred. In addition, one case has been tried and a judgment entered (and subsequently affirmed on appeal) under which the utility was awarded no damages based on the court's finding that the utility had incurred no compensable costs as a result of the Government's delay as of the time of trial.

  Since the July 21 interim legal report, judgments have been entered in three cases. In one case, a final judgment was entered against the Government awarding the plaintiff, Tennessee Valley Authority, $34.9 million for partial breach of contract damages, and the Government has decided not to appeal. In the two other cases, trial courts entered judgments against the Government, awarding three plaintiffs in one case damages totaling approximately $147 million for claims through 2001 and 2002, and in the other case, tried before a different Court of Federal Claims judge, the two plaintiffs were awarded damages of $42.8 million for claims through December 31, 2004. The Government has not yet determined whether it will appeal these latter two judgments.

  Fifty-six cases remain pending in the Court of Federal Claims. Liability is probable in these cases, and in many of these cases orders have already been entered establishing the Government's liability and the only outstanding issue to be litigated is ascertaining the amount of damages to be awarded. The industry is reported to estimate that damages for all utilities with which the Department has contracts ultimately will be at least $50 billion. The Department believes that the industry's estimate is highly inflated, and that the disposition of the thirteen cases that have been resolved to date suggests that the Government's ultimate liability is likely to be significantly less than that estimate.

  In FY 2005, the Department reported several developments that made it difficult to reasonably predict the amount of the Government's likely liability. In part, these developments involved rulings that judges made *sua sponte* in several of the pending cases: in one case the parties were ordered to address whether the Government should be allowed to raise the defense that the delay in beginning to dispose of utility SNF was unavoidable and therefore, it is not liable for any damages (the court has since ruled that the Government may raise this defense, and has now set a schedule for briefing the question whether the unavoidable delays clause of the contract is in fact applicable); in four cases the court ruled that it lacked jurisdiction to even entertain the plaintiff utilities' breach of contract claims (these cases were reassigned and judges in three cases vacated the prior judge's order and in the fourth case, in which the new judge denied the plaintiff's motion to vacate the order, the plaintiff filed an interlocutory appeal to the Federal Circuit which reversed the trial court and held that the Court of Federal Claims has jurisdiction to hear plaintiff's breach of contract claims); and in one case the parties were ordered to show cause why the Standard Contract between the Government and the utilities should not be declared void and restitution of the payments that utilities have made thereunder (approximately $13.8 billion *in toto*), but no damages, be awarded (the plaintiff in that case declined to amend its complaint to seek restitution and the court decided not to impose the restitution remedy, thereby mooting the issue in the litigation). While resolution of two of the issues did not result in a significant change in the Government's liability, that these and other issues continue to be raised by the various judges handling these cases creates continuing uncertainty regarding the Government's ultimate liability.

  The Department did not meet its goal of submitting a license application for the Yucca Mountain repository to the Nuclear Regulatory Commission by the end of calendar year 2004. The Department has since acknowledged that it will be unable to meet its goal of commencing disposal operations at a repository by 2010, and has projected a new opening date of 2017. Given this revised opening date, the Department has recorded a liability of approximately $6.7 billion for estimated damages in this litigation.

Through FY 2006, the Treasury has paid out $188 million from the Judgment Fund to resolve cases in this litigation. Under current law, any damages or settlements in this litigation will be paid out of the Judgment Fund, 31 U.S.C. 1304, which the Department will not be required to reimburse.

- *Alleged Exposures to Radioactive and/or Toxic Substances* – A number of class action and/or multiple plaintiff tort suits have been filed against the Department's current and former contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of the Department's nuclear facilities. The most significant of these cases arise out of operations of the facilities at Rocky Flats, Colorado; Hanford, Washington; Paducah, Kentucky; Portsmouth (Piketon), Ohio; Mound, Ohio; Yucca Mountain, Nevada; and Brookhaven, New York. Collectively, damages sought in these cases total approximately $110 billion.

  These cases are being vigorously defended, and two cases have gone to trial. In the Rocky Flats litigation, the jury returned a substantial verdict in favor of the plaintiffs; this verdict will be appealed when a judgment is entered on the verdict. In the Hanford litigation, ten of twelve plaintiffs' claims were resolved in favor of the defendants, and relatively small judgments were entered in favor of two plaintiffs. It is expected that proceedings on the remaining Hanford plaintiffs' claims will be suspended while appeals are prosecuted from the judgments on these "bellwether" claims. Additionally, some cases have been dismissed by trial court based on legal rulings and appealed to the courts of appeal, and the final resolution of these issues has not been determined.

  Based on the resolution of prior similar litigation, and the favorable results obtained to date in most of the pending cases, the Department believes that the likelihood of liability in many of these cases is remote, and that in those cases where liability is reasonably possible, any liability that might ultimately be imposed would be significantly less than what the plaintiffs seek.

- *Uranium Enrichment Services Pricing* – This litigation concerns whether electric utilities that purchased uranium enrichment services from the Department are entitled to retroactive price reductions based on the alleged inclusion of inappropriate costs in the prices the Government charged for enrichment services. Six cases were filed involving the claims of 35 utilities. In aggregate, the cases sought approximately $808 million. Three cases were settled in 2005 for a payment of $54.5 million from the Judgment Fund. In April 2006, a fourth case was settled for a payment of $27.5 million. The Government is engaged in settlement negotiations with the plaintiffs in the two remaining cases involving eleven utilities and probable liabilities have been accrued.

- *Natural Resources Damages* – The Confederated Tribes of the Yakama Nation filed suit in September 2002 against DOE and the Department of Defense alleging natural resources damages (NRD) in the 1100 area of the Hanford site. The Yakama have since amended their complaint to add the 100 and 300 areas to the suit, alleging additional natural resource damages. In addition, the States of Washington and Oregon, as well as the Confederated Tribes of the Umatilla, have joined the suit. The case is in pre-trial phase. DOE has moved to dismiss some of the plaintiffs' claims, and the parties have discussed potential negotiated resolution of portions of this case.

- *Sale and Exchange Agreement* – Southern California Edison Company (SCE) filed a complaint alleging that BPA breached the Sale and Exchange Agreement between the parties. The claim arises from BPA converting the Agreement from sale mode to exchange mode for the 2000 delivery period, pursuant to a section of the existing contract, which permits such conversion if BPA has firm surplus power insufficiency, based on the Pacific Northwest Coordination Agreement planning process. SCE does not allege that BPA did not have such an insufficiency at the time of conversion. Instead, SCE argues that BPA violated the implied covenant of good faith and fair dealing and should be equitably estopped from converting the contract to an exchange. SCE requests damages in the amount of $186 million.

  The parties stayed discovery pending mediation. The parties did not settle the case in the mediation. Thereafter, the parties agreed to stay further discovery in order to explore settlement options. A tentative settlement agreement has been reached. The settlement identifies three conditions precedent to final resolution: (a) SCE must obtain approval of the settlement from the California Public Utilities Commission (CPUC); (b) BPA must complete a public review and comment process and subsequently reaffirm the settlement; and (c) BPA must receive a final resolution of its refund liability, if any, in the California refund proceedings. SCE filed the proposed settlement with the CPUC on July 5, 2006, but the CPUC has taken no action to date. BPA has completed its public review process, and reaffirmed the proposed settlement on Aug. 2, 2006. When and if the remaining conditions are met, the settlement agreement further provides that BPA will pay SCE $28.5 million, plus interest accruing from the date the settlement was signed until the date of payment. Upon payment, SCE and BPA would file a joint motion with the court to dismiss the two claims. Since BPA management believes the ultimate settlement of these two claims will be upheld in accordance with the settlement, a liability of $28.5 million is included in the *Consolidated Balance Sheet* at September 30, 2006.

- *Slice True-Up Adjustment Charge* – Petitions for review have been filed with the United States Court of Appeals for the Ninth Circuit challenging BPA's determination of the true-up adjustment charges to Slice Customers for FY 2002 and 2003. Oral arguments in the consolidated cases challenging BPA's 2002 charges were conducted on November 16, 2005. BPA and the parties have negotiated a proposed settlement agreement of all the petitions, and the proposal was circulated among the many parties for final review and approval. The Department of Justice approved the proposed settlement, and attorneys for the Slice Customers and Northwest Requirements Utilities (NRU) informed BPA that the NRU and Slice Customer Boards had approved execution of the proposed settlement. All parties are expected to have signed the settlement sometime in mid-November 2006. The parties will then file motions with the court seeking an additional stay of the litigation and, in the event no challenges are filed to the settlement, dismissal of litigation. Upon filing the motion with the court, BPA will be responsible for providing credits of approximately $26.5 million to the Slice Customers' bills. No provision for this additional cost is included in the consolidated financial statements.

- *Transuranic Waste* – The State of Idaho is challenging the interpretation of a Settlement Agreement reached in 1995 concerning the shipment of transuranic waste from the Idaho National Laboratory. The Government asserts that the agreement requires only stored waste to be shipped offsite by 2018, but the State asserts that this requirement also applies to buried transuranic waste. In March of 2003, the Idaho District Court found in favor of the State. In November of 2004, the 9th Circuit Court of Appeals reversed and remanded the case back to the Idaho District Court for fact finding. On May 25, 2006, after a trial, the District Court issued its judgment that the buried transuranic waste falls under the 1995 agreement. The Government filed a notice of appeal on July 24, 2006. The cost of excavating all buried transuranic waste would be significant. If the courts ultimately find that the Department is required by the 1995 Settlement Agreement to excavate all buried transuranic waste for shipment offsite and the Department fails to do so, under the terms of the settlement agreement, the Department would not be able to continue to send Departmental spent nuclear fuel to the Idaho National Laboratory. The potential cost impact of this litigation to Departmental programs cannot be estimated at this time.

- *Offsite Waste Litigation* – The State of Washington and interest groups have filed complaints in District Court seeking to prevent shipment of radioactive waste by the Department to the Hanford site. The complaints allege violations of the National Environmental Policy Act (NEPA) and the State of Washington Hazardous Waste Management Act (HWMA). In early 2005 (unaudited), the District Court ruled against the United States on the HWMA portion of the case. The Government has appealed the adverse ruling on the HWMA portion of the case, and the parties settled the NEPA portion of the case on January 6, 2006. In that settlement, the Department agreed to prepare a new environmental impact statement for its solid waste program at the Hanford site and suspend most off-site shipments of transuranic wastes to Hanford. The impact of this litigation on the costs of the Department's cleanup program is uncertain, and no provision for additional costs is included in the consolidated financial statements.

- *Natural Resources Damages* – As a result of releases of hazardous substances at the Paducah and Portsmouth Sites, the States of Ohio and Kentucky have potential claims against the DOE under CERCLA for damages to natural resources (e.g. ground water) caused by such releases. DOE has had preliminary discussions with Ohio about a possible settlement of its claims for natural resources damages at the Portsmouth site. Kentucky has indicated that it desires a "tolling" agreement with respect to its potential claims for natural resource damages at the Paducah site. A tolling agreement would suspend the statue of limitation for the filing of the state's claims for a mutually agreeable period of time. DOE will continue its discussions with the states about their potential claims for natural resource damages. While it is possible that the Department will be liable for at least some natural resources damages at these sites, it is unable to prepare an estimate of such damages and has not included a provision for damages in the consolidated financial statements.

- *Waste Disposal* – The United States filed for a preliminary injunction prior to Washington State Initiative 297, the Cleanup Priority Act, becoming effective in December 2004. The District Court granted an injunction that prevented implementation of the initiative in all respects, except it enjoined DOE from importing off site waste to Hanford. The State sought certification of five questions of interpretation to the Washington State Supreme Court. The State Court issued its opinion in July 2005, and the case returned to the United States District Court. The United States District Court issued its decision in favor of the United States and held the Act unconstitutional on June 12, 2006. The Judge reached his decision on several grounds. The State of Washington filed its appeal with the United States Court of Appeals for the 9th Circuit Court on July 12, 2006. The appellants' opening appeal brief is due December 11, 2006, with the appellees' briefs due January 11, 2007. The interveners who joined the State as defendants in the Federal District Court action also have joined the appeal. Under the current schedule, the Government will file its brief with the 9th Circuit Court of Appeals by January 11, 2007.

- *Nuclear Wastes* – The West Valley Coalition on Nuclear Wastes filed suit in Federal Court against DOE regarding concerns associated with DOE compliance with NEPA, as well as concerns as to how DOE's Waste Incidental to Reprocessing policy would be applied at West Valley. The suit was filed in August 2005 following the June 2005 publication of the Waste Management Record of Decision. DOE's General Counsel (GC), in conjunction with the U.S. Department of Justice, is involved in the appropriate and necessary response. An administrative record has been prepared and supplied to the court.

- *Purchase/Sales Commitments and Irrigation Assistance* – The PMAs have entered into various agreements for power and transmission purchases and sales that vary in length but generally do not exceed 20 years. Current rates recover the additional costs of the obligations. The sales commitments are arrangements to sell expected generating capabilities at future dates and the purchase commitments are to purchase power at future dates when the PMAs forecast a shortage of generating capability and prices are favorable. These contracts maximize revenues on estimated surplus volumes.

The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by Federal hydroelectric projects on the Columbia River and its tributaries. BPA makes expenditures and incurs other costs for fish and wildlife consistent with the Northwest Power Act and the Pacific Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program. In addition, in the wake of certain listings of fish species under the Endangered Species Act (ESA) as threatened or endangered, BPA is financially responsible for expenditures and other costs arising from conformance with the ESA and certain biological opinions prepared by the National Oceanic and Atmospheric Administration and the Fish and Wildlife Service in furtherance of the ESA.

As directed by legislation, BPA is required to make cash distributions to Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators' ability to pay. These irrigation distributions do not specifically relate to power generation and are required only if doing so does not result in an increase to power rates. Accordingly, these distributions are not considered to be regular operating costs of the power program and are treated as distributions from accumulated net revenues or expenses when paid.

The following table summarizes future purchase power/sales commitments and irrigation assistance.

(in millions)

Fiscal Year	Purchase Power	Sales Commitments	Irrigation Assistance
2007	$ 173	$ 2,647	$ -
2008	118	2,657	3
2009	115	2,689	7
2010	78	2,764	-
2011	77	2,804	-
2012+	65	9,811	672
Total	**$ 626**	**$ 23,372**	**$ 682**

17. Earmarked Funds

(in millions)

	Nuclear Waste Fund	D&D Fund	USEC	PMAs	Other	Total
Balance Sheet as of September 30, 2006						
Assets						
Fund Balance with Treasury	$ 51	$ 27	$ -	$ 1,583	$ 1,023	$ 2,684
Investments	17,952	4,310	1,425	-	7	23,694
Accounts Receivable	3,214	239	19	544	1	4,017
Inventory	-	-	-	84	2	86
General Property Plant and Equipment	12	-	-	5,952	20	5,984
Regulatory Assets	-	-	-	11,437	-	11,437
Other Assets	1	-	-	2,850	-	2,851
Total Assets	$21,230	$ 4,576	$ 1,444	$ 22,450	$ 1,053	$ 50,753
Liabilities and Net Position						
Accounts Payable	$ 43	$ 36	$ -	$ 171	$ 4	$ 254
Debt	-	-	-	17,385	-	17,385
Deferred Revenues and Other Credits	21,122	-	-	2,273	4	23,399
Environmental Cleanup and Disposal Liabilities	-	10,552	-	-	-	10,552
Pensions and Other Actuarial Liabilities	10	-	-	53	-	63
Other Liabilities	20	13	-	331	5	369
Contingencies and Commitments	-	-	-	29	-	29
Unexpended Appropriations	41	-	-	-	6	47
Cumulative Results of Operations	(6)	(6,025)	1,444	2,208	1,034	(1,345)
Total Liabilities and Net Position	$21,230	$ 4,576	$ 1,444	$ 22,450	$ 1,053	$ 50,753
Statement of Net Costs for the Year Ended September 30, 2006 (unaudited)						
Program Costs	$ 163	$ 1,946	$ -	$ 4,013	$ 40	$ 6,162
Less Earned Revenues	(220)	(166)	-	(4,582)	(756)	(5,724)
Net Program Costs	$ (57)	$ 1,780	$ -	$ (569)	$ (716)	$ 438
Costs Not Assigned	3	3,926	(6)	-	-	3,923
Net Costs of Operations	$ (54)	$ 5,706	$ (6)	$ (569)	$ (716)	$ 4,361
Statement of Changes in Net Position for the Year Ended September 30, 2006 (unaudited)						
Beginning Balance - Cumulative Results of Operations	$ (63)	$ (766)	$ 1,378	$ 1,805	$ 910	$ 3,264
Appropriations Used	8	-	-	-	6	14
Non Exchange Revenue	-	-	60	-	-	60
Donations and Forfeitures of Cash	-	-	-	1	-	1
Transfers - In/(Out) Without Reimbursement	(49)	-	-	(167)	(611)	(827)
Imputed Financing	2	-	-	-	-	2
Other	42	447	-	-	13	502
Net Cost of Operations	54	(5,706)	6	569	716	(4,361)
Ending Balance - Cumulative Results of Operations	$ (6)	$(6,025)	$ 1,444	$ 2,208	$ 1,034	$ (1,345)
Beginning Balance - Unexpended Appropriations	$ -	$ -	$ -	$ -	$ 10	$ 10
Appropriations Received	50	-	-	-	2	52
Other Adjustments	(1)	-	-	-	-	(1)
Appropriations Used	(8)	-	-	-	(6)	(14)
Ending Balance - Unexpended Appropriations	$ 41	$ -	$ -	$ -	$ 6	$ 47

Nuclear Waste Fund

The Nuclear Waste Policy Act (NWPA) requires the civilian owners and generators of nuclear waste to pay their share of the full cost of the Civilian Radioactive Waste Management Program. The NWPA also established a fee for electricity generated and sold by civilian nuclear power reactors which the Department must collect and annually assess to determine its adequacy. A special fund within the Department of the Treasury was created to account for the collection fees. Fees are invested in Treasury securities and any interest earned is available to pay costs incurred by the NWF. The NWPA requires annual financial statements to be prepared as well as reporting of financial performance measures such as the maintenance of liquid reserves and investment strategies.

Decontamination and Decommission Fund

The Energy Policy Act of 1992 established the Decontamination and Decommission Fund (D&D Fund) to pay for the costs of decontaminating and decommissioning of gaseous diffusion facilities through collection of revenues derived from domestic utility assessments and government appropriations. The Energy Policy Act also requires that balances in the D&D Fund be invested in Treasury securities and any interest earned would be available to pay the costs of environmental remediation. The Energy Policy Act requires annual financial statements to be prepared as well as periodic reporting of financial performance measures relating to fee receipt and investment income.

United States Enrichment Corporation

Upon privatization of the United States Enrichment Corporation (USEC) on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. Funds in excess of those needed to liquidate USEC liabilities are invested in Treasury securities.

Power Marketing Administrations

The power marketing administrations are funded primarily from four sources. These include contract and borrowing authority, direct receipts generated from the sale of power, annual appropriations from the Department of the Interior's Reclamation Fund, and appropriations from Treasury's General Fund. In most instances, the annual appropriations from the Reclamation Fund and the General Fund are repaid to Interior and Treasury, respectively, from the receipts generated from power sales.

Other

Other earmarked funds include primarily receipts generated from the sale of oil from the Strategic Petroleum Reserve and receipts in the Department's unavailable receipt account for revenues from enrichment of uranium.

18. Earned Revenues

(in millions)

	FY 2006 (unaudited)		FY 2005 (unaudited)	
Naval Reactors				
Public	$ (11)		$ (10)	
Intragovernmental	-		(8)	
Total Naval Reactors		$ (11)		$ (18)
Energy				
Public	$ (4,956)		$ (4,048)	
Intragovernmental	(69)		(134)	
Total Energy		(5,025)		(4,182)
Environmental Management				
Public	$ (134)		$ 1	
Intragovernmental	(166)		(152)	
Total Environmental Management		(300)		(151)
Nuclear Waste				
Public	$ (838)		$ (762)	
Intragovernmental	(977)		(924)	
Less Deferred Revenue Adjustment	1,595		1,365	
Total Nuclear Waste		(220)		(321)
Reimbursable Programs				
Public	$ (533)		$ (532)	
Intragovernmental	(2,852)		(2,719)	
Total Reimbursable Programs		(3,385)		(3,251)
Other Programs				
Federal Energy Regulatory Commission				
Public (Note 19)	$ (234)		$ (222)	
Other				
Public (Note 19)	28		(13)	
Total Other Programs		(206)		(235)
Total earned revenues		**$ (9,147)**		**$ (8,158)**

Energy

These revenues primarily result from the Department's power marketing activities. The Department's four power marketing administrations market electricity generated primarily by Federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations, interest on the capital investment repayment, borrowings from Treasury, operation and maintenance costs as well as other payment obligations. Revenues collected by the Southeastern, Southwestern, and Western Area Power Administrations on behalf of other agencies are reported as custodial activity (see Note 25).

Due to the disruption of crude oil supplies resulting from Hurricane Katrina in August 2005, the President ordered a drawdown of the Strategic Petroleum Reserve in September 2005. As of September 30, 2006 (unaudited), oil sale proceeds from this drawdown totaled $615 million (see Notes 7 and 27).

Also included in the Energy revenues were receipts stemming from the 1988 Great Plains Gasification Plant asset purchase agreement. These receipts totaled $79 million and $62 million in FY 2006 (unaudited) and FY 2005 (unaudited), respectively. These receipts were deposited into Treasury's miscellaneous receipts account (see Note 27). Under the terms of the asset purchase agreement, the Department will continue to receive revenue sharing payments, if applicable, through FY 2010.

Environmental Management

These revenues primarily result from assessed fees to domestic utilities to pay for the costs for decontamination and decommissioning the Department's gaseous diffusion facilities used for uranium enrichment services. Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Revenue recognized includes known adjustments for transfers between utilities and other reconciliation adjustments. Increases in current and future assessments due to changes in the Consumer Price Index are recognized in each fiscal year as such changes occur. Accumulated funds in excess of those needed to pay current program costs are invested in Treasury securities. Interest earned on these investments totaled $165 million and $145 million for September 30, 2006, (unaudited) and September 30, 2005 (unaudited), respectively.

In FY 2006, the Department sold 906 metric tons of Russian origin uranium for $125 million (unaudited). The Russian origin uranium was originally purchased by the United States Executive Agent under the Russian HEU Agreement in 1995 and 1996. Subsequently, pursuant to the USEC Privatization Act, the uranium was transferred to the Department with the authorization for the Department to sell said uranium. All of the revenue will be used to fund the cleaning of technetium-99 contaminated uranium (see Note 7).

Nuclear Waste

The Nuclear Waste Policy Act of 1982 requires the Department to assess fees against owners and generators of high-level radioactive waste and spent nuclear fuel to fund the costs associated with management and disposal activities under the Act. Fees of $753 million and $733 million were assessed as of September 30, 2006 (unaudited), and September 30, 2005 (unaudited), respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled $1,062 million and $953 million as of September 30, 2006 (unaudited), and September 30, 2005 (unaudited), respectively. Adjustments are made annually to defer the recognition of revenues until earned (i.e., when costs are incurred) for the Civilian Radioactive Waste Management program.

Reimbursable Programs

The Department performs work for other Federal agencies and private companies on a reimbursable work basis and on a cooperative work basis. The Department also has entered into cooperative research and development agreements to increase the transfer of Federally funded technologies to the private sector for the benefit of the U.S. economy.

The Department's policy is to establish prices for materials and services provided to public entities at the Department's full cost. In some cases, the full cost information reported by the Department in accordance with SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, exceeds revenues. This results from implementation of provisions contained in the Economy Act of 1932, as amended; the Atomic Energy Act of 1954, as amended; the National Defense Authorization Act for Fiscal Year 1999, which provide the Department with the authority to charge customers an amount less than the full cost of the product or service. Costs attributable to generating intragovernmental reimbursable program revenues were $2,773 million and $2,882 million as of September 30, 2006 (unaudited), and September 30, 2005 (unaudited), respectively.

Federal Energy Regulatory Commission

The Federal Energy Regulatory Commission (FERC) is an independent regulatory organization within the Department that regulates essential aspects of electric, natural gas and oil pipeline industries, and non-Federal hydropower industries. It ensures that the rates, terms, and conditions of service for segments of the electric, and natural gas and oil pipeline industries are just and reasonable; it authorizes the construction of natural gas pipeline facilities; and it ensures that hydropower licensing administration and safety actions are consistent with the public interest. FERC assesses most of its administrative program costs as an annual charge to each regulated entity.

19. Supporting Schedule of Net Cost for Other Programs

(in millions)

	FY 2006 (unaudited)		FY 2005 (unaudited)	
Federal Energy Regulatory Commission				
Program costs - public	$ 234		$ 221	
Less earned revenues (Note 18)	(234)		(222)	
		$ -		$ (1)
Inspector General		46		45
Environment, safety and health		124		147
Other defense activities		210		203
Other programs - public				
Program costs	$ 46		$ 51	
Less earned revenues (Note 18)	28		(13)	
		74		38
Total net cost for other programs		**$ 454**		**$ 432**

20. Costs Applied to Reduction of Legacy Environmental Liabilities *(unaudited)*

Costs applied to reduction of legacy environmental liabilities are current year operating expenditures for the remediation of contaminated facilities and wastes generated from past operations. These amounts are excluded from current year program expenses since the expense was accrued in prior years when the Department recorded the environmental liabilities.

21. Costs Not Assigned

(in millions)

	FY 2006 (unaudited)	FY 2005 (unaudited)
Change in unfunded environmental liability estimates (Note 14)	$ 47,713	$ 16,519
Change in spent nuclear fuel contingency (Note 16)	1,825	3,080
Changes in contractor pension and PRB estimates (Notes 9 & 15)	368	1,594
Change in unfunded safety and health liabilities (Note 13)	(303)	(16)
Change in occupational illness program -		
Subtitle B	402	502
Subtitle E	(10)	3,631
Uranium enrichment services pricing litigation (Note 16)	28	55
Other	(299)	134
Total costs not assigned	**$ 49,724**	**$ 25,499**

Compensation Program for Occupational Illnesses

The Energy Employees Occupational Illness Compensation Program Act (EEOICPA) authorized compensation for certain illnesses suffered by employees for the Department, its predecessor agencies, and contractors who performed work for the nuclear weapons program. Subtitle B covers illnesses associated with exposure to radiation, beryllium, or silica. In general, each eligible employee and survivors of deceased employees will receive compensation for the disability or death of that employee in the amount of $150,000 plus the costs of medical care.

The National Defense Authorization Act of 2005 amended the EEOICPA to include Subtitle E, Contractor Employee Compensation. This amendment replaces Subtitle D of the EEOICPA, which provided assistance for the Department in obtaining state workers' compensation benefits. The new program grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at a DOE facility. The amendment also makes it possible for uranium workers, as defined under Section 5 of the Radiation Exposure Compensation Act, to receive compensation under Subtitle E for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act.

As of September 30, 2005, the law makes payments under these programs the responsibility of the DOL. Therefore, the liability is recorded by the DOL and changes in the total liability are recognized by the Department as imputed costs and imputed financing source.

22. Nuclear Waste Fund Offsetting Receipts, Deferred

(unaudited)

The Department defers the recognition of revenues related to the fees paid by owners and generators of spent nuclear fuel, and the interest earned on the invested balance of these funds, to the extent that the receipts exceed current year costs for developing and managing a permanent repository for spent nuclear fuel generated by civilian reactors. In addition, market value adjustments for Treasury securities of the Nuclear Waste Fund are not recognized as revenues in the current period unless redeemed by the Department. The gross amount of receipts, interest collected, and the market value adjustments for zero coupon bond investments are reported as offsetting receipts on the *Consolidated Statements of Financing*. Therefore, a reconciling amount is reported for the portion of the offsetting receipts for which revenues are not recognized in the current period.

23. Statement of Budgetary Resources

(in millions)

The *Statement of Budgetary Resources* is presented on a combined, rather than a consolidated, basis in accordance with OMB guidance.

Adjustments to Beginning Balances of Budgetary Resources:

Beginning Unobligated Balance	FY 2006 (Unaudited)	FY 2005 (Unaudited)
Prior year unobligated balance, net - end of period		
Available, apportioned	$ 2,588	$ 2,538
Exempt from apportionment	24	12
Not available	1,629	1,486
Total - prior year unobligated balance	$ 4,241	$ 4,036
Other adjustments for Isotopes	3	-
Current year unobligated balance, start of period	**$ 4,244**	**$ 4,036**

Beginning Unpaid Balance	FY 2006 (unaudited)	FY 2005 (Unaudited)
Prior year unpaid balance, net - end of period	$ 17,232	$ 17,247
Other adjustments for Isotopes	(3)	-
Current year unpaid balance, start of period	**$ 17,229**	**$ 17,247**

Unobligated Balances Not Available:

	FY 2006 (Unaudited)	FY 2005 (Unaudited)
United States Enrichment Corporation Fund	$ 1,414	$ 1,383
Uranium sales and remediation	100	-
Reimbursable work/collections in excess of amount anticipated	27	224
Prior year deobligations in excess of apportioned amount	19	11
Expired appropriations and other amounts not apportioned	20	11
Total unobligated balances not available (Note 3)	**$ 1,580**	**$ 1,629**

Unobligated balances not available represent budgetary resources that have not been apportioned to the Department.

Details of Unpaid Obligations:

	FY 2006 (Unaudited)	FY 2005 (Unaudited)
Undelivered Orders	$ 11,339	$ 10,577
Accounts Payable	6,857	6,655
Total unpaid obligations (Note 3)	**$ 18,196**	**$ 17,232**

Reconciliation to Appropriations Received on the Statements of Changes in Net Position:

	FY 2006 (Unaudited)	FY 2005 (Unaudited)
Appropriations received on the Combined Statements of Budgetary Resources	$ 25,374	$ 25,062
Less:		
Special and trust fund appropriated receipts	(1,119)	(1,136)
Appropriated capital owed	(99)	(43)
Appropriations made available from previous year	(257)	(101)
Appropriations received on the Statement of Changes in Net Position	**$ 23,899**	**$ 23,782**

Reconciliation to the Budget:

	FY 2005 (Unaudited)			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources as published	$ 36,117	$ 31,876	$ (3,236)	$ 21,367
OMB adjustments made to exclude:				
United States Enrichment Corporation	(1,383)	-	-	33
Western Area Power adjustment to Interior Reclamation Fund	-	-	(39)	(39)
Expired accounts	(10)	-	-	-
Other	4	3	(11)	(14)
Budget of the United States Government	**$ 34,728**	**$ 31,879**	**$ (3,286)**	**$ 21,347**

The FY 2005 (unaudited) *Combined Statement of Budgetary Resources* is reconciled to the President's Budget that was published in February 2006. The President's Budget containing actual FY 2006 (unaudited) balances is expected to be published and available on the OMB web site, www.whitehouse.gov/omb, in February 2007.

24. Increases/(Decreases) in Unfunded Liability Estimates

(in millions)

	FY 2006 (unaudited)	FY 2005 (unaudited)
Change in unfunded environmental liability estimates (Note 14)	$ 47,713	$ 16,519
Spent nuclear fuel contingency (Note 16)	1,825	3,080
Change in contractor net pension and PRB estimates (Notes 9 and 15)	1,587	1,620
Change in unfunded safety and health liabilities (Note 13)	(303)	(17)
Change in other unfunded liabilities	10	(6)
Total increases in unfunded liability estimates	**$ 50,832**	**$ 21,196**

25. Custodial Activities

(in millions)

	FY 2006 (unaudited)	FY 2005 (unaudited)
Cash collections		
Power marketing administrations	$ 545	$ 657
Petroleum Pricing Violation Escrow Fund	17	23
Federal Energy Regulatory Commission	44	53
Total cash collections for custodial activities	**$ 606**	**$ 733**

Power Marketing Administrations

The Southeastern, Southwestern, and Western Area Power Administrations are responsible for collecting and remitting to the Department of the Treasury and the Department of the Interior revenues attributable to the hydroelectric power projects owned and operated by the Department of Defense, U.S. Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. These revenues are reported as custodial activities of the Department.

Petroleum Pricing Violation Escrow Fund

Custodial revenues for the Petroleum Pricing Violation Escrow Fund result primarily from interest earned from investment of the fund balance which is invested in U.S. Treasury Bills and certificates of deposit with minority owned financial institutions, pending determination of the disposition of the funds. Funds are disbursed to individuals and groups who are able to provide proof of financial injury related to the violations of Petroleum Pricing Regulations during the 1970s and early 1980s. The Department also distributes funds to the U.S. Treasury and to the States, Possessions, and Territories of the United States.

26. Depreciation and Amortization

(in millions)

	FY 2006 (unaudited)	FY 2005 (unaudited)
Depreciation of property, plant and equipment	$ 1,376	$ 1,692
Amortization		
Premiums and discounts on Treasury investments	(649)	(513)
Other	193	149
Total depreciation and amortization	**$ 920**	**$ 1,328**

27. Transfers In/Out

(in millions)

	FY 2006 (unaudited)	FY 2005 (unaudited)
Transfer of Compensation Program for Occupational Illnesses to Department of Labor (Note 21)	$ -	$ 810
Transfer of Royalty-In-Kind oil from the Department of the Interior (Note 9)	-	1,181
Transfer of SPRO sales receipts to Treasury (Notes 7 and 18)	(615)	-
Transfer of Great Plains Gasification Plant revenue sharing receipts to Treasury (Note 18)	(79)	(62)
All other transfers, net	68	203
Total transfers in/out without reimbursement	**$ (626)**	**$ 2,132**

28. Imputed Financing

(in millions)

	FY 2006 (unaudited)	FY 2005 (unaudited)
Change in occupational illnesses liability (Note 21)	$ 392	$ 4,133
OPM imputed costs	88	91
Payments made from Treasury's Judgment Fund (Note 16)	143	55
Total imputed financing from costs absorbed by others	**$ 623**	**$ 4,279**

CONSOLIDATING SCHEDULES

U. S. Department of Energy
Consolidating Schedules - Balance Sheets
As of September 30, 2006 and 2005
($ in millions)

	FY 2006			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
ASSETS:				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 62	$ 1,583	$ 15,544	$ -
Investments, Net	-	-	23,767	-
Accounts Receivable, Net	3	26	743	(157)
Regulatory Assets	-	5,476	-	-
Other Assets	-	1	19	(19)
Total Intragovernmental Assets	$ 65	$ 7,086	$ 40,073	$ (176)
Investments, Net	-	-	210	-
Accounts Receivable, Net	23	518	3,479	-
Inventory, Net:				
Strategic Petroleum and Northeast Home Heating Oil Reserve	-	-	19,172	-
Nuclear Materials	-	-	21,199	-
Other Inventory	-	84	372	-
General Property, Plant, and Equipment, Net	10	5,952	18,160	-
Regulatory Assets	-	5,961	-	-
Other Non-Intragovernmental Assets	-	2,849	1,015	-
Total Assets	$ 98	$ 22,450	$ 103,680	$ (176)
LIABILITIES:				
Intragovernmental Liabilities:				
Accounts Payable	$ 3	$ 6	$ 230	$ (157)
Debt	-	10,780	-	-
Deferred Revenues and Other Credits	-	10	61	(19)
Other Liabilities	22	53	182	-
Total Intragovernmental Liabilities	$ 25	$ 10,849	$ 473	$ (176)
Accounts Payable	11	165	3,487	-
Debt Held by the Public	-	6,605	-	-
Deferred Revenues and Other Credits	-	2,263	21,398	-
Environmental Cleanup and Disposal Liabilities	-	-	230,321	-
Pension and Other Actuarial Liabilities	-	53	12,006	-
Other Non-Intragovernmental Liabilities	49	278	2,504	-
Contingencies and Commitments	-	29	6,807	-
Total Liabilities	$ 85	$ 20,242	$ 276,996	$ (176)
NET POSITION:				
Unexpended Appropriations				
Unexpended Appropriations- Earmarked Funds	$ -	$ -	$ 47	$ -
Unexpended Appropriations- Other Funds	9	-	9,855	-
Cumulative Results of Operations				
Cumulative Results of Operations - Earmarked Funds	-	2,208	(3,553)	-
Cumulative Results of Operations - Other Funds	4	-	(179,665)	-
Total Net Position	$ 13	$ 2,208	$ (173,316)	$ -
Total Liabilities and Net Position	$ 98	$ 22,450	$ 103,680	$ (176)

See independent auditors' report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 17,189	$ 113	$ 922	$ 14,599	$ -	$ 15,634
23,767	-	-	22,197	-	22,197
615	-	18	1,621	(987)	652
5,476	-	4,536	-	-	4,536
1	-	1	90	(70)	21
$ 47,048	$ 113	$ 5,477	$ 38,507	$ (1,057)	$ 43,040
210	-	-	230	-	230
4,020	20	425	3,545	-	3,990
19,172	-	-	19,314	-	19,314
21,199	-	-	21,285	-	21,285
456	-	88	356	-	444
24,122	9	6,067	17,114	-	23,190
5,961	-	5,653	-	-	5,653
3,864	-	2,978	1,613	-	4,591
$ 126,052	$ 142	$ 20,688	$ 101,964	$ (1,057)	$ 121,737
$ 82	$ 2	$ 13	$ 311	$ (270)	$ 56
10,780	-	9,958	-	-	9,958
52	-	57	855	(787)	125
257	(7)	62	114	-	169
$ 11,171	$ (5)	$ 10,090	$ 1,280	$ (1,057)	$ 10,308
3,663	7	149	3,727	-	3,883
6,605	-	6,574	-	-	6,574
23,661	-	1,812	19,780	-	21,592
230,321	-	-	189,710	-	189,710
12,059	-	55	11,672	-	11,727
2,831	120	197	3,347	-	3,664
6,836	-	6	5,052	-	5,058
$ 297,147	$ 122	$ 18,883	$ 234,568	$ (1,057)	$ 252,516
	$ 14	$ -	$ 8,964	$ -	$ 8,978
$ 47					
9,864					
	6	1,805	(141,568)	-	(139,757)
(1,345)					
(179,661)					
$ (171,095)	$ 20	$ 1,805	$ (132,604)	$ -	$ (130,779)
$ 126,052	$ 142	$ 20,688	$ 101,964	$ (1,057)	$ 121,737

See independent auditors' report.

U. S. Department of Energy
Consolidating Schedules of Net Cost

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
STRATEGIC GOALS:				
Defense:				
Nuclear Weapons Stewardship:				
Total Program Costs	$ -	$ -	$ 6,841	$ -
Nuclear Nonproliferation:				
Total Program Costs	$ -	$ -	$ 1,210	$ -
Naval Reactors:				
Program Costs	-	-	782	-
Less: Earned Revenues	-	-	(11)	-
Net Cost of Naval Reactors	$ -	$ -	$ 771	$ -
Net Cost of Defense	$ -	$ -	$ 8,822	$ -
Energy:				
Program Costs	-	3,854	3,059	(81)
Less: Earned Revenues	-	(4,381)	(712)	68
Net Cost of Energy	$ -	$ (527)	$ 2,347	$ (13)
Science:				
Total Program Costs	$ -	$ -	$ 3,720	$ -
Environment:				
Environmental Management:				
Program Costs	-	-	6,047	(446)
Less: Earned Revenues	-	-	(300)	-
Net Cost of Environmental Management	$ -	$ -	$ 5,747	$ (446)
Nuclear Waste:				
Program Costs	-	-	475	-
Less: Earned Revenues	-	-	(220)	
Net Cost of Nuclear Waste	$ -	$ -	$ 255	$ -
Net Cost of Environment	$ -	$ -	$ 6,002	$ (446)
Net Cost of Strategic Goals	$ -	$ (527)	$ 20,891	$ (459)
OTHER PROGRAMS:				
Reimbursable Programs:				
Program Costs	-	159	3,230	-
Less: Earned Revenues	-	(201)	(3,184)	-
Net Cost of Reimbursable Programs	$ -	$ (42)	$ 46	$ -
Other Programs:				
Program Costs	234	-	527	(101)
Less: Earned Revenues	(234)	-	(73)	101
Net Cost of Other Programs	$ -	$ -	$ 454	$ -
Costs Applied to Reduction of Legacy Environmental Liabilities	$ -	$ -	$ (6,207)	$ -
Costs Not Assigned	-	-	49,724	-
Net Cost of Operations	$ -	$ (569)	$ 64,908	$ (459)

See independent auditors' report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 6,841	$ -	$ -	$ 6,779	$ -	$ 6,779
$ 1,210	$ -	$ -	$ 1,191	$ -	$ 1,191
782	-	-	810	-	810
(11)	-	-	(18)	-	(18)
$ 771	$ -	$ -	$ 792	$ -	$ 792
$ 8,822	$ -	$ -	$ 8,762	$ -	$ 8,762
6,832	-	3,620	3,050	(53)	6,617
(5,025)	-	(4,063)	(158)	39	(4,182)
$ 1,807	$ -	$ (443)	$ 2,892	$ (14)	$ 2,435
$ 3,720	$ -	$ -	$ 3,565	$ -	$ 3,565
5,601	-	-	7,178	(459)	6,719
(300)	-	-	(151)	-	(151)
$ 5,301	$ -	$ -	$ 7,027	$ (459)	$ 6,568
475	-	-	521	-	521
(220)	-	-	(321)	-	(321)
$ 255	$ -	$ -	$ 200	$ -	$ 200
$ 5,556	$ -	$ -	$ 7,227	$ (459)	$ 6,768
$ 19,905	$ -	$ (443)	$ 22,446	$ (473)	$ 21,530
3,389	-	173	3,141	-	3,314
(3,385)	-	(151)	(3,100)	-	(3,251)
$ 4	$ -	$ 22	$ 41	$ -	$ 63
660	221	-	546	(100)	667
(206)	(222)	-	(113)	100	(235)
$ 454	$ (1)	$ -	$ 433	$ -	$ 432
$ (6,207)	$ -	$ -	$ (6,637)	$ -	$ (6,637)
49,724	-	-	25,499	-	25,499
$ 63,880	$ (1)	$ (421)	$ 41,782	$ (473)	$ 40,887

See independent auditors' report.

U. S. Department of Energy
Consolidating Schedules of Changes in Net Position

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balances	$ 6	$ 1,805	$ (141,568)	$ -
Budgetary Financing Sources:				
Appropriations Used	$ 4	$ -	$ 22,716	$ -
Nonexchange Revenue	-	-	62	-
Donations and Forfeitures of Cash	-	-	13	-
Transfers - In/(Out) Without Reimbursement	-	(167)	(49)	-
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	-	1	-	-
Transfers - In/(Out) Without Reimbursement (Note 27)	(16)	-	(610)	-
Imputed Financing from Costs Absorbed by Others	10	-	613	-
Other	-	-	513	(459)
Total Financing Sources	$ (2)	$ (166)	$ 23,258	$ (459)
Net Costs of Operations	-	569	(64,908)	459
Net Change	$ (2)	$ 403	$ (41,650)	$ -
Total Cumulative Results of Operations	$ 4	$ 2,208	$ (183,218)	$ -
UNEXPENDED APPROPRIATIONS:				
Beginning Balances	$ 14	$ -	$ 8,964	$ -
Budgetary Financing Sources:				
Appropriations Received	$ -	$ -	$ 23,899	$ -
Appropriations Transferred - In/(Out)	-	-	17	-
Other Adjustments	(1)	-	(262)	-
Appropriations Used	(4)	-	(22,716)	-
Total Budgetary Financing Sources	$ (5)	$ -	$ 938	$ -
Total Unexpended Appropriations	$ 9	$ -	$ 9,902	$ -
Net Position	$ 13	$ 2,208	$ (173,316)	$ -

See independent auditors' report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ (139,757)	$ 3	$ 1,106	$ (130,296)	$ -	$ (129,187)
$ 22,720	$ 4	$ 4	$ 23,703	$ -	$ 23,711
62	-	-	35	-	35
13	-	-	13	-	13
(216)	-	(141)	(13)	-	(154)
1	-	1	-	-	1
(626)	(15)	47	2,100	-	2,132
623	11	-	4,268	-	4,279
54	2	367	404	(473)	300
$ 22,631	$ 2	$ 278	$ 30,510	$ (473)	$ 30,317
(63,880)	1	421	(41,782)	473	(40,887)
$ (41,249)	$ 3	$ 699	$ (11,272)	$ -	$ (10,570)
$ (181,006)	$ 6	$ 1,805	$ (141,568)	$ -	$ (139,757)
$ 8,978	$ 18	$ 4	$ 8,762	$ -	$ 8,784
$ 23,899	$ -	$ -	$ 23,782	$ -	$ 23,782
17	-	-	312	-	312
(263)	-	-	(189)	-	(189)
(22,720)	(4)	(4)	(23,703)	-	(23,711)
$ 933	$ (4)	$ (4)	$ 202	$ -	$ 194
$ 9,911	$ 14	$ -	$ 8,964	$ -	$ 8,978
$ (171,095)	$ 20	$ 1,805	$ (132,604)	$ -	$ (130,779)

See independent auditors' report.

U. S. Department of Energy
Combining Schedules of Budgetary Resources

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated
BUDGETARY RESOURCES				
Unobligated balance, Brought Forward, October 1	$ 9	$ 165	$ 4,070	$ 4,244
Recoveries of Prior Year Unpaid Obligations	-	-	47	47
Budget Authority:				
Appropriations	$ 3	$ 345	$ 25,026	$ 25,374
Borrowing Authority	-	270	-	270
Contract Authority	-	871	-	871
Spending Authority from Offsetting Collections:				
Earned:				
Collected	220	4,032	3,475	7,727
Change in Receivables from Federal sources	-	88	(72)	16
Change in Unfilled Customer Orders:				
Advances Received	-	(37)	67	30
Without Advance from Federal Sources	-	4	(607)	(603)
Subtotal	$ 223	$ 5,573	$ 27,889	$ 33,685
Nonexpenditure Transfers, Net, Anticipated and Actual	-	(69)	17	(52)
Temporarily not Available Pursuant to Public Law	-	(2)	(264)	(266)
Permanently Not Available	-	(1,583)	(255)	(1,838)
Total Budgetary Resources	$ 232	$ 4,084	$ 31,504	$ 35,820
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred:				
Direct	$ 227	$ 378	$ 24,096	$ 24,701
Exempt from Apportionment	-	2,905	142	3,047
Reimbursable	-	629	3,279	3,908
Total Obligations Incurred	$ 227	$ 3,912	$ 27,517	$ 31,656
Unobligated Balance:				
Apportioned	5	151	2,396	2,552
Exempt from Apportionment	-	-	32	32
Unobligated Balance Not Available	-	21	1,559	1,580
Total Status of Budgetary Resources	$ 232	$ 4,084	$ 31,504	$ 35,820
CHANGE IN OBLIGATED BALANCE				
Obligated Balance, Net:				
Unpaid Obligations, Brought Forward, October 1 (Note 23)	$ 20	$ 2,079	$ 15,130	$ 17,229
Less: Uncollected Customer Payments from				
Federal Sources, Brought Forward, October 1	-	(312)	(4,375)	$ (4,687)
Total Unpaid Obligated Balance, Net, October 1	$ 20	$ 1,767	$ 10,755	$ 12,542
Obligations Incurred	227	3,912	27,517	31,656
Less: Gross Outlays	(224)	(3,321)	(27,097)	(30,642)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	-	-	(47)	(47)
Change in Uncollected Customer Payments from Federal Sources	-	(92)	679	587
	$ 23	$ 2,266	$ 11,807	$ 14,096
Obligated Balance, Net, End of Period:				
Unpaid Obligations	$ 23	$ 2,669	$ 15,504	18,196
Less: Uncollected Customer Payments from Federal Sources	-	(403)	(3,697)	(4,100)
Total, Unpaid Obligated Balance, Net, End of Period	$ 23	$ 2,266	$ 11,807	$ 14,096
NET OUTLAYS				
Gross Outlays	$ 224	$ 3,321	$ 27,097	$ 30,642
Less: Offsetting collections	(220)	(3,995)	(3,542)	(7,757)
Less: Distributed Offsetting Receipts	(54)	(486)	(2,724)	(3,264)
Net Outlays	$ (50)	$ (1,160)	$ 20,831	$ 19,621

See independent auditors' report.

FY 2005 (unaudited)			
Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated
$ 6	$ 161	$ 3,869	$ 4,036
-	-	34	34
			-
3	213	24,846	25,062
-	315	-	315
-	1,018	-	1,018
210	3,786	3,228	7,224
-	50	81	131
-	17	13	30
-	(2)	214	212
$ 213	$ 5,397	$ 28,382	$ 33,992
-	(73)	242	169
-	(1)	(265)	(266)
-	(1,639)	(209)	(1,848)
$ 219	$ 3,845	$ 32,053	$ 36,117
$ 210	$ 226	$ 24,443	$ 24,879
-	2,923	330	3,253
-	531	3,213	3,744
$ 210	$ 3,680	$ 27,986	$ 31,876
9	164	2,415	2,588
-	-	24	24
-	1	1,628	1,629
$ 219	$ 3,845	$ 32,053	$ 36,117
$ 26	$ 2,346	$ 14,875	$ 17,247
-	$ (264)	(4,080)	$ (4,344)
$ 26	$ 2,082	$ 10,795	$ 12,903
210	3,680	27,986	31,876
(215)	(3,948)	(27,693)	(31,856)
-	-	(34)	(34)
-	(48)	(295)	(343)
$ 21	$ 1,766	$ 10,759	$ 12,546
$ 20	$ 2,079	$ 15,133	$ 17,232
-	(312)	(4,375)	(4,687)
$ 20	$ 1,767	$ 10,758	$ 12,545
$ 215	$ 3,948	27,693	$ 31,856
(210)	(3,803)	(3,240)	(7,253)
(18)	(739)	(2,479)	(3,236)
$ (13)	$ (594)	$ 21,974	$ 21,367

See independent auditors' report.

U. S. Department of Energy
Consolidating Schedules of Financing

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated:				
Obligations Incurred	$ 227	$ 3,912	$ 27,517	$ -
Less: Spending Authority from Offsetting Collections and Recoveries	(220)	(4,087)	(2,910)	-
Obligations, Net of Offsetting Collections and Recoveries	$ 7	$ (175)	$ 24,607	$ -
Less: Offsetting Receipts	(54)	(486)	(2,724)	-
Net Obligations	$ (47)	$ (661)	$ 21,883	$ -
Other Resources:				
Donations	-	1	-	-
Imputed Financing from Costs Absorbed by Others	10	-	613	-
Transfers-In/(Out) Without Reimbursement	(16)	-	(610)	-
Nuclear Waste Fund Offsetting Receipts, Deferred	-	-	2,345	-
Other	-	-	67	(13)
Net Other Resources Used to Finance Activities	$ (6)	$ 1	$ 2,415	$ (13)
Total Resources Used to Finance Activities	$ (53)	$ (660)	$ 24,298	$ (13)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:				
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	$ 1	$ (132)	$ (1,104)	$ -
Resources that Finance the Acquisition of Assets	(3)	(203)	(2,897)	-
Resources that Fund Expenses Recognized in Prior Periods	-	(18)	(7,261)	-
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	43	23	442	(446)
Other Resources and Adjustments	13	(372)	(126)	-
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 54	$ (702)	$ (10,946)	$ (446)
Total Resources Used to Finance the Net Cost of Operations	$ 1	$ (1,362)	$ 13,352	$ (459)
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods:				
Increase in Unfunded Liability Estimates	$ 1	247	$ 50,584	$ -
Increase/(Decrease) in Exchange Revenue Receivable from the Public	(4)	3	-	-
Total Components Requiring or Generating Resources in Future Periods	$ (3)	$ 250	$ 50,584	$ -
Components Not Requiring or Generating Resources:				
Depreciation and Amortization	3	481	436	-
Revaluation of Assets and Liabilities	-	2	(192)	-
Other	(1)	60	728	-
Total Components Not Requiring or Generating Resources	$ 2	$ 543	$ 972	$ -
Period	$ (1)	$ 793	$ 51,556	$ -
NET COST OF OPERATIONS	$ -	$ (569)	$ 64,908	$ (459)

See independent auditors' report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 31,656	$ 210	$ 3,680	$ 27,986	$ -	$ 31,876
(7,217)	(210)	(3,851)	(3,570)	-	(7,631)
$ 24,439	$ -	$ (171)	$ 24,416	$ -	$ 24,245
(3,264)	(18)	(739)	(2,479)	-	(3,236)
$ 21,175	$ (18)	$ (910)	$ 21,937	$ -	$ 21,009
1	-	1	-	-	1
623	11	-	4,268	-	4,279
(626)	(15)	47	2,100	-	2,132
2,345	-	-	2,520	-	2,520
54	-	(156)	134	(14)	(36)
$ 2,397	$ (4)	$ (108)	$ 9,022	$ (14)	$ 8,896
$ 23,572	$ (22)	$ (1,018)	$ 30,959	$ (14)	$ 29,905
$ (1,235)	$ 7	$ 55	$ 10	$ -	$ 72
(3,103)	(4)	(320)	(5,426)	-	(5,750)
(7,279)	-	81	(6,428)	-	(6,347)
62	18	246	371	(482)	153
(485)	(2)	(160)	(236)	23	(375)
$ (12,040)	$ 19	$ (98)	$ (11,709)	$ (459)	$ (12,247)
$ 11,532	$ (3)	$ (1,116)	$ 19,250	$ (473)	$ 17,658
$ 50,832	$ -	$ 235	$ 20,961	$ -	$ 21,196
(1)	1	1	-	-	2
$ 50,831	$ 1	$ 236	$ 20,961	$ -	$ 21,198
920	3	539	786	-	1,328
(190)	-	4	(182)	-	(178)
787	(2)	(84)	967	-	881
$ 1,517	$ 1	$ 459	$ 1,571	$ -	$ 2,031
$ 52,348	$ 2	$ 695	$ 22,532	$ -	$ 23,229
$ 63,880	$ (1)	$ (421)	$ 41,782	$ (473)	$ 40,887

See independent auditors' report.

U. S. Department of Energy
Consolidating Schedules of Custodial Activities

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006 (unaudited)			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
SOURCES OF COLLECTIONS:				
Cash Collections:				
Interest	$ -	$ -	$ 17	$ -
Federal Energy Regulatory Commission	44	-	-	-
Power Marketing Administration Custodial Revenue	-	545	-	-
Other Custodial Revenue	-	-	-	-
Total Cash Collections	$ 44	$ 545	$ 17	$ -
Accrual Adjustment	2	11	-	-
Total Custodial Revenue	$ 46	$ 556	$ 17	$ -
DISPOSITION OF REVENUE:				
Transferred to Others:				
Department of the Treasury	(41)	(159)	-	-
Army Corps of Engineers	-	3	-	-
Bureau of Reclamation	-	(333)	-	-
Others	(3)	(2)	-	-
Decrease in Amounts to be Transferred	(2)	(65)	(17)	-
Net Custodial Activity	$ -	$ -	$ -	$ -

See independent auditors' report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 17	$ -	$ -	$ 20	$ -	$ 20
44	53	-	-	-	53
545	-	657	-	-	657
-	-	-	3	-	3
$ 606	$ 53	$ 657	$ 23	$ -	$ 733
13	(8)	(1)	(10)	-	(19)
$ 619	45	656	13	-	714
(200)	(31)	(584)	(9)	-	(624)
3	(5)	-	-	-	(5)
(333)	(5)	(74)	-	-	(79)
(5)	(3)	-	-	-	(3)
(84)	(1)	2	(4)	-	(3)
$ -	$ -	$ -	$ -	$ -	$ -

See independent auditors' report.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
(RSSI)

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years ending September 30, 2002–2006 ($ in millions)

	FY 2006			FY 2005		
	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
BASIC						
Nuclear Nonproliferation	$6.8	$.8	$7.6	$3.2	$0.3	$3.5
Energy Security						
Energy Efficiency	1.3	.1	1.4	19.9	5.1	25.0
Fossil Energy	4.3	.8	5.1	6.0	1.7	7.7
Nuclear Energy	1.7	.6	2.3	-	-	-
Power Marketing Administration**	-	-	-	-	-	-
World-Class Scientific Research	1,853.1	428.0	2,281.1	2,808.7	735.5	3,544.2
Environmental Management	-	-	-	-	-	-
TOTAL BASIC	**$1,867.2**	**$430.3**	**$2,297.5**	**$2,837.8**	**$742.6**	**$3,580.4**
APPLIED*						
Nuclear Weapons Stewardship	$1,551.9	$153.4	$1,705.3	$1,898.6	$192.9	$2,091.5
Nuclear Nonproliferation	113.8	13.8	127.6	73.2	5.5	78.7
Energy Security						
Energy Efficiency	221.6	15.8	237.4	251.4	34.7	286.1
Fossil Energy	130.2	28.1	158.3	157.4	50.3	207.7
Nuclear Energy	84.3	33.1	117.4	52.5	35.8	88.3
Electric Transmission and Distribution	66.8	3.8	70.6	55.6	4.1	59.7
Power Marketing Administration**	10.4	0	10.4	9.7	-	9.7
World-Class Scientific Research	-	-	-	-	-	-
Environmental Management	.9	0	.9	15.6	1.2	16.8
Nuclear Waste	259.3	3.1	262.4	144.0	1.9	145.9
TOTAL APPLIED	**$2,439.2**	**$251.1**	**$2,690.3**	**$2,658.0**	**$326.4**	**$2,984.4**
DEVELOPMENT*						
Nuclear Weapons Stewardship	$.3	$-	$.3	$467.2	$106.8	$574.0
Nuclear Nonproliferation	84.7	5.1	89.8	53.6	2.8	56.4
Naval Reactors	681.5	42.9	724.4	724.7	40.3	765.0
Energy Security						
Energy Efficiency	255.0	15.2	270.2	335.0	37.2	372.2
Fossil Energy	144.0	31.2	175.2	172.2	52.9	225.1
Nuclear Energy	1.3	.3	1.6	1.2	0.8	2.0
Electric Transmission and Distribution	26.0	1.6	27.6	13.5	3.2	16.7
Power Marketing Administration**	1.1	-	1.1	2.1	0.0	2.1
Environmental Management	2.1	.1	2.2	36.4	3.6	40.0
TOTAL DEVELOPMENT	**$1,196.0**	**$96.4**	**$1,292.4**	**$1,805.9**	**$247.6**	**$2,053.5**
TOTAL RESEARCH AND DEVELOPMENT	**$5,502.4**	**$777.8**	**$6,280.2**	**$7,301.7**	**$1,316.6**	**$8,618.3**

* Starting in FY 2006 Other Defense Activities will no longer be included due to classification issues.
** Full R&D investments for the Power Marketing Administration's are included under direct costs of the Energy Security Goal.

Research & Development (unaudited)

The Department is the single largest Federal Government supporter of basic research in the physical sciences in the United States, providing more than 40 percent of total Federal funding. The Department oversees, and is the principal Federal funding agency of, the Nation's research programs in high energy physics, nuclear physics and fusion energy sciences. Our diverse research portfolio supports tens of thousands of principal investigators, post-doctoral students and graduate students tackling some of the most challenging scientific questions of our era.

In accordance with Statement of Federal Financial Accounting Standard (SFFAS) Number (No.) 8 - *Supplementary Stewardship Reporting, Chapter 7 - Research and Development*, the Department reports the following expenses for research and development programs that are intended to increase or maintain national economic (R&D) productive capacity or yield other future benefits. Investments in R&D refer to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products or processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

FY 2004			FY 2003			FY 2002		
Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
$13.2	$1.0	$14.2	$10.1	$1.5	$11.6	$8.4	$1.3	$9.7
30.3	4.6	34.9	24.0	3.5	27.5	30.2	5.4	35.6
7.1	0.8	7.9	10.0	1.2	11.2	5.9	1.5	7.4
-	-	-	-	-	-	-	-	-
3.4	-	3.4	3.3	-	3.3	3.2	-	3.2
2,581.3	583.4	3,164.7	2,448.0	594.0	3,042.0	2,598.0	506.0	3,104.0
-	-	-	-	-	-	-	-	-
$2,635.3	**$589.8**	**$3,225.1**	**$2,495.4**	**$600.2**	**$3,095.6**	**$2,645.7**	**$514.2**	**$3,159.9**
$1,888.0	$405.0	$2,293.0	$1,660.5	$454.5	$2,115.0	$1,700.0	$379.6	$2,079.6
60.4	4.4	64.8	95.2	13.8	109.0	72.2	11.0	83.2
202.4	20.1	222.5	169.7	21.9	191.6	180.4	11.8	192.2
176.5	19.5	196.0	186.7	21.7	208.4	131.6	10.3	141.9
74.3	6.5	80.8	12.3	1.2	13.5	20.9	5.0	25.9
18.7	2.1	20.8	-	-	-	-	-	-
11.8	-	11.8	11.4	-	11.4	11.1	-	11.1
3.1	0.5	3.6	2.9	0.5	3.4	37.9	4.3	42.2
28.1	4.1	32.2	23.4	4.4	27.8	89.9	20.8	110.7
65.3	1.8	67.1	75.8	1.0	76.8	62.5	2.6	65.1
$2,528.6	**$464.0**	**$2,992.6**	**$2,237.9**	**$519.0**	**$2,756.9**	**$2,306.5**	**$445.4**	**$2,751.9**
$543.4	$121.0	$664.4	$734.3	$221.5	$955.8	$726.6	$175.7	$902.3
49.4	3.1	52.5	66.1	9.9	76.0	83.8	13.3	97.1
667.1	17.7	684.8	621.8	16.3	638.1	653.0	16.6	669.6
422.1	41.8	463.9	352.4	42.8	395.2	403.5	30.3	433.8
192.9	20.8	213.7	202.1	23.0	225.1	167.6	17.4	185.0
20.6	1.6	22.2	16.0	2.4	18.4	-	-	-
38.0	3.2	41.2	-	-	-	-	-	-
8.8	-	8.8	8.7	-	8.7	8.7	-	8.7
65.5	9.6	75.1	54.7	10.3	65.0	134.8	31.2	166.0
$2,007.8	**$218.8**	**$2,226.6**	**$2,056.1**	**$326.2**	**$2,382.3**	**$2,178.0**	**$284.5**	**$2,462.5**
$7,171.7	**$1,272.6**	**$8,444.3**	**$6,789.4**	**$1,445.4**	**$8,234.8**	**$7,130.2**	**$1,244.1**	**$8,374.3**

Research and Development Activities and Significant Accomplishments by General Goal

General Goal 1: Nuclear Weapons Stewardship
– Applied & Development

Nuclear Weapons Stewardship Activities relate to (1) provide the scientific understanding and engineering development capabilities necessary to support near-term and long-term requirements of the nuclear stockpile; (2) provide scientific understanding of the nuclear package of the weapons systems in order to sustain our ability to certify the nuclear weapons stockpile, support stockpile refurbishment and life extension and to provide capabilities and components necessary to support maintenance and refurbishment in the absence of nuclear testing; and (3) ensure the weapons complex and its facilities and infrastructure are in place to manufacture and certify the 21st century nuclear weapons stockpile.

The applied research and development program of the Science Campaign helps to support the nuclear weapons stewardship goal by ensuring that our nuclear weapons will continue to serve their essential deterrence role. One key goal of the NNSA is to develop improved capabilities to assess the safety, reliability and performance of the nuclear package portion of weapons without further underground testing. The Dual-Axis Radiographic Hydrotest Facility (DARHT), located at Los Alamos National Laboratory, is designed to take a rapid sequence of x-ray images of a simulated nuclear weapon implosion. For FY 2006, the Department achieved 70 percent cumulative progress towards conducting the first 2-axis hydrodynamics test at DARHT. The tests are on track to be completed during CY 2008.

General Goal 2: Nuclear Nonproliferation
– Basic, Applied & Development

Activities conducted provide the science and technology required for treaty monitoring and material control, as well as early detection and characterization of the proliferation of weapons of mass destruction and special nuclear materials and improving the technologies leading to major improvements in responding to chemical and biological attacks.

Under the Department's goal to have all worldwide fissile nuclear materials under controls acceptable to the United States by 2025, the nonproliferation verification research and development program will develop new technologies to improve our ability to detect and monitor nuclear explosions. During 2006, NNSA progressed a cumulative 10 percent toward demonstrating the next generation of technologies and methods to detect Uranium-235 enrichment activities, plutonium reprocessing and special nuclear material movement.

General Goal 3: Naval Reactors
– Development

Activities include development, demonstration, improvement, and safe operation of nuclear propulsion plants and reactor cores for application to submarines and surface ships.

The Transformational Technology Core reactor plant design is designed to meet increasing demands on the submarine fleet, delivering a significant energy increase to future VIRGINIA-class ships with minimum impact to the overall ship design. For FY 2006, the Department committed to achieve 34 percent on the reactor plant design and core delivery. The target was met and the program is on track for completion in FY 2015.

General Goal 4: Energy Security
– Basic, Applied & Development

The Department will improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies and exploring advanced technologies that make a fundamental improvement in our mix of energy options. Discussed below are contributions from the DOE offices that contribute to the Energy Security general goal.

Energy Efficiency and Renewable Energy – Activities relate to (1) solar technologies; (2) geothermal technologies; (3) wind and hydropower technologies; (4) hydrogen and fuel cell technologies for transportation, stationary, and portable application; (5) energy conservation for the building sector, including residential building, commercial building, and retrofit technologies; (6) biomass technologies; (7) energy efficiency and renewable energy efforts in the Federal sector; (8) energy conservation and energy supply efforts in the industry sector; (9) energy conservation for the transportation sector, including automotive alternative fuels and electric vehicles; and, (10) energy conservation and renewable energy for intergovernmental activities including the State Energy Program and Weatherization Program.

The Solar Program focuses on improving performance of solar energy systems and reducing development, production, and installation costs to competitive levels, thereby accelerating large-scale usage across the Nation and making a significant contribution to a clean, reliable and flexible U.S. Energy supply. The Solar Program's R&D partner, the National Renewable Energy Laboratory (NREL) achieved a world record 19.5 percent efficient thin-film photovoltaic cell in June. Thin-film technology, such as NREL's copper indium gallium diselenide cell, offers significant cost savings potential over conventional solar technologies because it requires less raw material and enables higher manufacturing throughputs. Rapid progress being made in thin-film technologies is the basis for several new U.S. manufacturing facilities coming on-line this year.

The Wind Program enables wind to compete with conventional fuel throughout the Nation, creating a clean renewable energy option through technology research and development, collaborative efforts, technical support and outreach. The Wind Program's partnership with Clipper Windpower, Inc, resulted in their agreements with wind energy developers to supply up to 900 wind turbines over the next five years. This collaboration is on the first U.S. wind turbine designed specifically for operation in lower wind speed (Class 4) wind resource areas. The prototype incorporates many innovations such as a distributed drivetrain, advanced blades with truncated root section airfoils, and advanced controls. The Liberty Wind Turbine will be manufactured in Cedar Rapids, IA, in a manufacturing plant that was opened in the fall of 2005. Cost effective wind turbine operation in the low wind regimes significantly increases the resource areas available for wind energy development in areas much closer to major population centers.

Fossil Energy – Activities relate to (1) improving acceptable technology for advancing power conversion systems for generating electricity and hydrogen from coal; and (2) supporting of advanced technologies for the recovery of oil and natural gas through technologies and development in drilling and offshore oil production, and characterization research.

The Department is committed to developing advanced fossil power systems capable of achieving 45-50 percent efficiency at a capital cost of $1,000 per kW or less for a coal-based plant (dollar amount based on FY 2002 dollars). To support this goal, the gasification technologies program is working towards the commercialization of economical and efficient sulfur removal and/or multicontaminant clean-up. For FY 2006, the Department met its goal to conduct initial pilot scale slipstream field testing of technology capable of 90 percent mercury removal, and began construction and testing of advanced gas separation technologies. Field testing is a critical step toward developing high performance mercury removal technology that help enable coal fired power plants to economically reduce emissions.

In FY 2006, the Gasification Technologies program moved gas separation, including ceramic membrane, hydrogen separation, CO_2 hydrate formation and ceramic membrane air separation, closer to commercialization. This work included progress in developing technologies for both oxygen and hydrogen separation. In the area of creating pure oxygen from air, full size Ion Transport Member Oxygen modules have successfully produced 95 percent pure oxygen in the subscale engineering prototype facility. This process provides information for further scale-up to a pre-commercial development facility of appropriate capacity. In the area of separating hydrogen, construction of 1.3 lb/day process development unit is underway; the process development unit will test hydrogen separation membrane performance on simulated syngas, which will eventual lead to capital cost reductions of $60-$80 per kW from the baseline of $1200/kW for Integrated coal Gasification Combined Cycle systems and efficiency improvements of more than one efficiency points.

Also in FY 2006, Fossil Energy performed pilot-scale testing and laboratory testing of different CO_2 capture technologies. For example, the University of Texas completed a pilot plant testing campaign to evaluate a technology that is capable of at least 90 percent CO_2 capture. Laboratory scale evaluation of membranes developed by Los Alamos National Laboratory and Praxair were also completed. National Energy Technology Laboratory researchers completed the evaluation of solid sorbents for application to both post combustion and pre-combustion CO_2 capture. The tests results for the novel tertiary showed potential for significant improvement in cost and performance. All seven Phase II Regional Partnerships were awarded and field testing of CO_2 sequestration was initiated at the Zama Oil Field in Zama, Alberta as part of the activities under the Plains CO_2 Reduction Partnership. This testing will lead to significant improvement in cost and performance, and initiate field sequestration activities within the Regional Partnerships leading to future sequestration tests.

Nuclear Energy – Accomplishments in FY 2006 include extensive R&D into new nuclear generation technologies fostering a diversity of domestic energy supply through public-private partnerships as well as international relationships. The advancement of materials and fuels testing for the next generation of nuclear power plants as well as the attention paid to overhead cost and efficiency measures enabled NE to meet all of its FY 2006 milestones.

In FY 2006, the Department met requirements within the Department's Hydrogen Posture plan. Sandia National Laboratory completed the report documenting the closed Brayton cycle experiments for steady state, transient and off-normal condition, and submitted the report to Headquarters on June 30, 2006. Successful achievement of this work moves the program closer to meeting the requirements of the EPACT of 2005.

Within the Advanced Fuel Cycle Initiative (AFCI), the Department gained a better understanding into the necessary qualifications of a second geologic repository through testing light water reaction transmutation fuel and post irradiation. R&D within AFCI increased the program's understanding of the nuclear fuel cycle—a knowledge that will contribute significantly to the Department's decision on whether to build a second geologic repository for high-level nuclear waste, which is due to the President and to Congress no later than 2010. These achievements also add to the Global Nuclear Energy Partnership (GNEP), the goal of which is to enable expansion of nuclear energy worldwide, in an economical and carbon-free manner, by demonstrating and deploying new advanced technologies using a nuclear fuel cycle that enhances proliferation resistance.

Lastly, in FY 2006, the Department focused on activities supporting NRC certification of two advanced nuclear reactor designs and continued work with industry on combined construction and operating licenses for new nuclear power plants. Achievement of this target moves the program closer toward enabling an industry decision to deploy new nuclear power plants by 2010.

Electricity Delivery and Energy Reliability – R&D activities address high temperature superconductivity, transmission reliability, electric distribution transformation and innovative energy storage. These activities contribute to the modernization and expansion of the Nation's electricity delivery system to ensure a more reliable and robust electricity supply.

The Department and its partners are implementing the "Eastern Interconnection Phasor Project" in order to prevent another massive blackout like the one experienced during August 2003. This project consists of developing and deploying a robust, widely-available, real-time monitoring and visualization system in the eastern portion of the North American power grid. This next generation system features GPS technology, secure data communications, custom visualization, and advanced controls. The data from the "phasor" measurement instruments are being fed into data archiving and analysis locations to make the project's information readily available to the utilities. The visualization and control systems will allow operators to detect disturbances and take action before problems cascade into widespread outages. During FY 2006, the Department led efforts for the installation and operation of 30 additional measurement units and two additional archiving and analysis locations for a cumulative total of 80 measuring units and eight archiving and analysis locations.

General Goal 5: World-Class Scientific Research Capacity
– Basic

Research in the areas of (1) advanced scientific computing relevant to the complex problems of the Department and providing world class supercomputer and networking facilities for scientists; (2) basic energy sciences including nuclear sciences, materials sciences, chemical sciences, engineering geosciences, energy biosciences, advanced energy projects and advanced mathematical sciences; (3) biological and environmental research needed to identify, understand, and anticipate the long term health and environmental consequences of energy production, development, and use; (4) fusion energy sciences including broad-based, fundamental research efforts aimed at producing knowledge on fusion; (5) high energy physics activities directed at understanding the nature of matter and energy; (6) nuclear physics activities directed at understanding the fundamental forces and particles of nature as manifested in nuclear matter; and, (7) small business innovative research/technology transfer support for energy related technologies that will significantly benefit US businesses, a technology transfer initiative.

Construction and commissioning of the Spallation Neutron Source (SNS), an accelerator-based neutron source that will provide the most intense pulsed neutron beams in the world for scientific research and industrial development, was completed, and the facility began operations in late FY 2006. The SNS will become the world's leading research facility for study of the structure and dynamics of materials using neutrons. It will operate as a user facility that will enable researchers from the United States and abroad to study the science of materials that forms the basis for new technologies in telecommunications, manufacturing, transportation, information technology, biotechnology and health.

General Goal 6: Environmental Management
– Applied & Development

Technology development activities (1) to support site closure through technical support and quick responses for highly focused science and technology projects; and (2) develop and provide the scientific and technical rationale to support development of alternative approaches and step improvements for high risk/high cost baseline estimates.

Monitored Natural Attenuation (MNA) is a promising method for treating contaminated groundwater at several legacy waste sites. In the case of chlorinated solvents, MNA often relies on native bacteria living in the subsurface to degrade hazardous contaminants to nontoxic compounds. Office of Science researchers have developed new characterization and modeling tools that can be used to determine if these natural processes are working fast enough to keep groundwater contaminants from flowing into nearby rivers and lakes. These tools were recently used at the Savannah River Site to detect and quantify rates of trichloroethene degradation by underground bacteria. Tests were performed in several wells along groundwater flow paths that extended from a contaminant site to a wetlands complex. The groundwater tracers allow scientists to study the behavior of the targeted contaminants since the tracers exhibit the same behavior as the contaminants and can be uniquely and sensitively analyzed in groundwater even in very contaminated environments. These tests, together with numerical flow and transport models demonstrated that desirable bacteria are present and active and that they are making an important contribution to the reduction of contaminant concentrations. These results can be used to reduce the cost of long-term monitoring and remediation and lead to more secure and effective site cleanup.

General Goal 7: Nuclear Waste
– Applied

Activities are conducted on the long-term storage of high level nuclear waste at a permanent underground repository. Scientific work explores opportunities for better performance in the underground repository and improved cost savings. The work concentrates on four areas: Source Term; Materials Performance; Natural Barriers; and Advanced Technologies.

Of the studies conducted in Source Term, one project has been focusing on the interaction of spent nuclear fuel with the stainless steel component of its waste packaging. Stainless steel is made mostly of iron, and the project has determined that iron performs well in helping to absorb the radioactive material and prevent it from leaking out of the waste packaging. This finding adds more support to the use of stainless steel in waste packaging for spent fuel.

One materials performance project has been concerned with the interaction of natural materials in the repository, such as dust and rocks, with Alloy 22, the special corrosion resistant metal that makes up the outside of the waste packages. Repository rocks could contact and form crevices on the outside of the waste package. This is a particular concern because corrosion in crevices is known to be aggressive. Studies are showing that stopping the corrosion is possible, and the likelihood and severity of crevice corrosion depends on the material that formed the crevice. Crevice corrosion tests performed at Case Western Reserve University found that crevices formed by ceramic (rock-like) material resulted in no corrosion, but crevices formed by other materials readily corroded under identical conditions. This finding can be an important factor in predicting the evolution of corrosion damage on Alloy 22 and the outside of the waste packages over long periods of time.

In the area of Natural Barriers, water flow through the repository ceiling has been studied. Water flow is important to study because water is the primary means by which nuclear waste could be broken down into radioactive particles and then transported into the surrounding environment. A new 3-D model has been created, and it proves to provide a better understanding of water flow. Preliminary results show that any water that enters the tunnels where the waste is stored will likely travel down the tunnel walls and not drip onto the waste packages. These findings bode well for the environmental conditions within the drift tunnels and the resulting performance of the waste packages.

One study in the Advanced Technology area is focusing on an alternative material to Alloy 22, the special metal that makes up the outside of the waste packages. The cost of Alloy 22 is increasing rapidly and its use could be cost prohibitive when production of waste packages commences. The study has found lots of promise in Structurally Amorphous Metal. This substance can be atomized to produce a sprayable powder, and preliminary results show that the powder can be sprayed up to a thickness of 10mm. Ongoing work is investigating its performance in corrosion and adherence to its substrate, and results have been very positive to date. The potential use of Structurally Amorphous Metal represents a significant cost savings. Its cost is less than a third of the current cost of Alloy 22.

Another Advanced Technology project is investigating an alternative technique for welding waste packages. The repository's baseline plan calls for the use of arc welding, a technique that requires 6 to 8 hours to weld one waste package. The project has narrowed its selection to one best alternative called Reduced Pressure Electron Beam welding. Reduced Pressure Electron Beam welding requires only 6 minutes to weld one waste package, which represents a large savings in both cost and time.

REQUIRED SUPPLEMENTARY INFORMATION

(RSI)

(unaudited)

This section of the report provides required supplementary information for the Department on deferred maintenance, budgetary resources by major budget account and intra-governmental balances.

Deferred Maintenance

Deferred maintenance information is a requirement under SFFAS No.6, *Accounting for Property, Plant and Equipment* and SFFAS No.14, *Amendments to Deferred Maintenance* which requires deferred maintenance to be disclosed as of the end of each fiscal year. Deferred maintenance is defined in SFFAS No.6 as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period." Estimates were developed for:

Buildings and Other Structures and Facilities	**$3,650 million**
Capital Equipment	**$ 81 million**
TOTAL	**$3,731 million**

Buildings and Other Structures and Facilities

The condition assessment survey (periodic inspections) method was used in measuring a deferred maintenance estimate for buildings and other structures and facilities except for some structures and facilities where a physical barrier was present (e.g., underground pipe systems). In those cases, where a deficiency is identified during normal operations and correction of the deficiency is past due, a deferred maintenance estimate would be applicable. Also, where appropriate, results from previous condition assessments have been adjusted to estimate current plant conditions. Deferred maintenance for excess property was reported only in situations where maintenance is needed for worker and public health and safety concerns.

The Department determines deferred maintenance and acceptable operating condition through various methods, including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification.

As of September 30, 2006, an amount of $3,650 million of deferred maintenance was estimated to be required to return the facilities to acceptable operating condition. The percentage of active buildings above acceptable operating condition is estimated at 82 percent.

Capital Equipment

Pursuant to the cost/benefit considerations provided in SFFAS No. 6, the Department has determined that the requirements for deferred maintenance reporting on personal property (capital equipment) is not applicable to property items with an acquisition cost of less than $100,000, except in situations where maintenance is needed to address worker and public health and safety concerns.

Various methods were used for measuring deferred maintenance and determining acceptable operating condition for the Department's capital equipment including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods, as appropriate.

An amount of $81 million of deferred maintenance was estimated to be needed as of September 30, 2006, to return capital equipment assets to acceptable operating condition.

Budgetary Resources by Major Account as of September 30, 2006 ($in millions)
(Unaudited)

	Fossil Energy R&D 89X0213	Science 89X0222	Energy Supply & Conservation 89-0224	Strategic Petroleum Reserve 89X0233	Weapons Activities 89-0240
BUDGETARY RESOURCES					
Unobligated Balance, Brought Forward, Oct 1	$ 601	$ 28	$ 29	$ 17	$ 1,094
Recoveries of Prior Year Unpaid Obligations	6	1	3	4	1
Budget Authority	598	3,633	2,529	620	8,280
Nonexpenditure Transfers, Net	(11)	36	15	(43)	(14)
Authority Not Available	(6)	(36)	(18)	-	(64)
Total Budgetary Resources	$ 1,188	$ 3,662	$ 2,558	$ 598	$ 9,297
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 587	$ 3,642	$ 2,497	$ 1	$ 8,885
Unobligated Balances Available	599	20	60	590	412
Unobligated Balances Not Available	2	-	1	7	-
Total Status of Budgetary Resources	$ 1,188	$ 3,662	$ 2,558	$ 598	$ 9,297
CHANGE IN OBLIGATED BALANCE					
Obligated Balance, Brought Forward, Oct 1	$ 482	$ 2,193	$ 696	$ 40	$ 1,509
Obligations Incurred	587	3,642	2,497	1	8,885
Less: Gross Outlays	(503)	(3,602)	(2,074)	(11)	(8,711)
Obligated Balance Transferred, Net	-	-	191	-	-
Less: Recoveries of PY Obligations, Actual	(6)	(1)	(3)	(4)	(1)
Change in Uncollected Customer Payments, Federal	-	-	139	-	540
Obligated Balance, Net, End of Period	$ 560	$ 2,232	$ 1,446	$ 26	$ 2,222
NET OUTLAYS	$ 503	$ 3,602	$ 1,237	$ 7	$ 6,324

	Other Defense Activities 89-0243	Defense Environmental Cleanup 89-0251	Defense Nuclear Nonproliferation 89-0309	Naval Reactors 89X0314	Bonneville Power Administration 89X4045
BUDGETARY RESOURCES					
Unobligated Balance, Brought Forward, Oct 1	$ 56	$ 21	$ 576	$ 3	$ -
Recoveries of Prior Year Unpaid Obligations	9	1	-	-	-
Budget Authority	643	6,198	1,645	790	4,556
Nonexpenditure Transfers, Net	-	24	(8)	-	(69)
Authority Not Available	(7)	(62)	(16)	(8)	(1,583)
Total Budgetary Resources	$ 701	$ 6,182	$ 2,197	$ 785	$ 2,904
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 648	$ 6,149	$ 1,735	$ 780	$ 2,904
Unobligated Balances Available	45	27	456	5	-
Unobligated Balances Not Available	8	6	6	-	-
Total Status of Budgetary Resources	$ 701	$ 6,182	$ 2,197	$ 785	$ 2,904
CHANGE IN OBLIGATED BALANCE					
Obligated Balance, Brought Forward, Oct 1	$ 343	$ 2,142	$ 1,087	$ 296	$ 1,579
Obligations Incurred	648	6,149	1,735	780	2,904
Less: Gross Outlays	(672)	(6,262)	(1,420)	(835)	(2,410)
Obligated Balance Transferred, Net	-	237	-	-	-
Less: Recoveries of PY Obligations, Actual	(9)	(1)	-	-	-
Change in Uncollected Customer Payments, Federal	-	-	-	-	(88)
Obligated Balance, Net, End of Period	$ 310	$ 2,265	$ 1,402	$ 241	$ 1,985
NET OUTLAYS	$ 671	$ 6,257	$ 1,406	$ 835	$ (973)

	Western Area Power Administration 89X5068	Uranium Enrichment Decontamination & Decommissioning 89X5231	United States Enrichment Corporation Fund 95X4054	All Other Appropriations	Combined Statement of Budgetary Resources
BUDGETARY RESOURCES					
Unobligated Balance, Brought Forward, Oct 1	$ 94	$ -	$ 1,383	$ 342	$ 4,244
Recoveries of Prior Year Unpaid Obligations	-	-	-	22	47
Budget Authority	663	562	31	2,937	33,685
Nonexpenditure Transfers, Net	-	-	-	18	(52)
Authority Not Available	(2)	(6)	-	(296)	(2,104)
Total Budgetary Resources	$ 755	$ 556	$ 1,414	$ 3,023	$ 35,820
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 672	$ 556	$ -	$ 2,600	$ 31,656
Unobligated Balances Available	83	-	-	287	2,584
Unobligated Balances Not Available	-	-	1,414	136	1,580
Total Status of Budgetary Resources	$ 755	$ 556	$ 1,414	$ 3,023	$ 35,820
CHANGE IN OBLIGATED BALANCE					
Obligated Balance, Brought Forward, Oct 1	$ 133	$ 83	$ -	$ 1,959	$ 12,542
Obligations Incurred	672	556	-	2,600	31,656
Less: Gross Outlays	(600)	(503)	-	(3,039)	(30,642)
Obligated Balance Transferred, Net	-	-	-	(428)	-
Less: Recoveries of PY Obligations, Actual	-	-	-	(22)	(47)
Change in Uncollected Customer Payments, Federal	(3)	-	-	(1)	587
Obligated Balance, Net, End of Period	$ 202	$ 136	$ -	$ 1,069	$ 14,096
NET OUTLAYS	$ 174	$ 503	$ (31)	$ (894)	$ 19,621

— MEMORANDUM FROM THE INSPECTOR GENERAL —

Department of Energy
Washington, DC 20585

November 13, 2006

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Report on the Department of Energy's Fiscal Year 2006 Consolidated Balance Sheet

In response to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP to audit the Department of Energy's Fiscal Year (FY) 2006 consolidated balance sheet. The contractor was engaged to audit only the balance sheet because a material weakness in financial control and reporting resulted in a disclaimer of opinion on the FY 2005 Audit of the Department's Consolidated Financial Statements.

KPMG LLP concluded that, except for the effects of not properly accounting for and reporting undelivered orders, the FY 2006 consolidated balance sheet presented fairly in all material respects the financial position of the Department. The weaknesses affecting undelivered orders were associated with the controls over the recording of obligations and the de-obligation of funds.

During FY 2006, the Department's Office of Chief Financial Officer made substantial progress in correcting a number of financial controls and reporting weaknesses that lead to the disclaimer of an audit opinion on the FY 2005 financial statements. Despite these efforts, the Department's accounting and reporting controls over obligations in FY 2006 were insufficient to prevent, detect or correct errors in a timely manner. In particular, significant differences associated with the conversion of data from the legacy accounting systems to the Standard Accounting and Reporting System (STARS) had not been resolved. Required reviews of certain obligations and undelivered order balances also had either not been performed or were not completely effective, resulting in balances that did not agree with supporting documents, obligations that remained unexpended for extended periods, and obligations with negative balances.

The audit, in addition, disclosed Departmental weaknesses in network and information systems and deficiencies in the performance measure reporting process. These weaknesses increased the risk that the Department's financial system and reported performance information may not be reliable. With respect to information systems, despite corrective actions by the Department in response to prior audit findings, network and other security weaknesses persist. Even though progress had been made, control weaknesses involving the review and approval of user access privileges, password security and the monitoring of networks for questionable activity continued to exist. Controls over performance measure reporting were also not entirely effective, providing certain information that was not consistent with actual performance and/or was not adequately supported.

With regard to the specific findings associated with undelivered orders, information systems and performance measures, the Department generally concurred and initiated or agreed to initiate corrective actions.

The preparation and audit of financial statements, it should be noted, involve many parties. The Department is responsible for preparing its consolidated financial statements and the Office of Inspector General is responsible for the audit. As previously stated, we contracted with the public accounting firm of KPMG LLP to conduct this audit. KPMG is responsible for reporting on the Department's consolidated balance sheet, applicable internal controls and compliance with laws, regulations, contracts and grant agreements. The Office of Inspector General monitored the contractor's progress, and reviewed the audit report and related documentation to ensure compliance with generally accepted Government Auditing Standards. The Office of Inspector General, however, did not prepare an independent report on the Department's consolidated balance sheet.

I would like to thank each of the Department elements for their courtesy and cooperation during the review.

Attachment

cc: Deputy Secretary (w/o attachment)
Under Secretary for Energy (w/o attachment)
Under Secretary for Science (w/o attachment)
Administrator, National Nuclear Security Administration (w/o attachment)
Chief of Staff (w/o attachment)
Chief Financial Officer

Audit Report: OAS-FS-07-02

KPMG LLP
2001 M Street, NW
Washington, DC 20036

INDEPENDENT AUDITORS' REPORT

The Inspector General, United States Department of Energy and
The Secretary, United States Department of Energy:

We have audited the accompanying consolidated balance sheet of the United States Department of Energy (Department) as of September 30, 2006. The objective of our audit was to express an opinion on the fair presentation of the consolidated balance sheet as of September 30, 2006. We were not engaged to audit the accompanying consolidated statements of net cost, changes in net position, financing, and custodial activities, and the combined statement of budgetary resources, for the year ended September 30, 2006 (hereinafter referred to as the "other fiscal year 2006 consolidated financial statements"). In connection with our 2006 audit, we also considered the Department's internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures, and tested the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated balance sheet as of September 30, 2006.

As discussed in this report, two of the Department's power marketing administrations, whose Department-related financial data are included in the accompanying consolidated balance sheet as of September 30, 2006, were audited by other auditors whose reports have been furnished to us and were considered in forming our overall opinion on the Department's consolidated balance sheet as of September 30, 2006.

We were also engaged to audit the accompanying consolidated balance sheet of the Department as of September 30, 2005, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statement of budgetary resources (hereinafter referred to as "fiscal year 2005 consolidated financial statements"), for the year then ended.

Summary

Based upon our audit and the reports of other auditors, we concluded that, except for the effects of not properly accounting for and reporting undelivered orders, the Department's consolidated balance sheet as of September 30, 2006, is presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We did not audit the Department's other fiscal year 2006 consolidated financial statements. Regarding the fiscal year 2005 consolidated financial statements, the scope of our work was not sufficient to enable us to express an opinion on the Department's consolidated financial statements as of and for the year ended September 30, 2005.

Our report emphasizes that: (1) the cost estimates supporting the Department's environmental remediation liabilities are based upon assumptions regarding funding and other future actions and decisions, many of which are beyond the Department's control; (2) the Department is involved as a defendant in several matters of litigation relating to its inability to accept waste by January 31, 1998, the date specified in the Nuclear Waste Policy Act of 1982, as amended; and (3) the Department changed its method of reporting earmarked funds in fiscal year 2006.

Our consideration in fiscal year 2006 of internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures resulted in the following conditions being identified as reportable conditions:

Reportable condition considered to be a material weakness:

- Accounting for obligations and undelivered orders

Other reportable conditions:

- Unclassified network and information systems security
- Performance measurement reporting

The results of our 2006 tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*.

The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the Federal financial management systems and United States Standard General Ledger requirements. However, the results of our tests of FFMIA disclosed that the Department did not substantially comply with the Federal accounting standards requirement, as a result of the Department's inability to properly account for obligations and undelivered orders. This matter is related to the material weakness in internal controls, identified above.

The following sections discuss:

- Our opinion on the Department's consolidated balance sheet as of September 30, 2006;
- The reasons why we were unable to express an opinion on the Department's other fiscal year 2006 consolidated financial statements or on the Department's fiscal year 2005 consolidated financial statements;
- Our consideration of the Department's internal control over financial reporting, Required Supplementary Stewardship Information, and performance measures;
- Our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements;

- Management's responsibilities; and
- Our responsibilities.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of the United States Department of Energy as of September 30, 2006.

We did not audit the fiscal year 2006 financial statements of Bonneville Power Administration or Western Area Power Administration, whose Department-related financial data as of and for the year ended September 30, 2006, are included in the accompanying fiscal year 2006 consolidated financial statements. When combined and compared to the Department's consolidated balance sheet, the financial data for these entities represents 18 percent of total assets as of September 30, 2006. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the consolidated balance sheet as of September 30, 2006, insofar as it relates to the amounts included for Bonneville Power Administration and Western Area Power Administration, is based solely upon the reports of the other auditors.

As discussed below, the Department implemented a new financial accounting system in April 2005, resulting in a number of issues that hindered its ability to assure the accuracy and completeness of fiscal year 2005 consolidated financial statement balances. While the Department addressed many of these issues in fiscal year 2006, it did not complete corrective actions to address the conditions related to the accounting for obligations and undelivered orders, which consequently affected the accuracy and completeness of reported undelivered orders as of September 30, 2006. Undelivered orders, which amount to $11.3 billion as of September 30, 2006, are a component of the unexpended appropriations account balance, and are disclosed in Note 23. Undelivered orders are also included in the unpaid obligations balance, amounting to $18 billion, shown in Note 3, Fund Balance with Treasury. It was impracticable to extend our procedures sufficiently to determine the extent to which undelivered orders in the Department's consolidated balance sheet as of September 30, 2006, may have been affected by these conditions.

In our opinion, based upon our audit and the reports of other auditors, except for the effects of not properly accounting for and reporting undelivered orders as discussed in the preceding paragraph, the consolidated balance sheet presents fairly, in all material respects, the financial position of the United States Department of Energy as of September 30, 2006, in conformity with U.S. generally accepted accounting principles.

Because of the scope limitations resulting from the fiscal year 2005 accounting system implementation which resulted in a disclaimer of opinion on the 2005 consolidated financial statements, as further described below, the Department did not engage us to audit the accompanying other fiscal year 2006 consolidated financial statements. Therefore, we did not audit the accompanying consolidated statements of net cost, changes in net position, financing, and custodial activities, and the combined statement of budgetary resources, for the year ended September 30, 2006, and accordingly, we do not express an opinion on them.

We were engaged to audit the Department's accompanying consolidated balance sheet as of September 30, 2005, and the related consolidated statements of net cost, changes in net position, financing, and custodial activities, and the related combined statement of budgetary resources, for the year then ended.

The Department implemented a new financial accounting system in April 2005, shortly after the October 2004 reorganization and consolidation of its finance and accounting services organization. The Department also adopted a new chart of accounts in conjunction with the new accounting system. As a result of these events, during fiscal year 2005, the Department encountered a significant number of conversion, posting, reconciliation, and reporting issues that hindered its ability to assure the accuracy and completeness of consolidated financial statement balances and to provide data necessary for audit testing. We noted specific issues in fiscal year 2005, related to the accounting for obligations, monitoring budget execution and control, reconciling payment information with the U.S. Department of the Treasury, accounting for accruals, reconciling integrated contractor trial balances with the Department's records, reconciling accounting system modules to the general ledger, resolving various posting errors, and identifying and reporting intragovernmental transactions. We noted that many reports needed for management, internal control, and audit purposes were not available following system deployment. Finally, during fiscal year 2005, the Department restructured and consolidated its accounting operations, realigning its accounting functions across the Department and causing a negative impact on the financial accounting staffing levels and skills mix throughout the Department. During fiscal year 2005, the Department did not complete corrective actions to address these conditions. Therefore, it was unable to provide accurate financial data and could not always provide supporting documents required for our fiscal year 2005 audit. It was impracticable to extend our procedures sufficiently to determine the extent to which the Department's consolidated financial statements as of and for the year ended September 30, 2005, may have been affected by these conditions.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying fiscal year 2005 consolidated financial statements of the United States Department of Energy as of and for the year ended September 30, 2005.

As discussed in Note 14 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of $230 billion and $190 billion (unaudited) as of September 30, 2006 and 2005, respectively, are based upon assumptions regarding funding and other future actions and decisions, many of which are beyond the Department's control.

As discussed in Note 16 to the consolidated financial statements, the Department is involved as a defendant in several matters of litigation relating to its inability to accept waste by January 31, 1998, the date specified in the *Nuclear Waste Policy Act of 1982*, as amended. The Department has recorded liabilities for likely damages of $6.7 billion and $5 billion (unaudited) as of September 30, 2006 and 2005, respectively.

As discussed in Note 1 to the consolidated financial statements, the Department changed its method of reporting earmarked funds in fiscal year 2006 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 27, *Identifying and Reporting Earmarked Funds*.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections of the Department's *Fiscal Year 2006 Performance and Accountability Report* is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our 2006 audit was conducted for the purpose of forming an opinion on the consolidated balance sheet as of September 30, 2006, taken as a whole. The information in the Consolidating Schedules section of the Department's *Fiscal Year 2006 Performance and Accountability Report* is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities of the Department's components individually. The consolidating balance sheet as of September 30, 2006, has been subjected to the auditing procedures applied in the audit of the consolidated balance sheet as of September 30, 2006, and, in our opinion, based upon our audit and the reports of other auditors, except for the effects of not properly accounting for and reporting undelivered orders as described in this report, is fairly stated, in all material respects, in relation to the consolidated balance sheet as of September 30, 2006, taken as a whole. The other fiscal year 2006 information and the fiscal year 2005 information in the Consolidating Schedules section are based on the other fiscal year 2006 consolidated financial statements and the fiscal year 2005 consolidated financial statements, respectively, on which we express no opinion. Accordingly, we express no opinion on the other fiscal year 2006 and the fiscal year 2005 information in the Consolidating Schedules.

The information in the Performance Results section, the Other Accompanying Information section, the Glossary of Acronyms, and the information presented on pages i through iii of the Department's *Fiscal Year 2006 Performance and Accountability Report* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has not been subjected to auditing procedures, except for the testing of controls over selected performance measures, described in the Responsibilities section of this report, and, accordingly, we express no opinion on it.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

In our 2006 audit, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. We believe that the following reportable condition, described in more detail in Exhibit I, is a material weakness.

> ***Accounting for obligations and undelivered orders*** – We found significant deficiencies in the Department's internal controls over the timely recording of the obligation and de-obligation of funds. The identified deficiencies precluded the Department from ensuring the accuracy, validity, and completeness of obligations and undelivered orders. The Department should enhance established controls to ensure that obligations are recorded in a timely manner, correct all remaining conversion errors, resolve and correct negative undelivered order balances, and ensure that obligated funds are promptly de-obligated when those funds are no longer needed.

The following reportable condition, which is not considered to be a material weakness, is described in more detail in Exhibit II.

> ***Unclassified network and information systems security*** – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. The identified weaknesses and vulnerabilities increased the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.

The current status of the prior year reportable conditions is presented in Exhibit III.

As discussed in the Report on the Consolidated Financial Statements section, the scope of our work was limited to expressing an opinion on the Department's consolidated balance sheet as of September 30, 2006. Had we been able to perform all of the procedures necessary to express an opinion on the other fiscal year 2006 consolidated financial statements, other matters involving internal control over financial reporting may have been identified and reported.

We noted certain additional matters involving internal control over financial reporting and internal control over financial management systems that we will report to management in separate letters.

Internal Controls over Required Supplementary Stewardship Information and Performance Measures

Under OMB Bulletin No. 06-03, the definition of material weaknesses is extended to other controls as follows. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud, in amounts that would be material in relation to the Required Supplementary Stewardship Information or to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Our consideration of the internal control over the Required Supplementary Stewardship Information and the design and operation of internal control over the existence and completeness assertions related to key performance measures would not necessarily disclose all matters involving the internal control and its operation related to Required Supplementary Stewardship Information, or the design and operation of the internal control over the existence and completeness assertions related to key performance measures, that might be reportable conditions.

In our 2006 audit, we noted no matters involving the internal control and its operation related to Required Supplementary Stewardship Information that we considered to be material weaknesses as defined above.

Further, in our 2006 audit, we noted the following reportable condition, described in more detail in Exhibit II, involving the design and operation of internal control over the existence and completeness assertions related to key performance measures that, in our judgment, could adversely affect the Department's ability to collect, process, record, summarize and report performance measures in accordance with management's criteria.

> ***Performance Measurement Reporting*** – The Department's performance reporting process does not ensure that reported performance information reflects actual performance and is adequately supported by documentation. This deficiency limits the accuracy and reliability of reported performance information. The Department should provide additional training and guidance to strengthen

internal controls to ensure the accuracy of reported performance data and the maintenance of related supporting documentation, and to provide for a supervisory review of reported performance results.

This reportable condition is not believed to be a material weakness as defined above.

Compliance and Other Matters

Our 2006 tests of compliance, as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 06-03.

The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the Federal financial management systems and United States Standard General Ledger requirements, discussed in the Responsibilities section of this report. However, the results of our tests of FFMIA disclosed instances in which the Department did not substantially comply with the Federal accounting standards requirement, as a result of the Department's inability to properly account for obligations and undelivered orders. This matter is related to the material weakness in internal controls described in the Internal Control over Financial Reporting section of this report, and our related recommendations are presented in Exhibit I.

As discussed in the Report on the Consolidated Financial Statements section, the scope of our audit was limited to expressing an opinion on the Department's consolidated balance sheet as of September 30, 2006. Had we been able to perform all of the procedures necessary to express an opinion on the other fiscal year 2006 consolidated financial statements, other matters involving compliance with laws, regulations, contracts, and grant agreements may have been identified and reported.

Responsibilities

Management's Responsibilities. The United States Code, Title 31, Sections 3515 and 9106, requires agencies to report annually to Congress on their financial status and any other information needed to fairly present their financial position and results of operations. To meet these reporting requirements, the Department prepares and submits financial statements in accordance with OMB Circular No. A-136.

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing Management's Discussion and Analysis (including the performance measures), Required Supplementary Information, and Required Supplementary Stewardship Information;

- Establishing and maintaining effective internal controls; and
- Complying with laws, regulations, contracts, and grant agreements applicable to the Department, including FFMIA.

In fulfilling this responsibility, management is required to make estimates and judgments to assess the expected benefits and related costs of internal control policies.

Auditors' Responsibilities. Our responsibility is to express an opinion on the Department's consolidated balance sheet as of September 30, 2006, based on our audit and the reports of other auditors. Except as discussed in the third paragraph of the Report on the Consolidated Financial Statements section above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 06-03. Those standards and OMB Bulletin No. 06-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated balance sheet is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

As discussed in the Report on the Consolidated Financial Statements section, we were not engaged to audit the Department's other fiscal year 2006 consolidated financial statements and we express no opinion on them, and the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Department's fiscal year 2005 consolidated financial statements.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion on the consolidated balance sheet as of September 30, 2006.

In planning and performing our 2006 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated balance sheet. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 06-03.

We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide an opinion on the Department's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

As required by OMB Bulletin No. 06-03, in our 2006 audit, we considered the Department's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. We limited our testing to those controls necessary to test and report on the internal control over Required Supplementary Stewardship Information in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over the Required Supplementary Stewardship Information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 06-03, in our 2006 audit, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis and Performance Results sections, we obtained an understanding of the design of internal controls relating to the existence and completeness assertions and determined whether these internal controls had been placed in operation. We limited our testing to those controls necessary to test and report on the internal control over key performance measures in accordance with OMB Bulletin No. 06-03. However, our procedures were not designed to provide an opinion on internal control over reported performance measures and, accordingly, we do not provide an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's consolidated balance sheet as of September 30, 2006, is free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated balance sheet amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 06-03, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. Providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 06-03 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

Restricted Use

This report is intended solely for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 8, 2006

Accounting for Obligations and Undelivered Orders

We identified a material weakness in the Department's internal controls over the timely recording of the obligation and de-obligation of funds that precluded the Department from assuring the accuracy and completeness of the undelivered orders balance in its consolidated balance sheet as of September 30, 2006. Undelivered orders, which are reported at $11.3 billion as of September 30, 2006, are a component of the unexpended appropriations account balance, disclosed in Note 23, and are included in the unpaid obligations balance, amounting to $18 billion, shown in Note 3, Fund Balance with Treasury. Despite substantial progress by the Chief Financial Officer's staff in correcting a material weakness resulting from the implementation of the Standard Accounting and Reporting System (STARS) during fiscal year 2005, the Department was unable to correct the internal control deficiencies described below. As a consequence, we qualified our opinion on the Department's consolidated balance sheet as of September 30, 2006.

The Department has not completed all of the corrective actions needed to reconcile the obligations data converted from the Department's legacy accounting systems to STARS. These data conversion differences have impacted the accuracy of undelivered orders balances at all field offices at which they were tested in our 2006 audit. In addition, many of the field offices did not perform the periodic reviews required by Departmental guidance of stale obligations or negative undelivered order balances during fiscal year 2006. As a result, these field offices certified that their Financial Management Service (FMS) 2108 reports at June 30 and September 30, 2006, were accurate, without fully completing the procedures necessary to substantiate these certifications. The effects of these control deficiencies on the Department's undelivered orders balance included undelivered orders balances that did not agree with supporting documents, stale obligations that had not been de-obligated, and a large number of undelivered orders with negative balances. Furthermore, errors in recording obligations, such as duplicating obligating entries or recording obligations in a subsequent accounting period, also caused misstatements of the undelivered orders balance. The Department was unable to implement corrective actions to review and correct all of its undelivered orders balances as of September 30, 2006.

Recommendation:

We recommend that the Department enhance established controls to ensure that obligations are recorded in a timely manner. The Department should also complete its planned corrective actions to correct all remaining conversion errors and resolve and correct negative undelivered order balances. In addition, we recommend that the Department enforce adherence to established controls that ensure obligated funds are promptly de-obligated when those funds are no longer needed.

Management's Response:

The Department concurs with the recommendations regarding obligations and undelivered orders. To address this problem, a task force has been assembled from across the complex to review the circumstances surrounding the undelivered orders issue. The task force has been chartered and has already begun its work to determine root causes of the various elements of the problem. Once root cause analysis is complete, the task force will develop a corrective action plan that will enhance existing internal controls, implement new controls as necessary, provide for correction of undelivered order balances, and put new guidelines in place to address stale obligation balances.

The task force is being headed by the Field Chief Financial Officer from the Idaho Operations Office and has members from the DOE headquarters, field sites, and the Office of Corporate Information Systems. The task force will be substantially complete with its work by early December, at which time the Department will begin implementation of the corrective action plan.

It is the Department's intention to have these corrective actions materially completed in sufficient time for the Office of the Inspector General and the independent auditors to reexamine the undelivered orders balances prior to the start of fiscal year 2007 audit work.

Unclassified Network and Information Systems Security

The Department maintains a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to improve network security at the sites whose controls we, and the Department's Office of Health, Safety and Security (HSS), reviewed in prior years. However, we and the HSS continued to identify network security weaknesses at sites reviewed in fiscal year 2006, and the frequency and severity of those weaknesses remained consistent with our prior year findings. The Department recognizes these weaknesses and has classified cyber security as a significant issue in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year 2006. Significant improvements are still needed in the areas of password management, configuration management, and restriction of network services.

Our fiscal year 2006 audit also disclosed weaknesses in access at several sites, similar to our prior year findings. Specifically, we noted weaknesses in the review and approval of user access privileges, password security, and monitoring of networks for questionable activity. We also noted weaknesses in the cyber security programs at certain locations in which Federal cyber security requirements and Departmental policies and controls were not properly implemented. Further, the Department's Office of Inspector General also reported deficiencies in the Department's network and information system risk management, configuration management, and access controls in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated September 2006. Matters discussed in that report included an examination of non-financial systems.

The Department has acknowledged the need to improve its information systems security and other information technology controls. In fiscal year 2006, the Department's Chief Information Officer (CIO) launched a revitalization plan designed to improve the management of its information security program and issued enhanced cyber security guidance to strengthen controls and reduce network vulnerabilities. The Cyber Security Revitalization Plan is a collaborative effort between the Office of the CIO, the Under Secretaries and other senior management to identify and resolve cyber security problems, provide site assistance, and follow-up on corrective actions. Once fully implemented, these initiatives and new policies and procedures should strengthen the Department's overall cyber security program.

The identified weaknesses in network vulnerabilities and access controls increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. Because of our concerns, we performed supplemental procedures and identified compensating controls that mitigate the potential effect of these security weaknesses on the integrity of the Department's financial systems.

Recommendation:

While progress has been achieved, continued focus is needed to resolve the vulnerability and access control weaknesses described above. Therefore, we recommend that the program officials, in conjunction with the CIO, fully implement policies and procedures to ensure that the Federal information security standards are met and that networks and information systems are adequately protected against unauthorized access. Detailed recommendations to address the issues discussed above have been separately reported to the program offices and the OCIO.

Management's Response:

Management concurs with the recommendation, and shares the auditor's concerns that cyber security controls are integral to the integrity of financial and accounting systems. The Office of the Chief Information Officer (OCIO) will continue to work with the Office of the Inspector General, the Chief Financial Officer and other DOE organizations to improve the implementation of cyber security controls, specifically in the areas of password management, configuration management, and restriction of network services.

As stated in the OCIO comments on the FISMA report, the Department of Energy is committed to improving the protection of its information and information systems through a strong cyber security program. As part of this commitment, the Department's senior management during FY 2006 created the Cyber Security Executive Steering Committee, chaired by the CIO and including as active members the three Under Secretaries as well as the Chief Health, Safety, and Security Officer, the Administrator of the Energy Information Administration and a representative of the Power Marketing Administrations. The Secretary and the Deputy Secretary are personally involved in cyber security management, and they have guided the development of a Cyber Security Revitalization Plan to give more and higher level attention to the management of cyber security.

The Cyber Security Revitalization Plan, developed by the Executive Steering Committee, establishes a governance framework for cyber security management in the Department through a partnership between OCIO and the Under Secretaries and other senior management to provide adequate protection of all DOE information and information systems. The Plan was approved by the Deputy Secretary in March 2006.

Efforts to date implementing the Plan have included cyber security guidance issued by the OCIO addressing:

- Management, Operation, and Technical Controls for Information Systems;
- Certification and Accreditation;
- Risk Management for Information Systems;
- Vulnerability Management;
- Interconnection Agreements;
- Plans of Actions and Milestones;

- Contingency Planning;
- Password Management;
- Wireless Devices; and
- Protection of Personally Identifiable Information.

This guidance also addresses cyber security controls that support configuration management, and the restriction of network services. The CIO is also leading a Corporate Asset Management initiative which will further mitigate weaknesses identified in these areas.

The Steering Committee has also established a Cyber Security Working Group, which participates actively in the development of cyber security guidance and in other cyber security activities.

Performance Measurement Reporting

The Department presents performance measures and associated results in the Performance Results and Management's Discussion and Analysis sections of its *Fiscal Year 2006 Performance and Accountability Report*. The Department has implemented a system to collect performance measure results quarterly, from the various Headquarters, field, and contractor elements. The Department has also issued guidance to ensure that reported performance results are adequately supported by documentation that can be independently verified. However, the results of our 2006 testing indicated that the Department's performance reporting process does not always ensure that reported performance information reflects actual performance and is adequately supported.

Our procedures identified 2 of the 29 annual performance targets or performance measures that we selected for testing that were incorrectly reported. In addition, the Department was unable to provide underlying data to support the reported performance results for an additional 4 of the 29 annual performance targets tested.

Weaknesses in procedures designed to accurately report performance measure results limit the readers' ability to properly assess the Department's performance.

Recommendation:

We recommend that the Department's Chief Financial Officer strengthen internal controls to ensure the accuracy of reported performance data and the maintenance of related supporting documentation, and to provide for a supervisory review of reported performance results. We also recommend that additional training and guidance be issued to all Departmental elements with regards to enhancing internal controls over performance measurement reporting.

Management's Response:

The Department generally concurs with the auditor's recommendation that we strengthen internal controls to ensure the accuracy of reported performance data and the maintenance of related supporting documentation. To improve existing controls, the Department will strengthen documentation requirements and ensure training is provided to applicable Departmental elements.

Management will also strengthen the procedures pertaining to quality of reported results and supporting documentation prior to official submission. To that end, management will improve guidance with respect to quality control of submitted performance results and appropriate management oversight of those submissions. The end result is to ensure that errors do not occur in the data calculation and reporting process, and if they do that those errors are detected and corrected before performance data is officially submitted.

Independent Auditors' Report
Exhibit III – Status of Prior Year Audit Findings

Reportable Conditions from FY 2005 (with parenthetical disclosure of year first reported)	Status at September 30, 2006
Financial Management and Reporting Controls – Considered a Material Weakness (2005)	Partially implemented – In fiscal year 2006, the Department was able to resolve many of the issues raised during the fiscal year 2005 audit, such as reconciling payment information with the U.S. Department of the Treasury, reconciling integrated contractor trial balances with the Department's records, reconciling accounting system modules to the general ledger, resolving various posting errors, and identifying and reporting intragovernmental transactions. In addition, the Department was able to produce reports for management, internal control, and audit purposes that it was not able to produce in the previous year. However, unresolved weaknesses relating to obligations and undelivered orders continue to be reported in Exhibit I as a material weakness.
Unclassified Information Systems Security (1999)	Not implemented – Unclassified network and information systems security issues continue to be reported in Exhibit II as a reportable condition.