

Chapter Five

Financial Management

In Fiscal Year 2001, we continued to carry out our primary financial management functions: accounting for the Program's assets, liabilities, and cash flows; quantifying the Program's long-range financial needs; and managing the investment of civilian revenues so that they are available to meet Program requirements.

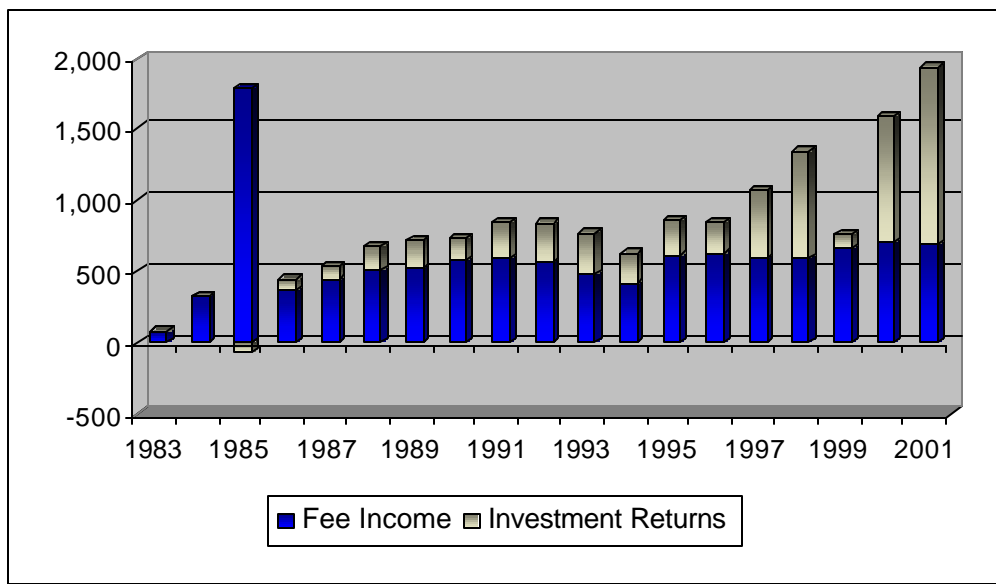
Program Funding

The Nuclear Waste Policy Act (NWPA) provides that the costs of disposing of spent nuclear fuel and high-level radioactive waste be borne by the parties responsible for the generation of these wastes. OCRWM's obligation, under the NWPA, to accept spent nuclear fuel and high-level radioactive waste for disposal is limited to those wastes whose disposal costs are fully paid by their owners and generators.

The NWPA left it up to the President to determine whether civilian and defense-related waste should be emplaced in the same repository. On April 30, 1985, President Reagan issued a decision that they should be, with each party paying its proportional share of the full cost. To implement that decision, public rulemaking was used to develop a methodology for allocating defense and civilian costs. The result was published in the *Federal Register* in August 1987. The Program's accounting system is consistent with this methodology.

Program revenues: civilian utility fees for civilian waste

The NWPA provides for two types of fee to be levied on the owners and generators of civilian spent nuclear fuel: an ongoing fee of 1.0 mil (one tenth of one cent) per kilowatt-hour (kWh) on nuclear electricity generated and sold after April 7, 1983, and a one-time fee for all nuclear electricity generated and sold prior to that date. The fees are defined in the *Standard Contract for Disposal of Spent Nuclear Fuel and/or High-Level Radioactive Waste*, which was promulgated in 1983 and executed between the Department of Energy (DOE) and the owners and generators of the waste. Nuclear power producers make quarterly payments of the ongoing fee. For the one-time fee, the contract allowed owners to choose to pay immediately or defer payment and incur interest. Through FY 2001 \$1,458 million in one-time fees has been paid and \$880 million has been deferred.



Investments contribute an increasing share of civilian income

Fees for spent nuclear fuel disposal are deposited in the Nuclear Waste Fund, a separate account in the U.S. Treasury that is managed and administered by DOE. Amounts not appropriated by the Congress for current Program expenses are invested in U.S. Treasury securities. The Office of Civilian Radioactive Waste Management (OCRWM) manages these investments strategically to ensure that the long-term costs of waste disposal can be met. The total market value of the Nuclear Waste Fund as of September 30, 2001, was approximately \$11,674 million.

OCRWM earns civilian revenue when nuclear power plants generate and sell power, when OCRWM earns interest or realizes capital gains on U.S. Treasury investments, and when interest is charged on the utilities' unpaid fee balances. During Fiscal Year 2001, OCRWM earned \$1,539 million in civilian revenue. Fiscal Year 2001 civilian revenue consisted of \$716 million in ongoing 1 mil/kWh fees, \$129 million in interest on and adjustments to one-time fees, and \$694

million in investment earnings. The cumulative civilian revenue, as of September 30, 2001 (shown in Table 5-1), was \$19,700 million, of which \$16,784 million had been paid and \$2,916 million remained unpaid. Civilian revenue includes \$5,662 million in earnings on U.S. Treasury investments, of which \$5,592 million has been paid and \$70 million was due with the next semiannual interest payment.

Program revenues: defense dollars for defense waste

The Department's Office of Environmental Management and the Office of Nuclear Energy, Science, and Technology's Naval Nuclear Propulsion Program are the custodians of the Department's inventory of high-level radioactive waste and spent nuclear fuel.

In Fiscal Year 2001, we continued to work to implement the terms of the memoranda of agreement that we

	CIVILIAN					DEFENSE			Grand Total
	1 mil/kWh Fee	One-Time Fee	Interest on Fees	Return on Investment	Civilian Total	Fees	Interest on Fees	Defense Total	
FY 2001 ¹	716	0	129	694	1,539	114	61	175	1,714
Cumulative through FY 2001	9,881	2,338	1,819	5,662	19,700	1,899	896	2,795 ²	22,495
Paid by Waste Owners ³	9,705	1,458	29	5,592	16,784	1,435		1,435	18,219
Receivable ⁴	176	880	1,790	70	2,916	1,360 ²		1,360	4,276
<p>1 From Note 14 to the Financial Statements (Appendix A).</p> <p>2 From Note 2 to the Financial Statements. Defense payments include the \$12.5 million paid by the Department into the Nuclear Waste Fund, Defense Nuclear Waste Disposal appropriations, and credits to the Government for use of the Nevada Test Site facilities. Because payments are credited against the balance due and not separated into interest and principal, only one number is shown on the Paid and Receivable lines.</p> <p>3 Paid amounts are calculated by subtracting the Receivable amount from the cumulative total.</p> <p>4 From the Balance Sheet in the Financial Statements.</p>									

Table 5-1
Cumulative Program Revenue as of September 30, 2001
(in millions of dollars)

executed with the Office of Environmental Management and the Naval Nuclear Propulsion Program in Fiscal Year 1998. The memoranda establish a process for determining waste acceptance and fee payment schedules.

Table 5-1 also shows OCRWM accrued revenue from defense sources. Defense revenue is earned when the Program incurs costs related to defense waste disposal and when interest is charged on unpaid defense balances. In Fiscal Year 2001, accrued defense revenue was \$175 million, which included \$114 million in accrued fee revenue and \$61 million in accrued interest on deferred fees. OCRWM's cumulative accrued defense revenue as of September 30, 2001, consisted of \$1,899 million in accrued fees and \$896 million in accrued interest, for a total of \$2,795 million. Of the total, \$1,435 million had been paid and \$1,360 million (including interest) remained unpaid.

Program expenditures

Congress makes two separate appropriations for the Program, one from the Nuclear Waste Fund, the other through a Defense Nuclear Waste Disposal appropriation. These appropriations are recorded in separate internal accounts; however, they are consolidated in the OCRWM financial statements.

Appropriations for the Program are subject to the Federal budget process. They are considered part of the discretionary portion of the budget and thus compete for resources with other discretionary spending programs. As a consequence, although the Nuclear Waste Fund is composed of dedicated utility fee payments, plus the investment earnings on the balance in the Fund, appropriations from it are included in the total spending limits imposed on general Federal programs. Historically, this has resulted in constraints on Program funding. In August 2001, the Program published a report, *Alternative Means of Financing and Managing the Civilian Radioactive Waste Management Program*, that suggested several ways of overcoming these constraints.

As shown in Table 5-2, cumulative Program expenditures were \$7,207 million, of which \$5,309 million was allocated to civilian and \$1,898 million to defense waste disposal activities. Through Fiscal Year 2001, Congress had appropriated a total of \$7,087 million for the Program and related activities under the NWPA.

The OCRWM financial statements for Fiscal Year 2001 and the report of OCRWM's independent auditors are at Appendix A.

Managing Investments

The objectives of OCRWM's investment strategy are to: (1) ensure that investment income is available when needed; (2) support the adequacy of the fee paid into the Nuclear Waste Fund by waste owners and generators; and (3) hedge against uncertainty and unplanned funding requirements. To achieve these objectives, the Nuclear Waste Fund is managed as two portfolios: a contingency portfolio and a match portfolio.

The purpose of the contingency portfolio is to hedge against reasonable contingencies, such as unexpected near-term expenditures. The purpose of the match portfolio is to provide reliable funding for expected program expenditures. It serves to bring into balance the Program's assets and liabilities and to maintain that balance. The contingency portfolio is highly liquid and consists of U.S. Treasury securities, the average maturity of which does not exceed three years. The match portfolio consists of a mix of U.S. Treasury bills, notes, bonds, and zero-coupon bonds. The duration and present values of these investments are matched, or will be matched, to the durations and present values of OCRWM's projected liabilities. Matching investments to planned spending reduces the sensitivity of the fee adequacy balance to changing interest rates.

Each month, near-term cash flow expectations and current asset and liability values are reassessed and used as the basis for investment selection. The portfolio is rebalanced, as required, upon completion of each new total system life cycle cost analysis or when

	CIVILIAN	DEFENSE	TOTAL
FY 2001 ¹	312	113	425
Cumulative through FY 2001 ²	5,309	1,898	7,207
Paid by Program ³	5,279	1,887	7,166
Payable ³	30	11	41
Appropriations ⁴	5,674	1,413	7,087

1 Total Program expenditures for FY 2001 are from Note 14 to the Financial Statements, which states that kWh and defense fees are recognized as revenue to the extent of expenses incurred and recognizes earned revenue of \$425 million. The total is divided into civilian and defense portions based on the May 2001 Total System Life Cycle Cost (TSLCC) defense share of 27 percent.

2 Cumulative total expenditures are from Note 9 to the Financial Statements. Cumulative defense expenditures are based on the difference between the total defense share to date and interest on defense arrears in Note 2. Cumulative civilian expenditures are the difference between total expenditures and defense expenditures.

3 The Paid amount is the difference between total expenditures and payables. (Payables are shown in the Balance Sheet of the Financial Statements and are amounts owed by the Program that have not yet been paid. The total amount of payables is divided into civilian and defense portions based on the TSLCC defense share of 27 percent.)

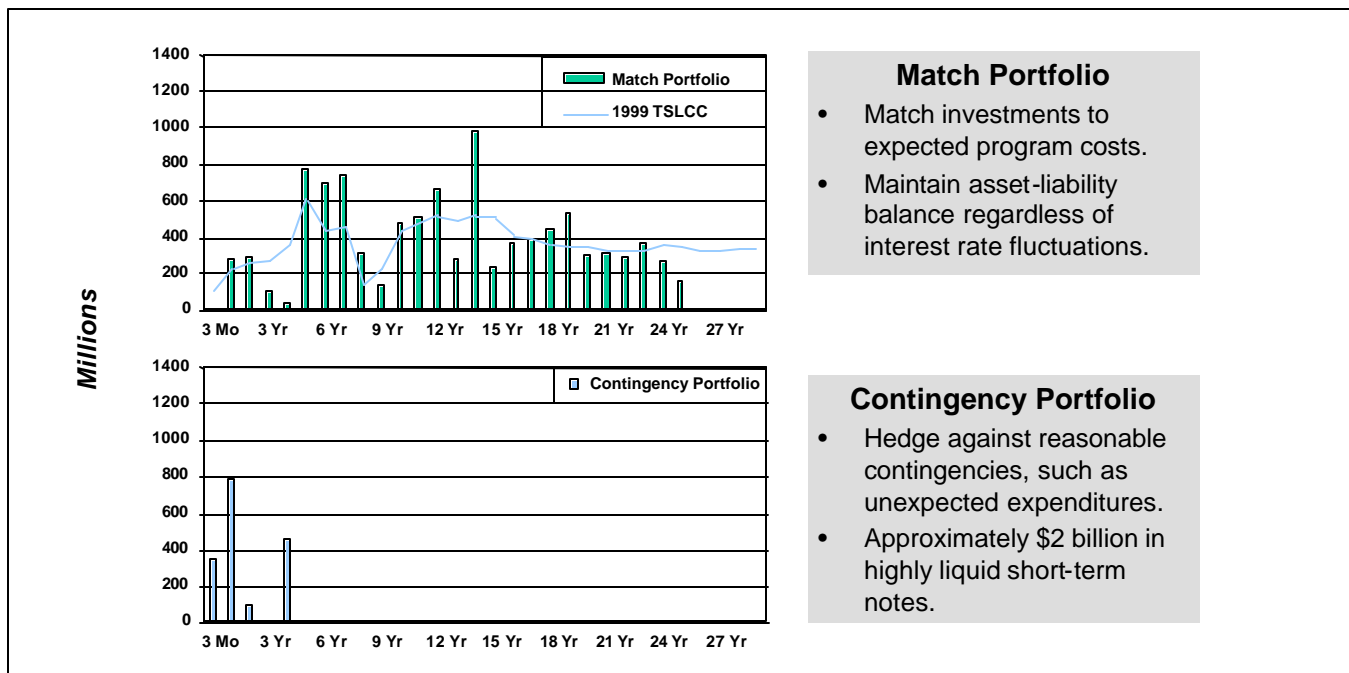
4 Appropriation totals are based on historic appropriation legislation and are not discussed in the Financial Statements. Total appropriations are not equal to total expenditures because: 1) civilian expenditures include \$135 million in interest on utility overpayment, most of which was funded through fee credits, i.e., not through appropriations; 2) capital expenditures are amortized in the Financial Statements; and 3) some appropriated funds were carried over into FY 2002 from FY 2001. Civilian appropriations include \$300 million appropriated from the Nuclear Waste Fund to the Nuclear Regulatory Commission, the Nuclear Waste Technical Review Board, and the now-defunct Office of the Nuclear Waste Negotiator.

Table 5-2
Cumulative Program Expenditures as of September 30, 2001
(in millions of dollars)

changes in Program assumptions warrant. During Fiscal Year 2001, the average of the contingency portfolio's month-end balances was \$1.8 billion; and the average of its month-end maturities was 2.0 years. The May 2001 the Total System Life Cycle Cost (TSLCC) estimate increased program spending projections in virtually all years. We are in the process of rebalancing the match portfolio to these new projections.

On September 30, 2001, the market value of Nuclear Waste Fund investments was approximately \$11,674 million, compared with \$9,777 million at the end of

Fiscal Year 2000. The increase in market value was due to the addition of new investments of surplus fee income and to changes in market conditions. The impact of market conditions varies from year to year. Declining interest rates increase investment value and rising rates lower values. This year, near-term interest rates fell sharply and long-term rates rose slightly. The effect of declining near-term rates was greater and produced a substantial gain. Standard accounting practices require that we report the market value of the Nuclear Waste Fund because we occasionally sell securities before maturity to adjust investments to



The Nuclear Waste Fund is managed as two portfolios

Program spending plans. However, most of the securities will be held to maturity and would earn the return that was expected when they were purchased.

Over the last year, the Nuclear Waste Fund investments earned a market value return of 13.94 percent and a book value return of 7.97 percent. Book value returns reflect the accrued income received from investments and realized capital gains. They are much more stable than market returns. Over many years, average book and market value returns will be approximately equal. Since the first investments were made in 1985, the market value return and the book value return have averaged about 8.36 and 8.00 percent, respectively.

Civilian Radioactive Waste Research and Development Account

We also administer the Civilian Radioactive Waste Research and Development account, which, like the Defense Nuclear Waste Disposal appropriation, is supported by general taxpayer revenues. It pays for generic research, development, and demonstration activities authorized by Title II of the NWPA. There was no appropriation to this account for Fiscal Year 2001; only funds carried over from prior years were spent.

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