Financial Results

Algae Research at National Renewable Energy Laboratory.

Continuous Electron Beam Accelerator Facility, Jefferson Laboratory.

Biomass Research at National Renewable Energy Laboratory.

Advanced Light Source, Lawrence Berkeley National Laboratory.

Message from the Chief Financial Officer

It has been said that a journey of a thousand miles begins with a single step. To that end, when I joined the Department of Energy in June 2007, the Department had just regained its unqualified audit opinion. Since that time, the Department's financial management community has made exceptional strides, and I am pleased to report that our continued commitment has sustained the Department's clean, unqualified opinion and retained this accomplishment for a second year in a row. The Department's entire senior leadership team recognizes the value of accurate and timely financial information for decision making and should be commended for their role in achieving this major accomplishment.

The Department's fiscal year 2008 financial statements were reviewed by independent auditors and received an unqualified opinion. Furthermore, the auditors reported that no material weaknesses in internal controls were identified. The Department also completed an evaluation of its financial management system and found it to be in general conformance with governmental financial system requirements and identified no material nonconformances.

While we have made significant progress on our journey, much remains to be done. During my tenure, I have emphasized creating a professional culture that recognizes great outcomes, conducts dogged analysis, and provides accurate, timely financial analysis that can be relied on by our stakeholders. In short, we provide more than just numbers—we are smart money.

As the CFO, one of my highest priorities is to ensure that we continue to invest in the right resources to further strengthen our financial management and analysis capabilities and work closely with program offices to achieve the results expected by the American people. I am committed to generating interest in financial management and building a talented financial management community at DOE. As chair of the Human Capital taskforce of the CFO Council, I led the creation of the CFO Council's new website "CFOJobs.gov." DOE is taking advantage of this government-wide effort to build a talented financial management community that attracts the best and the brightest to the U.S. government.

As we all strive to do more with less, our business systems become increasingly important in helping to close the human capital gap. iManage is the Department's business transformation and enterprise-wide business systems management program. Its mission is centered around connecting our people, simplifying our work, and liberating our data. Ultimately, our success is defined by putting timely and accurate information in the hands of the Department's decision makers. Recently we unveiled our iPortal to continue improvements in information delivery, taking advantage of the latest in enterprise portal and web technologies.

We must be steadfast in our pursuit of financial management excellence, and in building our capabilities, skills, and competencies to further enhance the Department's strategic decision-making. I offer this report as a show of faith in our continued commitment to prudent financial management and the Department's continued financial integrity.

I wish to thank Secretary Bodman and the entire senior leadership team for their support, and I also welcome feedback from the readers of this report as we continue to endeavor for opportunities to improve the way we communicate the results of the Department's performance. Thank you.

Steve Isakowitz
November 14, 2008

Introduction to Principal 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.

Consolidated Balance Sheets

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

Consolidated Statements of Net Cost

The Consolidated Statements of Net Cost summarize the Department's operating costs by the strategic themes and goals identified in the Department's September 30, 2006, 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.

Consolidated Statements of Changes in Net Position

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.

Combined Statements of Budgetary Resources

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.

Consolidated Statements of Custodial Activities

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.

Principal Statements

U.S. Department of Energy Consolidated Balance Sheets

As of September 30, 2008 and 2007

($ in millions)	FY 2008	FY 2007
ASSETS: (Note 2)		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$ 19,231	$ 18,359
Investments and Related Interest, Net (Note 4)	27,604	25,800
Accounts Receivable, Net (Note 5)	526	456
Regulatory Assets (Note 6)	5,425	5,456
Other Assets	6	8
Total Intragovernmental Assets	$ 52,792	$ 50,079
Investments and Related Interest, Net (Note 4)	196	204
Accounts Receivable, Net (Note 5)	4,018	3,937
Inventory, Net: (Note 7)		
Strategic Petroleum and Northeast Home Heating Oil Reserve	20,484	19,415
Nuclear Materials	21,024	21,040
Other Inventory	478	470
General Property, Plant, and Equipment, Net (Note 8)	25,054	24,866
Regulatory Assets (Note 6)	5,151	5,636
Other Non-Intragovernmental Assets (Note 9)	4,625	5,032
Total Assets	$ 133,822	$ 130,679
LIABILITIES: (Note 10)		
Intragovernmental Liabilities:		
Accounts Payable	$ 76	$ 66
Debt (Note 11)	11,526	11,481
Deferred Revenues and Other Credits (Note 12)	37	36
Other Liabilities (Note 13)	243	271
Total Intragovernmental Liabilities	$ 11,882	$ 11,854
Accounts Payable	3,901	3,793
Debt Held by the Public (Note 11)	6,267	6,427
Deferred Revenues and Other Credits (Note 12)	25,830	25,145
Environmental Cleanup and Disposal Liabilities (Note 14)	266,081	263,603
Pension and Other Actuarial Liabilities (Note 15)	12,362	12,433
Capital Leases (Note 16)	479	214
Other Non-Intragovernmental Liabilities (Note 13)	4,773	3,272
Contingencies and Commitments (Note 17)	12,388	11,071
Total Liabilities	$ 343,963	$ 337,812
NET POSITION:		
Unexpended Appropriations:		
Unexpended Appropriations - Earmarked Funds (Note 18)	$ 13	$ 17
Unexpended Appropriations - Other Funds	11,106	10,665
Cumulative Results of Operations:		
Cumulative Results of Operations - Earmarked Funds (Note 18)	(5,726)	(6,637)
Cumulative Results of Operations - Other Funds	(215,534)	(211,178)
Total Net Position	$ (210,141)	$ (207,133)
Total Liabilities and Net Position	$ 133,822	$ 130,679

** The accompanying notes are an integral part of these statements.*

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

For the Years Ended September 30, 2008 and 2007

($ in millions)	FY 2008	FY 2007
STRATEGIC THEMES:		
Energy Security:		
Energy Diversity:		
Program Costs	$ 1,309	$ 1,082
Less: Earned Revenues (Note 19)	(16)	(6)
Net Cost of Energy Diversity	1,293	1,076
Environmental Impacts of Energy:		
Program Costs	1,167	1,046
Less: Earned Revenues (Note 19)	(51)	(60)
Net Costs of Environmental Impacts of Energy	1,116	986
Energy Infrastructure:		
Program Costs	3,989	3,974
Less: Earned Revenues (Note 19)	(4,089)	(4,187)
Net Cost of Energy Infrastructure	(100)	(213)
Energy Productivity Program Costs	453	496
Net Cost of Energy Security	2,762	2,345
Nuclear Security:		
Nuclear Deterrent		
Program Costs	6,702	6,869
Less: Earned Revenues (Note 19)	(2)	-
Net Cost of Nuclear Deterrent	6,700	6,869
Weapons of Mass Destruction Program Costs	1,588	1,526
Nuclear Propulsion Plants:		
Program Costs	798	810
Less: Earned Revenues (Note 19)	(16)	(19)
Net Cost of Nuclear Propulsion Plants	782	791
Net Cost of Nuclear Security	9,070	9,186
Scientific Discovery and Innovation:		
Net Cost of Scientific Discovery and Innovation	3,790	3,997
Environmental Responsibility:		
Environmental Cleanup:		
Program Costs	5,491	5,867
Less: Earned Revenues (Note 19)	(414)	(493)
Net Costs of Environmental Cleanup	5,077	5,374
Managing the Legacy Program Costs	187	57
Net Cost of Environmental Responsibility	5,264	5,431
Net Cost of Strategic Themes	20,886	20,959
OTHER PROGRAMS:		
Reimbursable Programs:		
Program Costs	3,869	3,544
Less: Earned Revenues (Note 19)	(3,861)	(3,480)
Net Cost of Reimbursable Programs	8	64
Other Programs: (Note 20)		
Program Costs	601	625
Less: Earned Revenues (Note 19)	(295)	(312)
Net Cost of Other Programs	306	313
Costs Applied to Reduction of Legacy Environmental Liabilities (Notes 14 and 21)	(5,313)	(5,573)
Costs Not Assigned (Note 22)	13,464	45,732
Net Cost of Operations (Note 23)	$ 29,351	$ 61,495

** The accompanying notes are an integral part of these statements.*

U.S. Department of Energy Consolidated Statements of Changes in Net Position

For the Years Ended September 30, 2008 and 2007
($ in millions)

	FY 2008			
	Earmarked Funds (Note 18)	All Other Funds	Eliminations	Consolidated
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balances	$ (6,637)	$ (211,178)	$ -	$ (217,815)
Budgetary Financing Sources:				
Appropriations Used	$ 16	$ 22,919	$ -	$ 22,935
Non-Exchange Revenue	57	52	-	109
Donations and Forfeitures of Cash	-	6	-	6
Transfers - In/(Out) Without Reimbursement	(214)	-	-	(214)
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	22	-	-	22
Transfers - In/(Out) Without Reimbursement (Note 23)	3	1,211	-	1,214
Imputed Financing from Costs Absorbed by Others (Note 23)	3	1,822	-	1,825
Other (Note 23)	614	(129)	(476)	9
Total Financing Sources	$ 501	$ 25,881	$ (476)	$ 25,906
Net Cost of Operations	410	(30,237)	476	(29,351)
Net Change	$ 911	$ (4,356)	$ -	$ (3,445)
Total Cumulative Results of Operations	$ (5,726)	$ (215,534)	$ -	$ (221,260)
UNEXPENDED APPROPRIATIONS:				
Beginning Balances	$ 17	$ 10,665	$ -	$ 10,682
Budgetary Financing Sources:				
Appropriations Received (Note 24)	$ 12	$ 23,958	$ -	$ 23,970
Appropriations Transferred - In/(Out)	-	2	-	2
Other Adjustments	-	(600)	-	(600)
Appropriations Used	(16)	(22,919)	-	(22,935)
Total Budgetary Financing Sources	$ (4)	$ 441	$ -	$ 437
Total Unexpended Appropriations	$ 13	$ 11,106	$ -	$ 11,119
Net Position	$ (5,713)	$ (204,428)	$ -	$ (210,141)

	FY 2007			
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balances	$ (1,012)	$ (179,039)	$ -	$ (180,051)
Budgetary Financing Sources:				
Appropriations Used	$ 36	$ 22,502	$ -	$ 22,538
Non-Exchange Revenue	72	52	-	124
Donations and Forfeitures of Cash	-	12	-	12
Transfers - In/(Out) Without Reimbursement	(878)	9	-	(869)
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	4	-	-	4
Transfers - In/(Out) Without Reimbursement (Note 23)	48	144	-	192
Imputed Financing from Costs Absorbed by Others (Note 23)	2	1,744	-	1,746
Other (Note 23)	343	113	(472)	(16)
Total Financing Sources	$ (373)	$ 24,576	$ (472)	$ 23,731
Net Cost of Operations	(5,252)	(56,715)	472	(61,495)
Net Change	$ (5,625)	$ (32,139)	$ -	$ (37,764)
Total Cumulative Results of Operations	$ (6,637)	$ (211,178)	$ -	$ (217,815)
UNEXPENDED APPROPRIATIONS:				
Beginning Balances	$ 47	$ 9,864	$ -	$ 9,911
Budgetary Financing Sources:				
Appropriations Received (Note 24)	$ 5	$ 23,291	$ -	$ 23,296
Appropriations Transferred - In/(Out)	-	13	-	13
Other Adjustments	1	(1)	-	-
Appropriations Used	(36)	(22,502)	-	(22,538)
Total Budgetary Financing Sources	$ (30)	$ 801	$ -	$ 771
Total Unexpended Appropriations	$ 17	$ 10,665	$ -	$ 10,682
Net Position	$ (6,620)	$ (200,513)	$ -	$ (207,133)

** The accompanying notes are an integral part of these statements.*

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

For the Years Ended September 30, 2008 and 2007

($ in millions)	FY 2008	FY 2007
BUDGETARY RESOURCES:		
Unobligated Balance, Brought Forward, October 1 (Note 24)	$ 4,080	$ 4,159
Recoveries of Prior Year Unpaid Obligations	53	52
Budget Authority:		
Appropriations (Note 24)	$ 25,434	$ 24,616
Borrowing Authority	425	315
Contract Authority	515	692
Spending Authority from Offsetting Collections:		
Earned:		
Collected	8,046	7,755
Change in Receivables from Federal Sources	30	(22)
Change in Unfilled Customer Orders:		
Advances Received	13	9
Without Advance from Federal Sources	260	124
Subtotal	$ 34,723	$ 33,489
Nonexpenditure Transfers, Net, Anticipated and Actual	(81)	117
Temporarily not Available Pursuant to Public Law	(159)	(257)
Permanently not Available	(1,774)	(1,428)
Total Budgetary Resources (Note 24)	$ 36,842	$ 36,132
STATUS OF BUDGETARY RESOURCES:		
Obligations Incurred:		
Direct	$ 25,486	$ 24,770
Exempt from Apportionment	2,901	2,897
Reimbursable	4,826	4,385
Total Obligations Incurred (Notes 23 and 24)	$ 33,213	$ 32,052
Unobligated Balance:		
Apportioned	1,991	2,495
Exempt from Apportionment	47	50
Unobligated Balance not Available (Note 24)	1,591	1,535
Total Status of Budgetary Resources	$ 36,842	$ 36,132
CHANGE IN OBLIGATED BALANCE:		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	$ 19,447	$ 18,196
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(4,201)	(4,100)
Total Unpaid Obligated Balance, Net, October 1	$ 15,246	$ 14,096
Obligations Incurred (Notes 23 and 24)	33,213	32,052
Less: Gross Outlays	(31,505)	(30,748)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(53)	(52)
Change in Uncollected Customer Payments from Federal Sources	(290)	(102)
	$ 16,611	$ 15,246
Obligated Balance, Net, End of Period:		
Unpaid Obligations (Note 24)	$ 21,102	$ 19,447
Less: Uncollected Customer Payments from Federal Sources	(4,491)	(4,201)
Total, Unpaid Obligated Balance, Net, End of Period	$ 16,611	$ 15,246
NET OUTLAYS:		
Gross Outlays	$ 31,505	$ 30,748
Less: Offsetting Collections	(8,059)	(7,764)
Less: Distributed Offsetting Receipts (Notes 23 and 24)	(2,111)	(2,926)
Net Outlays (Note 24)	$ 21,335	$ 20,058

** The accompanying notes are an integral part of these statements.*

U.S. Department of Energy Consolidated Statements of Custodial Activities

For the Years Ended September 30, 2008 and 2007

($ in millions)	FY 2008	FY 2007
SOURCE OF COLLECTIONS:		
Cash Collections: (Note 25)		
Power Marketing Administrations	$ 573	$ 532
Federal Energy Regulatory Commission	62	82
Petroleum Pricing Violation Escrow Fund	9	13
Total Cash Collections	$ 644	$ 627
Accrual Adjustment	(26)	(5)
Total Custodial Revenue	$ 618	$ 622
DISPOSITION OF REVENUE:		
Transferred to Others:		
Department of the Treasury	(302)	(290)
Army Corps of Engineers	(5)	(31)
Bureau of Reclamation	(327)	(305)
Others	(3)	(7)
Decrease/(Increase) in Amounts to be Transferred	19	11
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 (the Department). 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 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 (FERC), which is an independent organization responsible for regulating the transmission and sale of natural gas for resale in interstate commerce and for the transmission and wholesale of electricity in interstate commerce 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 the Department's 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 intradepartmental balances and transactions have been eliminated in the *Consolidated Balance Sheets*, *Consolidated Statements of Net Cost*, *Consolidated Statements of Changes in Net Position*, and *Consolidated Statements of Custodial Activities*. The *Combined Statements of Budgetary Resources* are prepared on a combined basis and do not include intradepartmental 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. Direct Loan and Loan Guarantees

The Department received authority to enter into $45.5 billion in loan guarantees for innovative energy technology pursuant to Public Laws 109-58 and 110-161. As of September 30, 2008, 25 applications have been received and are under review, but no loan guarantees have been made.

The Department also received fiscal year 2009 authority to enter into $25 billion in direct loans for advanced technology vehicle manufacturing pursuant to Public Laws 110-140 and 110-329. As of September 30, 2008, no applications have been received and no loans have been made under this direct loan program. The Department was given 60 days to develop regulations governing the Advanced Technology Vehicle Manufacturing Loan Program. The Department issued those regulations on November 5, 2008.

H. 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).

I. 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) and FERC, which use thresholds ranging from $5,000 to $25,000. The capitalization threshold for internal use software is $750,000, except for the PMAs and FERC, which use thresholds ranging from $5,000 to $150,000 (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.

J. 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 that are not contract based can be abrogated by the Government acting in its sovereign capacity.

K. Earmarked Funds

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 18).

L. 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.

M. 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 (OPM). The Department does report, as an imputed financing source (see Note 23) 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 OPM. The PMAs make additional annual contributions to Treasury to ensure that all postretirement benefit programs provided to their employees are fully funded and such costs are both recovered through rates and properly expensed.

Contractor Employees

DOE is contractually responsible for reimbursing its major contractors who sponsor employee defined benefit pension plans for the costs of contractor employee retiree benefits because these are allowable costs under their contracts. Most of these contractors sponsor defined benefit pension plans under which these plans promise to pay employees specified benefits, such as a percentage of the final average pay for each year of service. DOE does not sponsor and is not the fiduciary of contractor employee defined benefit plans. Contractors are required to fund their defined benefit pension plans in accordance with the requirements of the Employee Retirement Income Security Act, as amended by the Pension Protection Act of 2006. Employer contributions are calculated to ensure that plan assets are sufficient to 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. DOE's major 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 these contractor pension and PRB plans, it reports assets and liabilities for these plans (see Note 15).

N. Net Cost of Operations

Program costs are summarized in the *Consolidated Statements of Net Cost* by the strategic themes and goals identified in the Department's September 30, 2006, Strategic Plan. Program costs reflect full costs including all direct and indirect costs consumed by these strategic themes and goals. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see Notes 19 and 20). The strategic themes and goals are summarized below.

Energy Security

- Energy Diversity – Increase our energy options and reduce dependence on oil, thereby reducing vulnerability to disruptions and increasing the flexibility of the market to meet U.S. needs.
- Environmental Impacts of Energy – Improve the quality of the environment by reducing greenhouse gas emissions and environmental impacts to land, water, and air from energy production and use.
- Energy Infrastructure – Create a more flexible, more reliable, and higher capacity U.S. energy infrastructure.
- Energy Productivity – Cost-effectively improve the energy efficiency of the U.S. economy.

Nuclear Security

- Nuclear Deterrent – Transform the Nation's nuclear weapons stockpile and supporting infrastructure to be more responsive to the threats of the 21st Century.
- Weapons of Mass Destruction – Prevent the acquisition of nuclear and radiological materials for use in weapons of mass destruction and in other acts of terrorism.
- Nuclear Propulsion Plants – Provide safe, militarily effective nuclear propulsion plants to the U.S. Navy.

Scientific Discovery and Innovation

- Scientific Breakthroughs – Achieve the major scientific discoveries that will drive U.S. competitiveness and inspire and revolutionize our approaches to the Nation's energy, national security, and environmental quality challenges.
- Foundations of Science – Deliver the scientific facilities, train the next generation of scientists and engineers, and provide the laboratory capabilities and infrastructure required for U.S. scientific primacy.
- Research Integration – Integrate basic and applied research to accelerate innovation and to create transformational solutions for energy and other U.S. needs.

Environmental Responsibility

- Environmental Cleanup – Complete cleanup of the contaminated nuclear weapons manufacturing and testing sites across the U.S.
- Managing the Legacy – Manage the Department's post-closure environmental responsibilities and ensure the future protection of human health and the environment.

O. 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 19). Non-exchange revenues derive from the Government's sovereign right to demand payment, including fines and penalties. Non-exchange revenues also include interest earned on investments funded from amounts remaining from the privatization of the United States Enrichment Corporation (see Note 4). 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 OPM, 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* (see also Note 23).

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).

P. 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.

Q. Comparative Data

Certain fiscal year 2007 amounts have been reclassified to conform to the fiscal year 2008 presentation.

2. Non-Entity Assets

($ in millions)	FY 2008	FY 2007
Intragovernmental		
Naval Petroleum Reserve Deposit Fund (Note 13)	$ 323	$ 323
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 13)	56	47
Other	8	-
Subtotal	$ 387	$ 370
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 13)	196	204
Inventories - Department of Defense stockpile oil (Notes 7 and 13)	123	123
Other	2	-
Total non-entity assets	$ 708	$ 697
Total entity assets	133,114	129,982
Total assets	$ 133,822	$ 130,679

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 and 1980s. 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 to claimants from this fund.

3. Fund Balance with Treasury

($ in millions)	FY 2008				
	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	$ 1,608	$ 154	$ 276	$ -	$ 2,038
Unavailable (Note 24)	25	1,566	-	-	1,591
Obligated balance not yet disbursed					
Unpaid obligations (Note 24)	17,798	2,546	758	-	21,102
Uncollected customer payments from Federal sources	(4,144)	(314)	(33)	-	(4,491)
Deposit fund liabilities	-	-	-	366	366
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	149	(515)	-	-	(366)
Unavailable receipt accounts	-	-	882	-	882
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(100)	-	(100)
Uranium Enrichment D&D Fund	-	-	(249)	-	(249)
U.S. Enrichment Corporation revolving fund	-	(1,542)	-	-	(1,542)
Total fund balance with Treasury	$ 15,436	$ 1,895	$ 1,534	$ 366	$ 19,231

	FY 2007				
Unobligated budgetary resources					
Available	$ 2,158	$ 168	$ 219	$ -	$ 2,545
Unavailable (Note 24)	15	1,476	44	-	1,535
Obligated balance not yet disbursed					
Unpaid obligations (Note 24)	16,302	2,460	685	-	19,447
Uncollected customer payments from Federal sources	(3,851)	(322)	(28)	-	(4,201)
Deposit fund liabilities	-	(3)	-	360	357
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	257	(694)	-	-	(437)
Unavailable receipt accounts	-	-	882	-	882
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(108)	-	(108)
Uranium Enrichment D&D Fund	-	-	(188)	-	(188)
U.S. Enrichment Corporation revolving fund	-	(1,473)	-	-	(1,473)
Total fund balance with Treasury	$ 14,881	$ 1,612	$ 1,506	$ 360	$ 18,359

4. Investments and Related Interest, Net

($ in millions)

FY 2008

	Face	Unamortized Premium (Discount)	Interest Receivable	Investments Net	Unrealized Market Gains (Losses)	Market Value
Intragovernmental Non-Marketable						
Nuclear Waste Fund	$ 42,570	$ (21,466)	$ 50	$ 21,154	$ 2,983	$ 24,137
D&D Fund	4,710	59	54	4,823	178	5,001
U.S. Enrichment Corporation	1,542	2	27	1,571	-	1,571
Petroleum Pricing Violation Escrow Fund	56	-	-	56	-	56
Subtotal	$ 48,878	$ (21,405)	$ 131	$ 27,604	$ 3,161	$ 30,765
Petroleum Pricing Violation Escrow Fund	195	-	1	196	-	196
Total investments and related interest, net	$ 49,073	$ (21,405)	$ 132	$ 27,800	$ 3,161	$ 30,961

FY 2007

	Face	Unamortized Premium (Discount)	Interest Receivable	Investments Net	Unrealized Market Gains (Losses)	Market Value
Intragovernmental Non-Marketable						
Nuclear Waste Fund	$ 39,434	$ (19,971)	$ 48	$ 19,511	$ 1,179	$ 20,690
D&D Fund	4,623	50	54	4,727	20	4,747
U.S. Enrichment Corporation	1,502	(4)	17	1,515	-	1,515
Petroleum Pricing Violation Escrow Fund	47	-	-	47	-	47
Subtotal	$ 45,606	$ (19,925)	$ 119	$ 25,800	$ 1,199	$ 26,999
Petroleum Pricing Violation Escrow Fund	202	-	2	204	-	204
Total investments and related interest, net	$ 45,808	$ (19,925)	$ 121	$ 26,004	$ 1,199	$ 27,203

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 States Enrichment Corporation (USEC) on July 28, 1998, the Office of Management and Budget (OMB) and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. These funds 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 and a liability to Treasury. Because the Department and Treasury are both parts of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal 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 Federal 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 Federal Government finances all other expenditures.

The market value of the Department's investments in Treasury securities has declined subsequent to September 30, 2008 reflecting current economic conditions.

5. Accounts Receivable, Net

($ in millions)	FY 2008			FY 2007		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Intragovernmental	$ 526	$ -	$ 526	$ 456	$ -	$ 456
Nuclear Waste Fund	3,391	-	3,391	3,308	-	3,308
Power marketing administrations	506	(39)	467	519	(41)	478
Other	199	(39)	160	167	(16)	151
Subtotal	$ 4,096	$ (78)	$ 4,018	$ 3,994	$ (57)	$ 3,937
Total accounts receivable	$ 4,622	$ (78)	$ 4,544	$ 4,450	$ (57)	$ 4,393

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.

Non-intragovernmental receivables primarily represent amounts due for NWF 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. 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 2008	FY 2007
Intragovernmental		
Refinanced and additional appropriated capital	$ 5,425	$ 5,456
Non-operating regulatory assets	3,705	3,887
Residential Exchange		
Lookback amount from investor owned utilities (IOU)	679	-
IOU exchange benefits from settlement agreements	-	885
Conservation and fish and wildlife projects	345	377
Other regulatory assets	422	487
Subtotal	$ 5,151	$ 5,636
Total regulatory assets	$ 10,576	$ 11,092

The Department's PMAs record certain amounts as assets in accordance with Statement of Financial Accounting Standards (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, and those rates must be charged to and collected from customers. If Bonneville Power Administration's (BPA) rates should become market-based, SFAS No. 71 would no longer be applicable, and all of the deferred costs under that standard would be expensed.

Refinanced and Additional Appropriated Capital

The BPA Refinancing Section of the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Refinancing Act), 16 U.S.C. 838(l), required that the outstanding balance of the Federal Columbia River Power System (FCRPS) be reset and assigned market rates of interest prevailing as of September 30, 1996. This resulted in a determination that the principal amount of appropriations should equal the present value of the principal and interest that would have been paid to the U.S. Treasury in the absence of the Refinancing Act, plus $100 million. 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 $92 million and $91 million as of September 30, 2008 and 2007, respectively. 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 three terminated nuclear facilities and one hydro project that are not providing power. The contracts to acquire the generating capability of these projects require BPA to pay all or part of the annual projects' budgets, including maintenance expense and debt service. These projects' costs are recovered through BPA's rates. The *Consolidated Balance Sheets* include a regulatory asset and offsetting related debt (see Note 11).

Residential Exchange

As provided in the Northwest Power Act, beginning in 1981 BPA entered into 20-year Residential Purchase and Sale Agreements (RPSA) with eligible regional utility customers. The RPSAs implemented the Residential Exchange Program (REP). In 2000, BPA signed Residential Exchange Settlement Agreements ("REP settlements" or "settlement agreements") with the region's six investor-owned utilities (IOU) under which BPA was to provide monetary and power benefits as a settlement of residential exchange disputes for the period July 1, 2001 through September 30, 2011. BPA performed an analysis of the REP settlements and potential accounting implications associated with the settlement agreements. Based on this analysis, BPA recorded an IOU exchange benefit liability and regulatory asset for amounts recoverable in future rates.

In May 2007, the Ninth Circuit Court ruled that the 2000 settlement agreements were inconsistent with the Northwest Power Act and that BPA improperly allocated settlement costs to BPA's preference rates charged to its preference customers. Preference customers are public utilities, cooperatives or public bodies, such as municipalities and public utility districts that by law have priority access to federally generated power. Upon notification of the rulings, BPA suspended settlement agreement payments to the IOUs. As of the end of fiscal year 2007, the account balances for the liability and regulatory asset were $1,068 million and $885 million, respectively. The difference between the liability and regulatory asset was primarily attributable to the amortization o the regulatory asset, even though payment of the liability was suspended. In 2008, however, rates continued to be charged based on the settlement agreements.

In response to the Ninth Circuit Court rulings, BPA held a new wholesale power rate case that supplemented the initial fiscal year 2007 rate case. The 2007 Supplemental Wholesale Power Rate Case Final Record of Decision (Final ROD) was issued by the BPA Administrator on September 22, 2008. The Final ROD established a "Lookback Amount" representing BPA's overpayments made to IOUs from prior years in the amount of $746 million, which was also the amount over-collected from preference customers (consumer-owned utilities). In September 2008, BPA recorded $679 million as both a regulatory asset and liability, which reflects the Lookback Amount, less the $67 million effect of the Lookback Amount applied to 2008, as indicated in the Final ROD. The regulatory liability represents the amounts owed to the consumer-owned utilities that will be returned to them in the future. As a result of the analysis of the WP-07 Supplementary Rate Case and Final ROD, in fiscal year 2008 the associated liability and regulatory asset for the prior IOU settlement agreements were reduced to zero (see Notes 12 and 13).

In each succeeding rate case, the BPA Administrator will designate the amount to be recovered from the IOUs that will be returned to qualifying consumer-owned utilities. These amounts will not reduce rates, but will be credits to qualifying consumer-owned utilities' bills, as designated in the corresponding Final RODs. BPA will recognize a refund and reduce expense in each year it is applied, until the Lookback Amount is eliminated.

Conservation and Fish and Wildlife Projects

Conservation measures consist of the costs of capitalized conservation measures and are amortized over periods of 5 to 20 years. Fish and wildlife measures consist of the costs of capitalized fish and wildlife projects and are amortized over a period of 15 years.

Other Regulatory Assets

Other regulatory assets consist of BPA deferred expenses where the costs are included in rates charged to customers. These assets primarily include direct service industry benefits that will be recovered in rates; decommissioning and site restoration costs reflecting amounts to be recovered in future rates for funding the Trojan asset retirement obligation liability; settlements reflecting agreements or proposed settlements stemming from litigation; conservation related to programs sponsored by BPA; spacer dampers on transmission lines; and capital bond premiums, which represent the deferred losses related to refinanced debt and are amortized over the life of the new debt instruments.

7. Inventory, Net

Inventory includes stockpile materials consisting of crude oil held in the Strategic Petroleum Reserve (SPR) 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 SPR consists of crude oil stored in salt domes, terminals, and pipelines. As of September 30, 2008, and September 30, 2007, the Reserve contained crude oil with a historical cost of $20,405 million and $19,340 million, respectively. The Reserve provides a deterrent to the use of oil as a political instrument and provides a response mechanism should a disruption occur. Included in the SPR is six million barrels of crude oil held for future Department of Defense (DOD) use. The fiscal year 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, 2008, and September 30, 2007 (see Notes 2 and 13).

Northeast Home Heating Oil Reserve

The Northeast Home Heating Oil Reserve was established in fiscal year 2000 pursuant to the Energy Policy and Conservation Act. The Reserve contains petroleum distillate in the New England, New York, and New Jersey geographic areas valued at historical costs of $79 million as of September 30, 2008 and $75 million as of September 30, 2007.

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 Department has inventories amounting to a total of 17,596 metric tons (MTU) of uranium hexafluoride (UF6) as of September 30, 2008. This total can be divided into three separate stockpiles. First, the Department in 1996 received from USEC a transfer of 5,521 MTU 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 1,079 MTU remains in the Department's inventories as a result of: (1) 2,228 MTU transferred consistent with section 3112 of the USEC Privatization Act between 1996 and 2001; (2) 1,105 MTU transferred to USEC for sale in fiscal year 2005 and fiscal year 2006; and (3) 1,106 MTU sold by the Department using the proceeds for the technetium cleanup program. In addition to the 1,079 MTU, the Department received 361 MTU of Russian origin from the Tennessee Valley Authority (TVA) in return for the Department providing a similar quantity of U.S. origin uranium under a prior agreement with TVA.

The second stockpile of uranium, amounting to 11,000 MTU, was purchased from Russia for $325 million consistent with Public Law 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 MTU stockpile (includes uranium held in surplus HEU as well as the inventories of natural UF6) and restricts the entry of the uranium into the commercial market until after March 2009.

The third stockpile of uranium consists of U.S. origin uranium of 5,156 MTU, the majority of which 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 UF6 contains technetium exceeding nuclear fuel specifications. This uranium is currently being processed to meet commercial specifications. About 3 MTU remain unrecoverable as cylinder heels from the technetium cleanup program and is included in the 5,156 MTU. Based on current market data, the carrying value of this material is not impaired as of September 30, 2008.

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 156 MT) will be blended for sale as LEU and used over time as commercial or research nuclear reactor fuel to recover its value. The remaining portion (about 18 MT) of the material is already in the form of irradiated fuel or other waste forms and will be disposed of directly as waste. In November 2005, the Secretary of Energy declared that an additional 200 MT of HEU will never again be used as fissile material in nuclear weapons. Out of the 200 MT, approximately 20 MT will be down-blended to LEU for use in commercial or research reactors, 20 MT will be used for research and 160 MT will be provided to Naval Reactors for programmatic use. Approximately 20 percent of the Naval Reactors material is expected to be rejected by Naval Reactors and re-designated for down-blending and sale as LEU fuel. Down-blending of this material will occur over the next 25 to 50 years.

8. General Property, Plant and Equipment, Net

($ in millions)	FY 2008			FY 2007		
	Acquisition Costs	Accumulated Depreciation	Net Book Value	Acquisition Costs	Accumulated Depreciation	Net Book Value
Land and land rights	$ 1,651	$ (806)	$ 845	$ 1,612	$ (767)	$ 845
Structures and facilities	36,256	(23,512)	12,744	35,545	(23,050)	12,495
Internal use software	453	(248)	205	457	(237)	220
Equipment	16,433	(11,051)	5,382	16,151	(10,682)	5,469
Natural resources	90	(12)	78	65	(16)	49
Construction work in process	5,800	-	5,800	5,788	-	5,788
Total general property, plant, and equipment	$ 60,683	$ (35,629)	$ 25,054	$ 59,618	$ (34,752)	$ 24,866

9. Other Non-Intragovernmental Assets

($ in millions)	FY 2008	FY 2007
Purchased generating capability	$ 2,493	$ 2,465
Prepaid pension plan costs (Note 15)	1,172	1,918
Oil due from others	360	119
Prepayments and advances	113	95
Other	487	435
Total other non-intragovernmental assets	$ 4,625	$ 5,032

Purchased Generating Capability

Through contracts, BPA has acquired all of the generating capability of one nuclear power plant and one hydroelectric project. The contracts require BPA to pay operating expenses and debt service for these facilities. BPA recognizes expenses for these projects based upon total project cash funding requirements. These assets are amortized as the principal on the outstanding bonds is repaid by the nonfederal entities. 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 SPR. As a result of companies deferring the delivery of some of the exchange oil, the Department earns additional oil as a premium.

In June of 2008, Congress passed legislation to stop the fill of the SPR due to increasing crude oil prices. This resulted in the deferral of two million barrels of oil until the third quarter of fiscal year 2009.

Due to the disruption of crude oil supplies caused by Hurricane Gustav in August 2008, the SPR contracted with five oil companies to loan oil in exchange for the return of contracted plus premium barrels to the SPR. As of September 30, 2008, the value of the barrels due to SPR was $146 million.

10. Liabilities Not Covered by Budgetary Resources

($ in millions)	FY 2008	FY 2007
Intragovernmental		
Debt (Note 11)	$ 11,526	$ 11,481
Other	15	17
Total intragovernmental	$ 11,541	$ 11,498
Debt (Note 11)	6,267	6,427
Nuclear Waste Fund deferred revenues (Note 12)	24,510	22,778
Environmental liabilities (Note 14)	263,630	260,901
Pension and other actuarial liabilities (Note 15)	12,362	12,433
Other liabilities		
Environment, safety, and health compliance activities (Note 13)	1,666	1,190
Accrued annual leave for Federal employees	134	123
Other	213	321
Contingencies and commitments (Note 17)	12,388	11,071
Total liabilities not covered by budgetary resources	$ 332,711	$ 326,742
Total liabilities covered by budgetary resources	11,252	11,070
Total liabilities	$ 343,963	$ 337,812

11. Debt

($ in millions)	FY 2008			FY 2007		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Intragovernmental (Note 10)						
Borrowing from Treasury	$ 2,241	$ (55)	$ 2,186	$ 2,482	$ (241)	$ 2,241
Appropriated capital	3,428	254	3,682	3,202	226	3,428
Refinanced and additional appropriations	3,951	(90)	3,861	3,170	781	3,951
Capitalization adjustment	1,861	(64)	1,797	1,926	(65)	1,861
Subtotal	$ 11,481	$ 45	$ 11,526	$ 10,780	$ 701	$ 11,481
Non-Federal projects (Note 10)	6,427	(160)	6,267	6,436	(9)	6,427
Total debt	$ 17,908	$ (115)	$ 17,793	$ 17,216	$ 692	$ 17,908

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, 2008, and September 30, 2007, of the total $2,186 million and $2,241 million of outstanding debt respectively, $726 million and $755 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, 2008, and September 30, 2007, were 5.23 percent and 5.44 percent, respectively. The fair value of BPA's long-term debt, based on discounting future cash flows using rates offered by Treasury to BPA as of September 30, 2008, and September 30, 2007, for similar maturities, exceeds carrying value by approximately $110 million and $94 million, respectively. During fiscal year 2008, BPA began issuing debt under a new lending agreement with Treasury. BPA will no longer issue new bonds to the U.S. Treasury, but will instead issue Treasury advances, which are included in the $2,186 million of outstanding debt at September 30, 2008.

Appropriated Capital

Appropriated capital owed represents the balance of appropriations provided to the Department's PMAs for construction, operation, and maintenance of power facilities 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 expected to be repaid over their useful service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis.

Each of the PMAs, except for BPA, receives an annual appropriation to fund construction, operation, and maintenance expenses. These appropriated funds are repaid to 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 debt owed to 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 Corps; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. The Department's PMAs, 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 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 6.6 percent as of September 30, 2008, and September 30, 2007, respectively. The remaining periods of repayment on the fiscal year 2008 balances for refinanced appropriations and on additional appropriations are 38 and 50 years, respectively. 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 28 years remain. The weighted average interest rate was 6.7 percent as of September 30, 2008, and September 30, 2007.

Non-Federal Projects

As discussed in Notes 6 and 9, the non-Federal projects debt primarily represents BPA's liability to pay all or part of the annual budgets, including debt service, of the generating capability of one operating and three non-operating nuclear power plants as well as one operating and one terminated hydroelectric project. The majority of BPA's non-Federal projects debt is with Energy Northwest for which the fair value exceeds recorded value by $39 million and $303 million, as of September 30, 2008, and September 30, 2007, respectively. The valuations are based on discounted future cash flows using interest rates for similar debt which could have been issued at September 30, 2008, and September 30, 2007, respectively. The weighted average interest rate was 5.3 percent on the major portion of outstanding non-Federal projects debt as of September 30, 2008 and September 30, 2007, respectively.

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

($ in millions)

Fiscal Year	Borrowing from Treasury	Appropriated Capital	Refinanced Appropriations	Capitalization Adjustment	Non-Federal Projects
2009	$ 441	$ 19	$ 10	$ 65	$ 284
2010	365	13	4	65	292
2011	325	116	21	65	287
2012	265	30	25	65	446
2013	123	32	18	65	512
2014+	667	3,472	3,783	1,472	4,446
Total	$ 2,186	$ 3,682	$ 3,861	$ 1,797	$ 6,267

12. Deferred Revenues and Other Credits

($ in millions)	FY 2008	FY 2007
Intragovernmental	$ 37	$ 36
Nuclear Waste Fund (Note 10)	24,510	22,778
Power marketing administrations	954	2,097
Reimbursable work advances	323	245
Other	43	25
Subtotal	$ 25,830	$ 25,145
Total deferred revenues and other credits	$ 25,867	$ 25,181

Nuclear Waste Fund

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. Adjustments are made to defer revenues that exceed the NWF expenses.

Power Marketing Administrations

The power marketing administrations' deferred revenues and other credits primarily represent advances received from BPA's customers where either the customer or BPA will own the resulting asset, and Direct-service industries benefits that reflect a contractual liability to certain customers through fiscal year 2011. Other primary components include regulatory liabilities that reduce future rates, amounts paid to BPA from participants under various 1) alternating current intertie capacity agreements; 2) generator funds held as security for network upgrades that will be returned as credits against future transmission service; and 3) fiber optic leasing fees that reflect unearned revenue related to the leasing of the fiber optic cable.

IOU Exchange Benefits of $1,068 million were recorded as of September 30, 2007 and reduced to zero as of September 30, 2008 as a result of the analysis in the WP-07 Supplementary Rate Case and Final ROD (see Note 6).

13. Other Liabilities

($ in millions)	FY 2008	FY 2007
Intragovernmental		
Oil held for Department of Defense (Notes 2 and 7)	$ 123	$ 123
Other	120	148
Total other intragovernmental liabilities	$ 243	$ 271
Environment, safety, and health compliance activities (Notes 10 and 23)	$ 1,666	$ 1,190
Accrued payroll, benefits, and withholding taxes	1,105	983
Residential Exchange	918	-
Naval Petroleum Reserve Deposit Fund (Note 2)	323	323
Petroleum Pricing Violation Escrow Fund (Note 2)	252	249
Asset retirement obligations	160	176
Other	349	351
Subtotal	$ 4,773	$ 3,272
Total other liabilities	$ 5,016	$ 3,543

Environment, Safety, and Health Compliance Activities

The Department's environment, safety, and health (ES&H) liability represents those activities necessary to bring facilities and operations into compliance with existing 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, 2008, 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, Benefits, and Withholding Taxes

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.

Residential Exchange

BPA recorded a regulatory liability for the Lookback Amount overpaid to IOUs under prior year settlement agreements that will be returned to qualifying consumer-owned utilities as determined under the WP-07 Supplementary Rate Case and the Final ROD. BPA also recorded as part of the regulatory liability, other amounts due as specified in the Final ROD issued September 22, 2008. These amounts are owed to consumer-owned utilities that will be returned to them in future years as determined through the annual rate setting process. The Lookback Amount owed as of September 30, 2008 is $679 million and the other amounts due of $239 million for related transactions (see Note 6).

Asset Retirement Obligations

BPA has recognized asset retirement obligations (AROs) that primarily represent legal obligations related to dismantlement and restoration costs on non-Federally owned or operated nuclear facilities. The AROs relate primarily to Columbia Generating Station (CGS) decommissioning and site restoration, terminated Energy Northwest Project Nos. 1 and 4 site restoration, and decommissioning costs for the former Trojan nuclear power plant, which has been dismantled. Included in BPA's non-intragovernmental other assets are trust fund balances for the CGS and Energy Northwest AROs. BPA has also recognized a non-intragovernmental regulatory asset for funding the Trojan ARO liability. BPA recovers all ARO costs through rates charged to customers. The ARO related to Trojan was adjusted downward during fiscal year 2008 by $20 million. BPA reduced the estimated Trojan ARO to reflect changes in the settlement of demolition activities, reduction in the estimated annual cash flows related to the spent fuel operation and adjustments for other decommissioning activities.

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 2008	FY 2007
Environmental Management Program	$ 185,503	$ 184,262
Other legacy environmental liabilities	51,173	50,185
Active and surplus facilities	29,405	29,156
Total environmental cleanup and disposal liabilities	$ 266,081	$ 263,603
Amount funded by current appropriations	(2,451)	(2,702)
Total unfunded environmental cleanup and disposal liabilities	**$ 263,630**	**$ 260,901**
Changes in environmental cleanup and disposal liabilities		
Total environmental cleanup and disposal liabilities, beginning balance	$ 263,603	$ 230,321
Changes to environmental cleanup and disposal liability estimates		
Environmental Management Program	2,785	35,446
Other legacy environmental liabilities	6,108	2,895
Active and surplus facilities	307	1,617
Total changes in estimates (Notes 22 and 23)	$ 9,200	$ 39,958
Costs applied to reduction of legacy environmental liabilities (Note 21)	(5,313)	(5,573)
Capital expenditures related to remediation activities	(1,409)	(1,103)
Total environmental cleanup and disposal liabilities	**$ 266,081**	**$ 263,603**

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 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 current 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. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs.

The liabilities as of September 30, 2008, and September 30, 2007, are stated in fiscal year 2008 dollars and fiscal year 2007 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 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 fiscal year 2008 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. These projections have been documented in detail baseline plans. Each project baseline estimate includes detailed projections of the technical scope, schedule, and estimable 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 support 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 2008, 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 continuously evaluate whether cleanup progress remains on schedule and within budget. Achievement of cleanup goals is in part contingent upon receipt of funding, yet to be approved by Congress, during FY 2009 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 10,500 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 geologic 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 2008 and FY 2007 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work, including changes resulting from deferral or acceleration of work; revisions in technical approach or scope, including provisions for increases in the cost and duration of high-level waste programs and related increases in contingency estimates; regulatory changes; cleanup activities performed; scope transfers into the EM baseline estimates; and additions for facilities transferred from the active and surplus category discussed below.

Other Legacy Environmental Liabilities

The Nuclear Waste Policy Act of 1982 (NWPA) 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 2008 and FY 2007 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.

Other legacy liabilities include 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 the balance sheet date, i.e., through 2083 in FY 2008 and through 2082 in FY 2007. While some post-cleanup monitoring and other long-term stewardship activities past 2083 are included in the liability, there are others the Department expects to continue beyond 2083 for which the costs cannot reasonably be estimated.

Also included in these liabilities are estimates for the disposition of various materials. The most significant of these materials is surplus plutonium.

The Low-Level Radioactive Waste Policy Amendments Act of 1985 assigned responsibility to the Department for the disposal of commercially generated low-level wastes not suitable for near-surface disposal. Although a final disposal path for this waste has not yet been determined, estimated costs for the range of disposal options being evaluated 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 facilities. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in the liability amounted to $698 million at September 30, 2008, and $760 million at September 30, 2007.

In September 2006, the Federal Accounting Standards Advisory Board issued Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, which requires Federal agencies to estimate and record liabilities by FY 2010 for removal and disposal of asbestos, including non-friable (not easily crumbled) asbestos, from their plant and equipment, where removal and disposal during or prior to demolition is legally required. The Department has already recorded such liabilities for a sizable portion of its facilities, including facilities that are in the EM cleanup program, active and surplus facilities contaminated with radioactive or hazardous wastes, and other facilities containing friable asbestos (Note 13, environment, safety and health compliance activities). The Department will recognize in FY 2010 an additional liability for asbestos mitigation in its remaining facilities in accordance with the provisions of the Technical Bulletin, but has not determined the amount of the additional liability.

15. Pension and Other Actuarial Liabilities

($ in millions)	FY 2008	FY 2007
Contractor pension plans	$ 3,165	$ 1,976
Contractor postretirement benefits other than pensions	9,071	10,329
Contractor disability and life insurance plans	20	23
Federal Employees' Compensation Act	106	105
Total pension and other actuarial liabilities	$ 12,362	$ 12,433

Most of the Department's major contractors sponsor defined benefit pension plans which 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 allowable costs under these contracts include reimbursement of annual contractor contributions to these pension plans. Most of the contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits. The Department approves, for cost reimbursement purposes, these contractors' pension and postretirement benefit plans and is ultimately responsible for the allowable costs of funding the plans. The Department also reimburses these contractors for employee disability insurance plans, and estimates are recorded as unfunded liabilities for these plans.

In fiscal year 2007, the Department implemented the requirements of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS No. 158 amends the accounting requirements of SFAS No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requiring the recognition of a plan's "funded status" as a liability or asset rather than recognizing the accrued benefit cost under delayed recognition requirements of SFAS No. 87 and SFAS No. 106 prior to amendment by SFAS No. 158. Net periodic costs for FY 2007 are calculated prior to the adoption of SFAS No. 158 in accordance with SFAS No. 87 and SFAS No. 106. Net periodic costs for FY 2008 are calculated in accordance with SFAS No. 158, modified for Federal accounting requirements as more fully described below.

Contractor Pension Plans

The Department follows SFAS No. 87, as amended by SFAS No. 158, for contractor plans for which the Department has a continuing obligation to reimburse allowable costs. As of September 30, 2008, the Department reports contractor pension assets of $1,161 million and contractor pension liabilities of $3,165 million. The Department has a continuing obligation to reimburse allowable costs for a variety of contractor-sponsored pension plans (41 qualified and 6 nonqualified). In this regard, benefit formulas consist of final average pay (32 plans), career average pay (8 plans), dollar per month of service (6 plans), and one defined contribution plan with future contributions for retired employees. Eighteen of the plans cover nonunion employees only; 9 cover union employees only; and 20 cover both union and nonunion employees.

For qualified defined benefit pension plans, the Department's current funding policy is to reimburse contractors for contributions made by the contractors to defined benefit pension plans sponsored by the contractors not to exceed the minimum contribution required by the Employee Retirement Income Security Act (ERISA), as amended by the Pension Protection Act of 2006. 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. No assets are expected to be returned to the employers during the next fiscal year.

Subsequent to fiscal year end, the fair value of most plan assets has decreased as a result of current economic conditions. As a result of the declines in fair value, the Department anticipates that future funding requirements for pension plans will increase beyond those shown in the table on page 57.

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 cost. The weighted average discount rate was 6.25 percent for fiscal year 2008 and 5.75 percent for fiscal year 2007; the average long-term rate of return on assets was 7.5 percent for fiscal year 2008 and 7.85 percent for fiscal year 2007; and the average rate of compensation increase was 4.6 percent for fiscal year 2008 and 4.5 percent for fiscal year 2007. 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 obligations as of September 30, 2008, and September 30, 2007, were 7.5 percent and 6.25 percent, respectively.

The aggregate September 30, 2008, accumulated benefit obligation and aggregate fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets are $12,959 million and $10,907 million, respectively. The aggregate September 30, 2008, projected benefit obligation and aggregate fair value of plan assets for plans with projected benefit obligations in excess of plan assets are $16,271 million and $13,106 million, respectively.

Since the Department reports under Federal accounting requirements, newly measured net prior service costs/(credits) and net (gains)/losses are recognized immediately as components of net periodic cost rather than classified as other comprehensive income under SFAS No. 158 and later amortized and included as components of net periodic cost. All components of the net periodic cost are recognized in the Statement of Net Costs. Service costs are recorded by program and all other net periodic costs are recorded as costs not assigned (see Note 22). If the Department classified these costs as other comprehensive income, the amortization of the net transition (asset)/obligation, the net prior service cost/(credit), and the net (gain)/loss for the defined benefit pension plans that would have been included in the net periodic cost would have been ($90) million, $93 million, and $4 million, respectively. Additional amortization of $100 million due to curtailments and settlements would also have been included this year. The estimated amortization of the net transition (asset)/obligation, the net prior service cost/(credit), and the net (gain)/loss that would have been included in the net periodic cost in the next fiscal year are ($90) million, $91 million, and $24 million, respectively.

Contractor Postretirement Benefits Other Than Pensions

The Department follows SFAS No. 106, as amended by SFAS No. 158, for contractor plans for which the Department has a continuing obligation to reimburse allowable costs. SFAS No. 106 requires that the cost of PRB be accrued during the years that the employees render service. As of September 30, 2008, the Department reports contractor PRB assets of $11 million and contractor PRB liabilities of $9,071 million. 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 of these also have a traditional indemnity or similar plan. One additional contractor has only a traditional indemnity or similar plan.

None of the contractors with assets for SFAS No. 106 had any employer securities. No assets are expected to be returned to the employers during the next fiscal year.

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, with respect to trends in the costs of medical and dental benefit plans, 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 9.5 percent in 2008 down to 5.0 percent in 2016 and later. The medical trend rates for a traditional indemnity plan, or similar plan, grade from 10.25 percent in 2008 down to 5.0 percent in 2016 and later.

The dental trend rates at all ages grade down from 6.75 percent in 2008 to 5.0 percent in 2015 and later.

The weighted average discount rates of 6.25 percent for fiscal year 2008 and 5.75 percent for fiscal year 2007, and the average long-term rate of return on assets of 6.38 percent for fiscal year 2008 and 7.0 percent for fiscal year 2007 were used to determine the net periodic 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, 2008, and September 30, 2007, were 7.5 percent and 6.25 percent, respectively.

The September 30, 2008, aggregate accumulated benefit obligation and aggregate fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets are $9,217 million and $146 million, respectively.

Since the Department reports under Federal accounting requirements, newly measured net prior service costs/(credits) and net (gains)/losses are recognized immediately as components of net periodic cost rather than classified as other comprehensive income under SFAS No. 158 and later amortized and included as components of net periodic cost. All components of the net periodic cost are recognized in the Statement of Net Costs. Service costs are recorded by program and all other net periodic costs are recorded as costs not assigned (see Note 22). If the Department classified these costs as other comprehensive income, the amortization of the net prior service cost/(credit) and the net (gain)/loss for the PRB plans that would have been included in the net periodic cost would have been ($84) million and $29 million, respectively. Additional amortization of $0.3 million due to curtailments and settlements would also have been included this year. The estimated amortization of the net prior service cost/(credit) and the net (gain)/loss that would have been included in the net periodic cost in the next fiscal year are ($73) million and ($78) million, respectively.

On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The law provides for a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. There are currently 28 contractors that have concluded that their plans are at least actuarially equivalent. There are 8 plans that do not benefit retirees over 65, 2 plans have determined they are not actuarially equivalent, and 3 plans provide a PDP or Medicare Advantage plan. The Department has reflected the impact of the subsidy as a reduction to the employers' cost of the benefits.

($ in millions)	Pension Benefits FY 2008	Pension Benefits FY 2007	Other Postretirement Benefits FY 2008	Other Postretirement Benefits FY 2007
Net amount recognized in the balance sheet				
Accumulated benefit obligation	$ 21,840	$ 24,027		
Effect of future compensation increases	2,551	3,486		
Benefit obligation	$ 24,391	$ 27,513	$ 9,223	$ 10,480
Plan assets	22,387	27,444	163	162
Net amount recognized in the balance sheet (net funded status)	$ (2,004)	$ (69)	$ (9,060)	$ (10,318)
Reconciliation of amounts recognized in the balance sheet				
Asset (prepaid pension plan costs) (Note 9)	$ 1,161	$ 1,907	$ 11	$ 11
Liability	(3,165)	(1,976)	(9,071)	(10,329)
Net amount recognized in the balance sheet (net funded status)	$ (2,004)	$ (69)	$ (9,060)	$ (10,318)
Components of net periodic costs				
Service costs (Note 23)	$ 711	$ 823	$ 217	$ 244
Interest costs	1,711	1,622	645	613
Expected return on plan assets	(2,056)	(1,825)	(9)	(11)
Net amortization	-	130	-	(21)
(Gain)/loss due to curtailments, settlements or special termination benefits	(127)	6	8	(1)
Net prior service cost/(credit)	(72)	-	2	-
Net (gain)/loss	2,147	-	(1,768)	-
Total net periodic costs	$ 2,314	$ 756	$ (905)	$ 824
Contributions and benefit payments				
Employer contributions (Note 23)	$ 351	$ 387	$ 354	$ 334
Participant contributions	3	3	84	79
Benefit payments	1,482	1,311	450*	426*

* Includes $12 million paid from plan assets for fiscal year 2008, and $13 million paid from plan assets for fiscal year 2007. For fiscal year 2008, gross benefit payments were $462 million including $12 million of Federal Medicare Subsidy. This resulted in net benefit payments of $450 million for fiscal year 2008.

($ in millions)	Pension Benefits	Other Postretirement Benefits
Expected contributions for fiscal year ending September 30, 2009		
Employer contributions	$ 401	$ 369
Participant contributions	3	89

	Pension Benefits	Other Postretirement Benefits Gross Payment	Other Postretirement Benefits Less Federal Medicare Subsidy	Other Postretirement Benefits Net Payment
Estimated future benefit payments				
Fiscal Year 2009	$ 1,393	$ 549	$ 27	$ 522
Fiscal Year 2010	1,462	607	30	577
Fiscal Year 2011	1,557	666	33	633
Fiscal Year 2012	1,653	723	36	687
Fiscal Year 2013	1,740	782	39	743
Fiscal Years 2014 to 2018	10,250	4,762	253	4,509

The following chart shows the average target allocation for the 40 pension benefit plans and six other postretirement benefit plans with assets. The average actual fiscal year 2008 and 2007 allocations of assets are also shown.

Asset Category	Pension Benefits: Target Allocation	Pension Benefits: Percent of Plan Assets at end FY 08	Pension Benefits: Percent of Plan Assets at end FY 07	Other Postretirement Benefits: Target Allocation	Other Postretirement Benefits: Percent of Plan Assets at end FY 08	Other Postretirement Benefits: Percent of Plan Assets at end FY 07
Cash and Equivalents	1.8%	2.6%	3.3%	1.1%	1.1%	0.5%
Government Bonds	6.3%	8.4%	7.2%	12.9%	12.9%	7.2%
High-yield Corporate Bonds	1.7%	1.8%	N/A	0.0%	0.0%	N/A
Corporate Bonds other than high-yield	17.8%	13.6%	21.2%	12.6%	12.9%	8.4%
Domestic Equities	37.0%	35.6%	41.2%	9.2%	9.2%	10.6%
International Equities	14.3%	15.3%	13.5%	6.9%	6.6%	6.6%
Real Estate	1.5%	2.0%	1.3%	1.0%	1.0%	0.0%
Mortgage-Backed Securities	1.1%	3.8%	N/A	4.3%	4.3%	N/A
Auction Rate Securities	0.0%	0.0%	N/A	0.0%	0.0%	N/A
Asset-Backed Commercial Paper	0.0%	0.1%	N/A	0.0%	0.0%	N/A
Bonds/Notes Issued by Structured Investment Vehicle or Other Special-Purpose Entities	0.0%	0.0%	N/A	0.8%	0.8%	N/A
Derivatives, including CDO and Credit Default Swaps	0.0%	0.2%	N/A	0.0%	0.0%	N/A
Private Investment Funds, including Hedge Funds	0.9%	1.3%	N/A	0.0%	0.0%	N/A
Insurance Contracts (general accounts)	8.1%	10.1%	10.1%	50.0%	50.0%	50.0%
Insurance Contracts (separate accounts)	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%
Employer Securities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	9.5%	5.1%	2.1%	1.2%	1.2%	16.7%
Total	**100.0%**	**100.0%**	**100.0%**	**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.

16. Capital Leases

($ in millions)	FY 2008	FY 2007
Summary of assets under capital lease:		
Power line equipment	$ 136	$ 134
Buildings and improvements	26	42
ADP equipment	346	165
Other equipment	12	12
Total capital lease assets	$ 520	$ 353
Less accumulated depreciation	(143)	(115)
Net assets under capital leases	**$ 377**	**$ 238**

Fiscal Year	Power Line Equipment	Other	Total
2009	$ 18	$ 46	$ 64
2010	20	43	63
2011	19	33	52
2012	19	27	46
2013	19	-	19
2014+	495	-	495
Total future lease payments	$ 590	$ 149	$ 739
Less imputed interest	(248)	(9)	(257)
Less executory costs	(3)	-	(3)
Net capital lease liability	**$ 339**	**$ 140**	**$ 479**

Lease liabilities covered by budgetary resources	$ 336
Lease liabilities not covered by budgetary resources	$ 143

17. Contingencies and Commitments

($ in millions)	FY 2008	FY 2007
Spent nuclear fuel litigation	$ 12,335	$ 10,966
Other	53	105
Total contingencies and commitments (Note 10)	$ 12,388	$ 11,071

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. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the Government. The following are significant contingencies:

Spent Nuclear Fuel Litigation

In accordance with the NWPA, the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the NWF, the Department agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, it 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, eight suits have been settled involving utilities that collectively produce about 30 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 $323 million through September 30, 2008. In addition, two cases have been resolved by final judgments: a judgment of $35 million that was not appealed and paid by the Judgment Fund in fiscal year 2006; and a final judgment awarding no damages affirmed by the appellate court. Through September 30, 2008, the Judgment Fund had made total payments of $358 million.

Fifty-seven cases remain pending either in the Court of Federal Claims or in the Court of Appeals for the Federal Circuit. 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 eighteen cases that have either been settled or subject to a judgment in the trial court suggests that the Government's ultimate liability is likely to be significantly less than that estimate.

The Department previously reported several developments that made it difficult to reasonably predict the amount of the Government's likely liability. The courts have since resolved that jurisdiction for these cases is appropriate in the Court of Federal Claims, but have not resolved whether the Government can assert the unavoidable delays defense, under which, if applicable, the Government would not be liable for any damages.

The Department has determined that the earliest that it will commence disposal operations at a repository will be in 2020.

Under current law, any damages or settlements in this litigation will be paid out of the Judgment Fund. The Department's contingent liability estimate of $12,335 million for SNF litigation is reported net of amounts paid to date from the Judgment Fund.

Alleged Exposures to Radioactive and/or Toxic Substances

A number of class action and/or multiple plaintiff tort suits have been filed against current and former DOE 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; and Brookhaven, New York. Collectively, in these cases, damages in excess of $109 billion are sought.

These cases are being vigorously defended. Two cases have gone to trial. In the Rocky Flats litigation, the jury returned a substantial verdict in favor of the plaintiffs. The court has entered judgment on the verdict, and the defendants have filed appeals. In the Hanford litigation, following rulings by the court of appeals, seven of twelve "bellwether" plaintiffs' claims were resolved in favor of the defendants, relatively small judgments entered in favor of two "bellwether" plaintiffs were affirmed, and three "bellwether" plaintiffs' claims were remanded to the district court for further proceedings. The defendants have filed a petition for a writ of certiorari in the U.S. Supreme Court. Proceedings on the remaining Hanford plaintiffs' claims have been suspended while the appeals are prosecuted. Additionally, some cases have been dismissed by trial courts based on legal rulings and appealed to the courts of appeal. 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, if any liability is ultimately imposed, it would be significantly less than what the plaintiffs seek.

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 resources damages. In addition, the States of Washington and Oregon, as well as the Confederated Tribes of the Umatilla and the Nez Perce tribe, have joined the suit. The case is in pre-trial phase. The district court has denied the Government's motion to dismiss two of the plaintiffs' claims on the ground that they are not ripe, but has stayed any proceedings on one of those claims. Potential losses to the Department cannot be estimated at this time.

Cleanup and Waste Disposal at West Valley

The State of New York filed a complaint for a declaratory judgment and monetary relief, raising claims under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the West Valley Demonstration Project Act, and the NWPA. This case involves a dispute between the Department and the State of New York concerning their respective obligations for cleanup and waste disposal at West Valley. The court approved the parties' joint motion providing for a six-month stay of the litigation to allow the parties to attempt to resolve the CERCLA and Demonstration Act claims through mediation. On April 30, 2008, the parties filed a joint status report advising the court that substantial progress has been made and that the parties will continue with the mediation process. Estimated total decontamination and decommissioning costs could reach $2.1 billion.

Refunds to Utility Companies

An earlier decision in BPA v. FERC, 422 F.3d 908 (9th Cir. 2005) found that Government entities like BPA are not subject to FERC statutory refund authority. Three California investor owned utilities and the California Electricity Oversight Board have now filed complaints in the United States Court of Federal Claims for damages and declaratory relief related to BPA's 2000-2001 wholesale power transactions in the California Power Exchange and California Independent System Operator markets. Claimants allege that BPA, along with the Western Area Power Administration, (WAPA) is contractually obligated to provide refunds of amounts received in excess of mitigated market clearing prices established by FERC plus interest but has refused to do so. Claimants allege breach of contract and also seek declaratory relief that they are entitled to recover the claimed amounts. Claimants also seek pre judgment and post-judgment interest and litigation costs. Complaints were filed on March 12 and March 13, 2007. BPA and WAPA have filed a motion to stay the proceedings until such time as the plaintiffs writ of certiorari is ruled on in the U.S. Supreme Court in the BPA v. FERC case. Argument on the motion was heard on June 24, 2008, and the Court denied the motion. BPA and WAPA filed answers in the case in October 2008. BPA has engaged in settlement discussions prior to the filing of these suits and continues to be open to settlement. It has been estimated that the potential loss could be as high as $188 million.

Transuranic Waste

The United States Court of Appeals for the Ninth Circuit affirmed the district court's judgment in favor of the State of Idaho regarding terms of an earlier agreement between the State of Idaho, the Department and the Department of the Navy, Naval Nuclear Propulsion Program. The district court upheld Idaho's interpretation of a provision in a prior settlement agreement between the federal parties and the state that required the Department to process and remove "all" transuranic waste from the state of Idaho. The Department believed that the provision applied only to 65,000 cubic meters of transuranic waste that was stored above ground in barrels and boxes in the Transuranic Storage Area. The Department believed that it had agreed to process and remove that entire quantity of stored waste to the Waste Isolation Pilot Plant in New Mexico within 18 years. Idaho, however, claimed the provision applied only to that portion of the 65,000 cubic meters of stored waste that exceeded 100 nanocuries per gram and to all transuranic waste buried in the pits and trenches of the Subsurface Disposal Area that exceeded 100 nanocuries per gram. The district court adopted Idaho's interpretation of the provision, which the 9th Circuit affirmed. The parties have agreed to a supplemental consent order implementing the district court's decision. The Department's cost of complying with this supplemental consent order is estimated to be $857 million.

Off-site 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, 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. Oral argument on the Government's HWMA appeal was heard in October 2007. 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.

Waste Disposal

The State of Washington determined not to pursue Supreme Court review of the Ninth Circuit's decision in favor of the Government. The court of appeals previously affirmed the district court's grant of summary judgment to the United States, Fluor and Tridec, in their challenge to the constitutionality of Washington State Initiative 1-297 (the Cleanup Priority Act or CPA). The CPA was designed to prevent the shipment of mixed radioactive and hazardous waste to the Hanford Nuclear Reservation until waste already on-site has been cleaned up and stored, treated and disposed of in compliance with its terms. The Ninth Circuit held that the CPA is preempted because (1) it regulates in a field occupied by the Atomic Energy Act, and (2) the CPA directly and substantially impacts the Department's decisions on the nationwide management of nuclear waste.

**Purchase Power and Transmission/
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 all costs of the obligations. The sales commitments are arrangements to sell expected generating capacity and energy.

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.

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

($ in millions)

Fiscal Year	Purchase Power and Transmission	Sales Commitments	Irrigation Assistance
2009	$ 129	$ 2,541	$ 7
2010	139	2,669	-
2011	119	2,707	-
2012	131	2,670	1
2013	111	2,731	60
2014+	111	19,448	616
Total	$ 740	$ 32,766	$ 684

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.

In May 2008, BPA, the Corps and the Bureau of Reclamation signed 10-year agreements with several Columbia River tribes, the State of Idaho and the State of Montana. These agreements that are collectively referred to as the Columbia Basin Fish Accords provide for BPA to fund approximately $933 million over 10 years, enabling the tribes and states to continue existing programs and to implement new priority fish projects. In return, the tribes and states commit to achieving biological objectives linked to meeting the federal agencies' statutory requirements. The parties also agree that the federal government's requirements under the ESA Clean Water Act and Northwest Power Act are satisfied for the next 10 years. In return, the tribes and states commit to achieving biological objectives linked to meeting the federal agencies' statutory requirements. The agreements specifically resolve, for these parties, ESA litigation pending before the U.S. District Court.

18. Earmarked Funds

($ in millions)	FY 2008					
	Nuclear Waste Fund	D&D Fund	USEC	PMAs	Other	Total
Balance Sheet						
Assets						
Fund balance with Treasury	$ (6)	$ 3	$ -	$ 2,318	$ 958	$ 3,273
Investments and related interest, net	21,154	4,823	1,571	-	-	27,548
Accounts receivable, net	3,403	-	-	505	1	3,909
Inventory, net	-	-	-	95	78	173
General property plant and equipment, net	7	-	-	6,654	17	6,678
Regulatory assets	-	-	-	10,576	-	10,576
Other Assets	1	-	-	2,999	1	3,001
Total Assets	$ 24,559	$ 4,826	$ 1,571	$ 23,147	$ 1,055	$ 55,158
Liabilities and Net Position						
Accounts payable	$ 26	$ 46	$ -	$ 382	$ 12	$ 466
Debt	-	-	-	17,793	-	17,793
Deferred revenues and other credits	24,506	-	-	1,040	2	25,548
Environmental cleanup and disposal liabilities	-	15,317	-	19	-	15,336
Pensions and other actuarial liabilities	12	-	-	63	-	75
Capital leases	-	-	-	336	-	336
Other liabilities	15	18	-	1,254	1	1,288
Contingencies and commitments	-	-	-	29	-	29
Unexpended appropriations	-	-	-	-	13	13
Cumulative results of operations	-	(10,555)	1,571	2,231	1,027	(5,726)
Total Liabilities and Net Position	$ 24,559	$ 4,826	$ 1,571	$ 23,147	$ 1,055	$ 55,158
Statement of Net Costs						
Program costs	$ 197	$ (41)	$ -	$ 4,188	$ 107	$ 4,451
Less earned revenues	(228)	(197)	-	(4,491)	(24)	(4,940)
Net program costs	$ (31)	$ (238)	$ -	$ (303)	$ 83	$ (489)
Costs not assigned	1	58	-	19	-	78
Net cost of operations	$ (30)	$ (180)	$ -	$ (284)	$ 83	$ (411)
Statement of Changes in Net Position						
Cumulative results of operations, beginning balance	$ (2)	$ (11,331)	$ 1,515	$ 2,084	$ 1,097	$ (6,637)
Appropriations used	-	-	-	-	16	16
Non exchange revenue	-	-	56	-	1	57
Donations and forfeitures of cash	-	-	-	22	-	22
Transfers - in/(out) without reimbursement	(33)	-	-	(170)	(8)	(211)
Imputed financing	2	-	-	1	-	3
Other	3	596	-	10	4	613
Net cost of operations	30	180	-	284	(83)	411
Cumulative results of operations, ending balance	$ -	$ (10,555)	$ 1,571	$ 2,231	$ 1,027	$ (5,726)
Unexpended appropriations, beginning balance	$ -	$ 8	$ -	$ -	$ 9	$ 17
Appropriations received	-	-	-	-	12	12
Other adjustments	-	(8)	-	-	8	-
Appropriations used	-	-	-	-	(16)	(16)
Unexpended appropriations, ending balance	$ -	$ -	$ -	$ -	$ 13	$ 13

($ in millions)	FY 2007					
	Nuclear Waste Fund	D&D Fund	USEC	PMAs	Other	Total
Balance Sheet						
Assets						
Fund balance with Treasury	$ 3	$ 1	$ -	$ 2,010	$ 1,022	$ 3,036
Investments and related interest, net	19,511	4,726	1,515	-	-	25,752
Accounts receivable, net	3,316	-	-	506	-	3,822
Inventory, net	-	-	-	86	78	164
General property plant and equipment, net	9	-	-	6,471	19	6,499
Regulatory assets	-	-	-	11,092	-	11,092
Other Assets	-	-	-	2,920	1	2,921
Total Assets	$ 22,839	$ 4,727	$ 1,515	$ 23,085	$ 1,120	$ 53,286
Liabilities and Net Position						
Accounts payable	$ 39	$ 52	$ -	$ 328	$ 11	$ 430
Debt	-	-	-	17,908	-	17,908
Deferred revenues and other credits	22,776	-	-	2,097	3	24,876
Environmental cleanup and disposal liabilities	-	15,846	-	-	-	15,846
Pensions and other actuarial liabilities	11	128	-	62	-	201
Capital leases	-	-	-	188	-	188
Other liabilities	15	24	-	376	-	415
Contingencies and commitments	-	-	-	42	-	42
Unexpended appropriations	-	8	-	-	9	17
Cumulative results of operations	(2)	(11,331)	1,515	2,084	1,097	(6,637)
Total Liabilities and Net Position	$ 22,839	$ 4,727	$ 1,515	$ 23,085	$ 1,120	$ 53,286
Statement of Net Costs						
Program costs	$ 181	$ 20	$ -	$ 4,051	$ 139	$ 4,391
Less earned revenues	(230)	(205)	-	(4,443)	(65)	(4,943)
Net program costs	$ (49)	$ (185)	$ -	$ (392)	$ 74	$ (552)
Costs not assigned	(3)	5,807	-	-	-	5,804
Net cost of operations	$ (52)	$ 5,622	$ -	$ (392)	$ 74	$ 5,252
Statement of Changes in Net Position						
Cumulative results of operations, beginning balance	$ (7)	$ (6,025)	$ 1,444	$ 2,543	$ 1,033	$ (1,012)
Appropriations used	-	(8)	-	-	44	36
Non exchange revenue	-	-	72	-	-	72
Donations and forfeitures of cash	-	-	-	4	-	4
Transfers - in/(out) without reimbursement	(49)	-	-	(855)	74	(830)
Imputed financing	2	-	-	-	-	2
Other	-	324	(1)	-	20	343
Net cost of operations	52	(5,622)	-	392	(74)	(5,252)
Cumulative results of operations, ending balance	$ (2)	$ (11,331)	$ 1,515	$ 2,084	$ 1,097	$ (6,637)
Unexpended appropriations, beginning balance	$ -	$ -	$ (1)	$ -	$ 48	$ 47
Appropriations received	-	-	-	-	5	5
Other adjustments	-	-	1	-	-	1
Appropriations used	-	8	-	-	(44)	(36)
Unexpended appropriations, ending balance	$ -	$ 8	$ -	$ -	$ 9	$ 17

Nuclear Waste Fund

The 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 Treasury was created to account for the collection of 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 Decommissioning Fund

The Energy Policy Act of 1992 established the D&D fund to pay for the costs of decontamination 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 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. These funds are invested in Treasury securities.

Power Marketing Administrations

The PMAs 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.

19. Earned Revenues

($ in millions)	FY 2008				FY 2007			
	Intra-governmental	Public	Deferred Revenue Adjustment	Total	Intra-governmental	Public	Deferred Revenue Adjustment	Total
Energy diversity	$ -	$ (16)	$ -	$ (16)	$ -	$ (6)	$ -	$ (6)
Environmental impacts of energy								
Great Plains Gasification Plant	$ -	$ (33)	$ -	$ (33)	$ -	$ (43)	$ -	$ (43)
Isotope sales	(1)	(16)	-	(17)	(1)	(15)	-	(16)
Other	-	(1)	-	(1)	-	(1)	-	(1)
Total environmental impacts of energy	$ (1)	$ (50)	$ -	$ (51)	$ (1)	$ (59)	$ -	$ (60)
Energy infrastructure	$ (45)	$ (4,044)	$ -	$ (4,089)	$ (108)	$ (4,079)	$ -	$ (4,187)
Nuclear deterrent	$ -	$ (2)	$ -	$ (2)	$ -	$ -	$ -	$ -
Nuclear propulsion plants	$ (16)	$ -	$ -	$ (16)	$ (19)	$ -	$ -	$ (19)
Environmental cleanup								
Nuclear Waste Fund	$ (1,158)	$ (797)	$ 1,738	$ (217)	$ (1,024)	$ (867)	$ 1,647	$ (244)
D&D Fund	(197)	-	-	(197)	(185)	(21)	-	(206)
Uranium Sales	-	-	-	-	-	(43)	-	(43)
Total environmental cleanup	$ (1,355)	$ (797)	$ 1,738	$ (414)	$ (1,209)	$ (931)	$ 1,647	$ (493)
Reimbursable programs	$ (3,148)	$ (713)	$ -	$ (3,861)	$ (2,892)	$ (588)	$ -	$ (3,480)
Other programs								
FERC (Note 20)	$ -	$ (255)	$ -	$ (255)	$ -	$ (240)	$ -	$ (240)
Other	(23)	(17)	-	(40)	(1)	(71)	-	(72)
Total other programs	$ (23)	$ (272)	$ -	$ (295)	$ (1)	$ (311)	$ -	$ (312)
Total earned revenues	$ (4,588)	$ (5,894)	$ 1,738	$ (8,744)	$ (4,230)	$ (5,974)	$ 1,647	$ (8,557)

Great Plains Gasification Plant

These revenues primarily resulted from receipts stemming from the 1988 Great Plains Gasification Plant asset purchase agreement. These receipts were deposited into Treasury's miscellaneous receipts account (see Note 23). Under the terms of the asset purchase agreement, the Department will continue to receive revenue sharing payments, if applicable, through fiscal year 2010.

Isotope Sales

These revenues result from the sale of radioactive and stable isotopes and associated services.

Energy Infrastructure

These revenues result from the Department's power marketing activities. The Department's four PMAs 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).

Nuclear Propulsion Plants

These revenues primarily represent reimbursements from the Department of the Navy for nuclear materials consumed during operations of naval reactors.

Nuclear Waste Fund

The NWPA 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 $757 million and $758 million were assessed as of September 30, 2008, and September 30, 2007, respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled $1,194 million and $1,133 million as of September 30, 2008, and September 30, 2007, 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.

Decontamination and Decommissioning Fund

The Department 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. Accumulated funds in excess of those needed to pay current program costs are invested in Treasury securities. Interest earned on these investments totaled $197 million and $185 million for September 30, 2008, and September 30, 2007, respectively.

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; and 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 $3,241 million and $3,021 million as of September 30, 2008, and September 30, 2007, respectively.

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 (see Note 20).

20. Supporting Schedule of Net Cost for Other Programs

($ in millions)	FY 2008		FY 2007	
Federal Energy Regulatory Commission				
Program costs - public	$ 255		$ 240	
Less earned revenues (Note 19)	(255)		(240)	
		$ -		$ -
Inspector General		46		43
Environment, safety and health		72		124
Other defense activities		217		193
Other programs - public				
Program costs	$ 11		$ 25	
Less earned revenues (Note 19)	(40)		(72)	
		(29)		(47)
Total net cost for other programs		$ 306		$ 313

21. Costs Applied to Reduction of Legacy Environmental Liabilities

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.

22. Costs Not Assigned

($ in millions)	FY 2008	FY 2007
Spent nuclear fuel contingency (Note 17)		
Current year Judgment Fund payments	$ 68	$ 103
Change in estimates (Note 23)	1,369	4,249
Current year spent nuclear fuel contingency costs	$ 1,437	$ 4,352
Change in environmental liability estimates (Notes 14 and 23)	9,200	39,958
Changes in contractor pension and PRB estimates (Note 23)	454	(404)
Change in unfunded safety and health liabilities (Notes 13 and 23)	476	329
Change in occupational illness program (Note 23)		
Subtitle B	994	1,310
Subtitle E	677	213
Other	226	(26)
Total costs not assigned	$ 13,464	$ 45,732

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 Ronald W. Reagan National Defense Authorization Act for Fiscal Year 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 the Department's facilities. 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 Department of Labor. Therefore, the liability is recorded by the Department of Labor and changes in the total liability are recognized by the Department as an imputed cost and an imputed financing source.

23. Reconciliation of Net Cost of Operations to Budget

($ in millions)	FY 2008		FY 2007	
Resources Used to Finance Activities				
Obligations incurred	$ 33,213		$ 32,052	
Less spending authority from offsetting collections and recoveries	(8,402)		(7,918)	
Less offsetting receipts	(2,111)		(2,926)	
Net obligations		$ 22,700		$ 21,208
Imputed financing from costs absorbed by others				
Change in occupational illnesses liability (Note 22)	$ 1,670		$ 1,523	
OPM imputed costs	87		91	
Payments made from Treasury's Judgment fund	68		132	
Total imputed costs absorbed by others		1,825		1,746
Transfers-in/(out) without reimbursement				
Transfer of Great Plains Gasification Plant revenue sharing receipts to Treasury (Note 19)	$ (33)		$ (43)	
All other transfers, net	1,247		235	
Total transfers in/(out), net		1,214		192
Nuclear Waste Fund offsetting receipts, deferred		1,360		2,017
Other		9		34
Total resources used to finance activities		**$ 27,108**		**$ 25,197**
Resources Used to Finance Activities not Part of Net Cost of Operations				
Change in budgetary resources obligated for orders but not yet provided	$ (1,167)		$ (995)	
Resources that finance the acquisition of assets	(4,656)		(3,404)	
Resources that fund expenses recognized in prior periods	(5,050)		(5,623)	
Other resources and adjustments	13		92	
Total resources used to finance activities not part of Net Cost of Operations		**$ (10,860)**		**$ (9,930)**
Net Cost of Items that do not Require or Generate Resources in Current Period				
Contractor Pension and PRB plans				
Contractor pension and PRB estimate changes (Note 22)	$ 454		$ (404)	
Current year pension and PRB service costs (Note 15)	928		1,067	
Current year pension and PRB employer contributions (Note 15)	(705)		(721)	
Total pension and PRB plans	$ 677		$ (58)	
Change in environmental liability estimates (Notes 14 and 22)	9,200		39,958	
Change in spent nuclear fuel contingency (Note 22)	1,369		4,249	
Change in unfunded safety and health liabilities (Notes 13 and 22)	476		329	
Change in other unfunded liabilities	183		286	
Depreciation of property, plant and equipment	1,561		1,474	
Amortization of premiums and discounts on Treasury investments	(785)		(721)	
Other amortization	159		155	
Other	263		556	
Total net cost of items that do not require or generate resources in current period		$ 13,103		$ 46,228
Net Cost of Operations		**$ 29,351**		**$ 61,495**

Nuclear Waste Fund Offsetting Receipts, Deferred

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 NWF 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 *Combined Statements of Budgetary Resources*. Therefore, a reconciling amount is reported for the portion of the offsetting receipts for which revenues are not recognized in the current period.

All Other Transfers, Net

All other transfers, net, is primarily comprised of transfers of Royalty-in-Kind (RIK) oil from the Department of the Interior's Gulf of Mexico Federal offshore leases. The oil from the offshore leases is exchanged for other crude oil to be delivered to the Strategic Petroleum Reserve. The value of oil received from Interior was $992 million as of September 30, 2008 and $282 million as of September 30, 2007.

24. Combined Statements of Budgetary Resources

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

($ in millions)	FY 2008	FY 2007
Adjustments to Beginning Balances of Budgetary Resources:		
Beginning Unobligated Balance		
Prior year unobligated balance, net - end of period		
Available, apportioned	$ 2,495	$ 2,552
Exempt from apportionment	50	32
Not available	1,535	1,580
Total - prior year unobligated balance	$ 4,080	$ 4,164
Adjustment for Strategic Petroleum Account	-	(5)
Current year unobligated balance, start of period	$ 4,080	$ 4,159
Unobligated Balances Not Available: (*Unobligated balances not available represent budgetary resources that have not been apportioned to the Department.*		
U.S. Enrichment Corporation Fund	$ 1,542	$ 1,473
Supplemental appropriations not yet apportioned	-	43
Reimbursable work/collections in excess of amount anticipated	27	3
Prior year deobligations in excess of apportioned amount	19	6
Expired appropriations and other amounts not apportioned	3	10
Total unobligated balances not available (Note 3)	$ 1,591	$ 1,535
Details of Unpaid Obligations:		
Undelivered orders	$ 13,966	$ 12,473
Accounts payable	7,136	6,974
Total unpaid obligations (Note 3)	$ 21,102	$ 19,447
Reconciliation to Appropriations Received on the Statements of Changes in Net Position:		
Appropriations received on the Combined Statements of Budgetary Resources	$ 25,434	$ 24,616
Less:		
Special and trust fund appropriated receipts	(1,170)	(991)
Appropriated capital owed	(37)	(72)
Appropriations made available from previous year	(257)	(257)
Appropriations received on the Statements of Changes in Net Position	$ 23,970	$ 23,296

Reconciliation to the Budget (FY 2007):

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources as published	$ 36,132	$ 32,052	$ (2,926)	$ 20,058
OMB adjustments made to exclude:				
U.S. Enrichment Corporation	(1,473)	-	-	59
Expired accounts	(9)	-	-	-
Other	(4)	(1)	-	-
Budget of the United States Government	$ 34,646	$ 32,051	$ (2,926)	$ 20,117

The fiscal year 2007 Combined Statements of Budgetary Resources are reconciled to the President's Budget that was published in February 2008. The President's Budget containing actual fiscal year 2008 balances is expected to be published and available on the OMB web site, www.whitehouse.gov/omb, in February 2009. Budgetary resources and obligations incurred are reconciled to the Departmental balances as published in the Appendix to the Budget; distributed offsetting receipts and net outlays are reconciled to the Departmental balances in the Federal Program by Agency and Account section of the Analytical Perspectives Volume of the President's Budget.

25. Custodial Activities

Power Marketing Administrations

The Southeastern, Southwestern, and Western Area Power Administrations are responsible for collecting and remitting to Treasury and the Department of the Interior revenues attributable to the hydroelectric power projects owned and operated by the Department of Defense, the Corps; 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.

Federal Energy Regulatory Commission

The Federal Energy Regulatory Commission is responsible for billing regulated companies annual charges as a custodian for certain Federal agencies. These include: 1) the Corps for licensees to provide maintenance and operations of dams owned by the U.S. and maintenance for operations of headwater or other navigable waters owned by the U.S.; 2) Bureau of Reclamation for the occupancy and use of public lands and national parks owned by the U.S. and for Indian Tribal Trust Funds from licensees for the reservation of Indian land; 3) Treasury for revenues collected based on penalties, interest and administrative charges for overdue accounts receivables and for civil penalties; and 4) payments to states collected from licensees for the occupancy and use of national forests and public lands from development within the boundaries of any state.

Petroleum Pricing Violation Escrow Fund

Custodial revenues for the Petroleum Pricing Violation Escrow Fund result from interest earned on 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.

Consolidating Schedules

U.S. Department of Energy Consolidating Schedules - Balance Sheets

As of September 30, 2008 and 2007
($ in millions)

FY 2008

	Federal Energy Regulatory Commission	Power Marketing Admini-strations	All Other DOE Programs	Eliminations	Consolidated
ASSETS:					
Intragovernmental Assets:					
Fund Balance with Treasury	$ 73	$ 2,318	$ 16,840	$ -	$ 19,231
Investments and Related Interest, Net	-	-	27,604	-	27,604
Accounts Receivable, Net	-	38	694	(206)	526
Regulatory Assets	-	5,425	-	-	5,425
Other Assets	-	-	56	(50)	6
Total Intragovernmental Assets	$ 73	$ 7,781	$ 45,194	$ (256)	$ 52,792
Investments and Related Interest, Net	-	-	196	-	196
Accounts Receivable, Net	23	467	3,528	-	4,018
Inventory, Net:					
Strategic Petroleum and Northeast Home Heating Oil Reserve	-	-	20,484	-	20,484
Nuclear Materials	-	-	21,024	-	21,024
Other Inventory	-	95	383	-	478
General Property, Plant, and Equipment, Net	6	6,654	18,394	-	25,054
Regulatory Assets	-	5,151	-	-	5,151
Other Non-Intragovernmental Assets	-	2,999	1,626	-	4,625
Total Assets	$ 102	$ 23,147	$ 110,829	$ (256)	$ 133,822
LIABILITIES:					
Intragovernmental Liabilities:					
Accounts Payable	$ 3	$ 20	$ 259	$ (206)	$ 76
Debt	-	11,526	-	-	11,526
Deferred Revenues and Other Credits	-	1	86	(50)	37
Other Liabilities	3	34	206	-	243
Total Intragovernmental Liabilities	$ 6	$ 11,581	$ 551	$ (256)	$ 11,882
Accounts Payable	14	362	3,525	-	3,901
Debt Held by the Public	-	6,267	-	-	6,267
Deferred Revenues and Other Credits	-	1,039	24,791	-	25,830
Environmental Cleanup and Disposal Liabilities	-	19	266,062	-	266,081
Pension and Other Actuarial Liabilities	-	63	12,299	-	12,362
Capital Leases	-	336	143	-	479
Other Non-Intragovernmental Liabilities	68	1,220	3,485	-	4,773
Contingencies and Commitments	-	29	12,359	-	12,388
Total Liabilities	$ 88	$ 20,916	$ 323,215	$ (256)	$ 343,963
NET POSITION:					
Unexpended Appropriations:					
Unexpended Appropriations - Earmarked Funds	$ -	$ -	$ 13	$ -	$ 13
Unexpended Appropriations - Other Funds	24	-	11,082	-	11,106
Cumulative Results of Operations:					
Cumulative Results of Operations - Earmarked Funds	-	2,231	(7,957)	-	(5,726)
Cumulative Results of Operations - Other Funds	(10)	-	(215,524)	-	(215,534)
Total Net Position	$ 14	$ 2,231	$ (212,386)	$ -	$ (210,141)
Total Liabilities and Net Position	$ 102	$ 23,147	$ 110,829	$ (256)	$ 133,822

** See independent auditors' report.*

FY 2007				
Federal Energy Regulatory Commission	Power Marketing Admini-strations	All Other DOE Programs	Eliminations	Consolidated
$ 48	$ 2,010	$ 16,301	$ -	$ 18,359
-	-	25,800	-	25,800
-	28	665	(237)	456
-	5,456	-	-	5,456
-	-	41	(33)	8
$ 48	$ 7,494	$ 42,807	$ (270)	$ 50,079
-	-	204	-	204
5	478	3,454	-	3,937
-	-	19,415	-	19,415
-	-	21,040	-	21,040
-	86	384	-	470
8	6,471	18,387	-	24,866
-	5,636	-	-	5,636
-	2,920	2,112	-	5,032
$ 61	$ 23,085	$ 107,803	$ (270)	$ 130,679
$ 4	$ (5)	$ 251	$ (184)	$ 66
-	11,481	-	-	11,481
-	-	70	(34)	36
6	55	215	(5)	271
$ 10	$ 11,531	$ 536	$ (223)	$ 11,854
10	333	3,497	(47)	3,793
-	6,427	-	-	6,427
-	2,097	23,048	-	25,145
-	-	263,603	-	263,603
-	62	12,371	-	12,433
-	188	26	-	214
35	321	2,916	-	3,272
-	42	11,029	-	11,071
$ 55	$ 21,001	$ 317,026	$ (270)	$ 337,812
$ -	$ -	$ 17	$ -	$ 17
4	-	10,661	-	10,665
-	2,084	(8,721)	-	(6,637)
2	-	(211,180)	-	(211,178)
$ 6	$ 2,084	$ (209,223)	$ -	$ (207,133)
$ 61	$ 23,085	$ 107,803	$ (270)	$ 130,679

** See independent auditors' report.*

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

For the Years Ended September 30, 2008 and 2007
($ in millions)

	FY 2008				
	Federal Energy Regulatory Commission	Power Marketing Admini-strations	All Other DOE Programs	Eliminations	Consolidated
STRATEGIC THEMES:					
Energy Security:					
Energy Diversity:					
Program Costs	$ -	$ -	$ 1,309	$ -	$ 1,309
Less: Earned Revenues	-	-	(16)	-	(16)
Net Cost of Energy Diversity	-	-	1,293	-	1,293
Environmental Impacts of Energy:					
Program Costs	-	-	1,182	(15)	1,167
Less: Earned Revenues	-	-	(51)	-	(51)
Net Cost of Environmental Impacts of Energy	-	-	1,131	(15)	1,116
Energy Infrastructure:					
Program Costs	-	3,892	155	(58)	3,989
Less: Earned Revenues	-	(4,125)	(19)	55	(4,089)
Net Cost of Energy Infrastructure	-	(233)	136	(3)	(100)
Energy Productivity Program Costs	-	-	453	-	453
Net Cost of Energy Security	-	(233)	3,013	(18)	2,762
Nuclear Security:					
Nuclear Deterrent Program Costs					
Program Costs	-	-	6,702	-	6,702
Less: Earned Revenues	-	-	(2)	-	(2)
Net Cost of Nuclear Deterrent	-	-	6,700	-	6,700
Weapons of Mass Destruction Program Costs	-	-	1,588	-	1,588
Nuclear Propulsion Plants:					
Program Costs	-	-	798	-	798
Less: Earned Revenues	-	-	(16)	-	(16)
Net Cost of Nuclear Propulsion Plants	-	-	782	-	782
Net Cost of Nuclear Security	-	-	9,070	-	9,070
Scientific Discovery and Innovation:					
Scientific Breakthroughs, Foundations of Science, and Research Integration Program Costs	-	-	3,790	-	3,790
Net Cost of Scientific Discovery and Innovation	-	-	3,790	-	3,790
Environmental Cleanup:					
Program Costs	-	-	5,949	(458)	5,491
Less: Earned Revenues	-	-	(414)	-	(414)
Net Costs of Environmental Cleanup	-	-	5,535	(458)	5,077
Managing the Legacy Program Costs	-	-	187	-	187
Net Cost of Environmental Responsibility	-	-	5,722	(458)	5,264
Net Cost of Strategic Themes	-	(233)	21,595	(476)	20,886
OTHER PROGRAMS:					
Reimbursable Programs:					
Program Costs	-	296	3,611	(38)	3,869
Less: Earned Revenues	-	(366)	(3,533)	38	(3,861)
Net Cost of Reimbursable Programs	-	(70)	78	-	8
Other Programs:					
Program Costs	255	-	462	(116)	601
Less: Earned Revenues	(255)	-	(156)	116	(295)
Net Cost of Other Programs	-	-	306	-	306
Other Allocable Costs	-	-	-	-	-
Costs Applied to Reduction of Legacy Environmental Liabilities	-	-	(5,313)	-	(5,313)
Costs Not Assigned	-	19	13,445	-	13,464
Net Cost of Operations	$ -	$ (284)	$ 30,111	$ (476)	$ 29,351

** See independent auditors' report.*

FY 2007				
Federal Energy Regulatory Commission	Power Marketing Admini- strations	All Other DOE Programs	Eliminations	Consolidated
$ -	$ -	$ 1,082	$ -	$ 1,082
-	-	(6)	-	(6)
-	-	1,076	-	1,076
-	-	1,066	(20)	1,046
-	-	(60)	-	(60)
-	-	1,006	(20)	986
-	3,847	141	(14)	3,974
-	(4,201)	-	14	(4,187)
-	(354)	141	-	(213)
-	-	496	-	496
-	(354)	2,719	(20)	2,345
-	-	6,869	-	6,869
-	-	-	-	-
-	-	6,869	-	6,869
-	-	1,526	-	1,526
-	-	810	-	810
-	-	(19)	-	(19)
-	-	791	-	791
-	-	9,186	-	9,186
-	-	3,997	-	3,997
-	-	3,997	-	3,997
-	-	6,319	(452)	5,867
-	-	(493)	-	(493)
-	-	5,826	(452)	5,374
-	-	57	-	57
-	-	5,883	(452)	5,431
-	(354)	21,785	(472)	20,959
-	204	3,381	(41)	3,544
-	(242)	(3,279)	41	(3,480)
-	(38)	102	-	64
240	-	492	(107)	625
(240)	-	(179)	107	(312)
-	-	313	-	313
-	-	-	-	-
-	-	(5,573)	-	(5,573)
-	-	45,732	-	45,732
$ -	$ (392)	$ 62,359	$ (472)	$ 61,495

** See independent auditors' report.*

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

For the Years Ended September 30, 2008 and 2007
($ in millions)

	FY 2008				
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
CUMULATIVE RESULTS OF OPERATIONS:					
Beginning Balances	$ 2	$ 2,084	$ (219,901)	$ -	$ (217,815)
Budgetary Financing Sources:					
Appropriations Used	$ (20)	$ -	$ 22,955	$ -	$ 22,935
Non-Exchange Revenue	-	-	109	-	109
Donations and Forfeitures of Cash	-	-	6	-	6
Transfers - In/(Out) Without Reimbursement	-	(181)	(33)	-	(214)
Other Financing Sources (Non-Exchange):					
Donations and Forfeitures of Cash	-	22	-	-	22
Transfers-In/(Out) Without Reimbursement	(3)	11	1,206	-	1,214
Imputed Financing from Costs Absorbed by Others	11	1	1,813	-	1,825
Other	-	10	475	(476)	9
Total Financing Sources	$ (12)	$ (137)	$ 26,531	$ (476)	$ 25,906
Net Cost of Operations	-	284	(30,111)	476	(29,351)
Net Change	$ (12)	$ 147	$ (3,580)	$ -	$ (3,445)
Total Cumulative Results of Operations	$ (10)	$ 2,231	$ (223,481)	$ -	$ (221,260)
UNEXPENDED APPROPRIATIONS:					
Beginning Balances	$ 4	$ -	$ 10,678	$ -	$ 10,682
Budgetary Financing Sources:					
Appropriations Received	$ -	$ -	$ 23,970	$ -	$ 23,970
Appropriations Transferred - In/(Out)	-	-	2	-	2
Other Adjustments	-	-	(600)	-	(600)
Appropriations Used	20	-	(22,955)	-	(22,935)
Total Budgetary Financing Sources	$ 20	$ -	$ 417	$ -	$ 437
Total Unexpended Appropriations	$ 24	$ -	$ 11,095	$ -	$ 11,119
Net Position	$ 14	$ 2,231	$ (212,386)	$ -	$ (210,141)

** See independent auditors' report.*

FY 2007				
Federal Energy Regulatory Commission	Power Marketing Admini-strations	All Other DOE Programs	Eliminations	Consolidated
$ 4	$ 2,543	$ (182,598)	$ -	$ (180,051)
$ 5	$ -	$ 22,533	$ -	$ 22,538
-	-	124	-	124
-	-	12	-	12
-	(831)	(38)	-	(869)
-	4	-	-	4
(18)	(24)	234	-	192
11	-	1,735	-	1,746
-	-	456	(472)	(16)
$ (2)	$ (851)	$ 25,056	$ (472)	$ 23,731
-	392	(62,359)	472	(61,495)
$ (2)	$ (459)	$ (37,303)	$ -	$ (37,764)
$ 2	$ 2,084	$ (219,901)	$ -	$ (217,815)
$ 9	$ -	$ 9,902	$ -	$ 9,911
$ -	$ -	$ 23,296	$ -	$ 23,296
-	-	13	-	13
-	-	-	-	-
(5)	-	(22,533)	-	(22,538)
$ (5)	$ -	$ 776	$ -	$ 771
$ 4	$ -	$ 10,678	$ -	$ 10,682
$ 6	$ 2,084	$ (209,223)	$ -	$ (207,133)

** See independent auditors' report.*

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

For the Years Ended September 30, 2008 and 2007
($ in millions)

	FY 2008			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated
BUDGETARY RESOURCES:				
Unobligated Balance, Brought Forward, October 1	$ 3	$ 346	$ 3,731	$ 4,080
Recoveries of Prior Year Unpaid Obligations	1	-	52	53
Budget Authority:				
Appropriations	$ 3	$ 337	$ 25,094	$ 25,434
Borrowing Authority	-	425	-	425
Contract Authority	-	515	-	515
Spending Authority from Offsetting Collections:				
Earned:				
Collected	261	4,011	3,774	8,046
Change in Receivables from Federal Sources	-	(3)	33	30
Change in Unfilled Customer Orders:				
Advances Received	-	-	13	13
Without Advance from Federal Sources	-	(1)	261	260
Anticipated for Rest of Year, Without Advance	-	-	-	-
Subtotal	$ 264	$ 5,284	$ 29,175	$ 34,723
Nonexpenditure Transfers, Net, Anticipated and Actual	-	(83)	2	(81)
Temporarily not Available Pursuant to Public Law	-	(2)	(157)	(159)
Permanently not Available	-	(1,176)	(598)	(1,774)
Total Budgetary Resources	**$ 268**	**$ 4,369**	**$ 32,205**	**$ 36,842**
STATUS OF BUDGETARY RESOURCES:				
Obligations Incurred:				
Direct	$ 252	$ 403	$ 24,831	$ 25,486
Exempt from Apportionment	-	2,720	181	2,901
Reimbursable	-	867	3,959	4,826
Total Obligations Incurred	$ 252	$ 3,990	$ 28,971	$ 33,213
Unobligated Balance:				
Apportioned	16	319	1,656	1,991
Exempt from Apportionment	-	38	9	47
Unobligated Balance not Available	-	22	1,569	1,591
Total Status of Budgetary Resources	**$ 268**	**$ 4,369**	**$ 32,205**	**$ 36,842**
CHANGE IN OBLIGATED BALANCE:				
Obligated Balance, Net:				
Unpaid Obligations, Brought Forward, October 1	$ 21	$ 2,683	$ 16,743	$ 19,447
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	-	(352)	(3,849)	(4,201)
Total Unpaid Obligated Balance, Net, October 1	$ 21	$ 2,331	$ 12,894	$ 15,246
Obligations Incurred	252	3,990	28,971	33,213
Less: Gross Outlays	(239)	(3,870)	(27,396)	(31,505)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(1)	-	(52)	(53)
Change in Uncollected Customer Payments from Federal Sources	-	4	(294)	(290)
	$ 33	$ 2,455	$ 14,123	$ 16,611
Obligated Balance, Net, End of Period:				
Unpaid Obligations	$ 33	$ 2,803	$ 18,266	$ 21,102
Less: Uncollected Customer Payments from Federal Sources	-	(348)	(4,143)	(4,491)
Total, Unpaid Obligated Balance, Net, End of Period	**$ 33**	**$ 2,455**	**$ 14,123**	**$ 16,611**
NET OUTLAYS:				
Gross Outlays	$ 239	$ 3,870	$ 27,396	$ 31,505
Less: Offsetting Collections	(261)	(4,011)	(3,787)	(8,059)
Less: Distributed Offsetting Receipts	(45)	(500)	(1,566)	(2,111)
Net Outlays	**$ (67)**	**$ (641)**	**$ 22,043**	**$ 21,335**

** See independent auditors' report.*

FY 2007			
Federal Energy Regulatory Commission	Power Marketing Admini-strations	All Other DOE Programs	Consolidated
$ 6	$ 172	$ 3,981	$ 4,159
1	-	51	52
$ 3	$ 307	$ 24,306	$ 24,616
-	315	-	315
-	692	-	692
222	4,042	3,491	7,755
-	(51)	29	(22)
-	18	(9)	9
-	(1)	125	124
-	-	-	-
$ 225	$ 5,322	$ 27,942	$ 33,489
-	94	23	117
-	-	(257)	(257)
-	(1,427)	(1)	(1,428)
$ 232	$ 4,161	$ 31,739	$ 36,132
$ 229	$ 355	$ 24,186	$ 24,770
-	2,768	129	2,897
-	692	3,693	4,385
$ 229	$ 3,815	$ 28,008	$ 32,052
3	298	2,194	2,495
-	47	3	50
-	1	1,534	1,535
$ 232	$ 4,161	$ 31,739	$ 36,132
$ 23	$ 2,669	$ 15,504	$ 18,196
-	(403)	(3,697)	(4,100)
$ 23	$ 2,266	$ 11,807	$ 14,096
229	3,815	28,008	32,052
(230)	(3,802)	(26,716)	(30,748)
(1)	-	(51)	(52)
-	52	(154)	(102)
$ 21	$ 2,331	$ 12,894	$ 15,246
$ 21	$ 2,683	$ 16,743	$ 19,447
-	(352)	(3,849)	(4,201)
$ 21	$ 2,331	$ 12,894	$ 15,246
$ 230	$ 3,802	$ 26,716	$ 30,748
(222)	(4,060)	(3,482)	(7,764)
(85)	(479)	(2,362)	(2,926)
$ (77)	$ (737)	$ 20,872	$ 20,058

** See independent auditors' report.*

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

For the Years Ended September 30, 2008 and 2007
($ in millions)

	FY 2008				
	Federal Energy Regulatory Commission	Power Marketing Admini-strations	All Other DOE Programs	Eliminations	Consolidated
SOURCES OF COLLECTIONS:					
Cash Collections:					
Power Marketing Administrations	$ -	$ 573	$ -	$ -	$ 573
Federal Energy Regulatory Commission	62	-	-	-	62
Petroleum Pricing Violation Escrow Fund	-	-	9	-	9
Total Cash Collections	$ 62	$ 573	$ 9	$ -	$ 644
Accrual Adjustment	(6)	(19)	(1)	-	(26)
Total Custodial Revenue	$ 56	$ 554	$ 8	$ -	$ 618
DISPOSITION OF REVENUE:					
Transferred to Others:					
Department of the Treasury	(39)	(263)	-	-	(302)
Army Corps of Engineers	(5)	-	-	-	(5)
Bureau of Reclamation	(2)	(325)	-	-	(327)
Others	(3)	-	-	-	(3)
Decrease/(Increase) in Amounts to be Transferred	(7)	34	(8)	-	19
Net Custodial Activity	$ -	$ -	$ -	$ -	$ -

** See independent auditors' report.*

FY 2007									
Federal Energy Regulatory Commission		Power Marketing Admini-strations		All Other DOE Programs		Eliminations		Consolidated	
$	-	$	532	$	-	$	-	$	532
	82		-		-		-		82
	-		-		13		-		13
$	82	$	532	$	13	$	-	$	627
	(12)		6		1		-		(5)
$	70	$	538	$	14	$	-	$	622
	(60)		(230)		-		-		(290)
	(13)		(18)		-		-		(31)
	(9)		(296)		-		-		(305)
	(3)		(5)		1		-		(7)
	15		11		(15)		-		11
$	-	$	-	$	-	$	-	$	-

** See independent auditors' report.*

Required Supplementary Stewardship Information (RSSI) – Unaudited

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years 2008 through FY 2004

($ in millions)	FY 2008			FY 2007		
	Direct Cost	Depre-ciation & Other	Total	Direct Cost	Depre-ciation & Other	Total
BASIC						
Energy Diversity						
Energy Efficiency	$ 5.2	$ 0.2	$ 5.4	$ 0.4	$ 0.0	$ 0.4
Fossil Energy	4.2	1.4	5.6	0.0	0.0	0.0
Environmental Impacts of Energy						
Fossil Energy	5.2	1.8	7.0	4.4	1.3	5.7
Nuclear Energy	0.0	0.0	0.0	0.0	0.0	0.0
Energy Infrastructure						
Power Marketing Administration**	0.0	0.0	0.0	0.0	0.0	0.0
Weapons of Mass Destruction	25.7	1.6	27.3	11.1	1.0	12.1
Scientific Breakthroughs & Foundations of Science	2,874.0	618.4	3,492.4	2,753.9	667.1	3,421.0
Total Basic	$ 2,914.3	$ 623.4	$ 3,537.7	$ 2,769.8	$ 669.4	$ 3,439.2
APPLIED*						
Energy Diversity						
Energy Efficiency	$ 256.7	$ 9.8	$ 266.5	$ 169.2	$ 9.5	$ 178.7
Fossil Energy	3.3	1.1	4.4	0.0	0.0	0.0
Environmental Impacts of Energy						
Fossil Energy	158.9	53.7	212.6	136.8	41.7	178.5
Nuclear Energy	48.1	13.4	61.5	71.1	15.7	86.8
Energy Infrastructure						
Energy Efficiency	0.9	0.0	0.9	9.9	0.7	10.6
Electric Transmission & Distribution	19.6	0.8	20.4	12.9	1.3	14.2
Power Marketing Administration**	4.9	0.0	4.9	8.6	0.0	8.6
Energy Productivity						
Energy Efficiency	44.2	2.1	46.3	22.9	1.2	24.1
Nuclear Deterrent	1,965.2	253.3	2,218.5	1,799.3	165.7	1,965.0
Weapons of Mass Destruction	122.9	8.1	131.0	121.5	11.2	132.7
Scientific Breakthroughs & Foundations of Science	0.0	0.0	0.0	0.0	0.0	0.0
Environmental Cleanup	4.5	0.6	5.1	9.6	1.5	11.1
Managing the Legacy	8.3	0.5	8.8	172.8	1.9	174.7
Total Applied	$ 2,637.5	$ 343.4	$ 2,980.9	$ 2,534.6	$ 250.4	$ 2,785.0
DEVELOPMENT*						
Energy Diversity						
Energy Efficiency	$ 197.4	$ 9.1	$ 206.5	$ 145.4	$ 9.0	$ 154.4
Fossil Energy	1.3	0.5	1.8	0.0	0.0	0.0
Environmental Impacts of Energy						
Fossil Energy	82.4	29.0	111.4	127.7	36.6	164.3
Nuclear Energy	5.1	2.6	7.7	9.1	1.0	10.1
Energy Infrastructure						
Energy Efficiency	0.4	0.0	0.4	19.5	0.8	20.3
Electric Transmission & Distribution	17.2	0.8	18.0	17.0	1.7	18.7
Power Marketing Administration**	0.0	0.0	0.0	2.5	0.0	2.5
Energy Productivity						
Energy Efficiency	34.3	1.6	35.9	22.9	1.2	24.1
Nuclear Deterrent	778.5	412.2	1,190.7	595.4	195.3	790.7
Weapons of Mass Destruction	69.3	6.0	75.3	66.1	6.7	72.8
Nuclear Propulsion Plants	693.2	42.8	736.0	708.9	54.0	762.9
Environmental Cleanup	32.9	4.4	37.3	22.4	3.5	25.9
Total Development	$ 1,912.4	$ 509.0	$ 2,421.4	$ 1,736.9	$ 309.8	$ 2,046.7
Total R&D	$ 7,464.2	$ 1,475.8	$ 8,940.0	$ 7,041.3	$ 1,229.6	$ 8,270.9

* 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 Infrastructure Goal.

FY 2006			FY 2005			FY 2004		
Direct Cost	Depre-ciation & Other	Total	Direct Cost	Depre-ciation & Other	Total	Direct Cost	Depre-ciation & Other	Total
$ 1.3	$ 0.1	$ 1.4	$ 19.9	$ 5.1	$ 25.0	$ 30.3	$ 4.6	$ 34.9
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4.3	0.8	5.1	6.0	1.7	7.7	7.1	0.8	7.9
1.7	0.6	2.3	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	3.4	0.0	3.4
6.8	0.8	7.6	3.2	0.3	3.5	13.2	1.0	14.2
2,671.5	601.1	3,272.6	2,808.7	735.5	3,544.2	2,581.3	583.4	3,164.7
$ 2,685.6	$ 603.4	$ 3,289.0	$ 2,837.8	$ 742.6	$ 3,580.4	$ 2,635.3	$ 589.8	$ 3,225.1
$ 169.5	$ 12.5	$ 182.0	$ 161.9	$ 24.8	$ 186.7	$ 130.9	$ 13.1	$ 144.0
32.1	7.5	39.6	34.1	8.4	42.5	38.6	3.1	41.7
98.1	20.6	118.7	123.3	41.8	165.1	137.9	16.4	154.3
84.3	33.1	117.4	52.5	35.8	88.3	74.3	6.4	80.7
31.8	1.8	33.6	74.5	7.8	82.3	45.8	4.0	49.8
66.8	3.8	70.6	55.6	4.1	59.7	18.7	2.0	20.7
10.4	0.0	10.4	9.7	0.0	9.7	11.8	0.0	11.8
20.3	1.4	21.7	15.1	2.0	17.1	25.7	3.1	28.8
1,955.6	183.1	2,138.7	1,898.6	192.9	2,091.5	1,888.0	404.9	2,292.9
113.8	13.8	127.6	73.1	5.6	78.7	60.4	4.4	64.8
0.0	0.0	0.0	0.0	0.0	0.0	3.1	0.6	3.7
0.9	0.0	0.9	15.6	1.2	16.8	28.1	4.1	32.2
259.3	3.1	262.4	144.0	1.9	145.9	65.3	1.8	67.1
$ 2,842.9	$ 280.7	$ 3,123.6	$ 2,658.0	$ 326.3	$ 2,984.3	$ 2,528.6	$ 463.9	$ 2,992.5
$ 205.7	$ 12.0	$ 217.7	$ 265.8	$ 28.0	$ 293.8	$ 326.8	$ 32.3	$ 359.1
48.2	11.3	59.5	51.2	12.6	63.8	57.9	4.7	62.6
95.8	19.9	115.7	121.0	40.3	161.3	135.0	16.1	151.1
1.3	0.3	1.6	1.2	0.8	2.0	20.5	1.6	22.1
28.7	1.7	30.4	54.2	7.1	61.3	69.6	6.3	75.9
26.0	1.6	27.6	13.5	3.2	16.7	38.0	3.2	41.2
1.1	0.0	1.1	2.1	0.0	2.1	8.8	0.0	8.8
20.7	1.4	22.1	15.1	2.0	17.1	25.7	3.1	28.8
467.4	117.3	584.7	467.2	106.8	574.0	543.4	120.9	664.3
84.7	5.1	89.8	53.6	2.8	56.4	49.4	3.1	52.5
681.5	42.9	724.4	724.7	40.6	765.3	667.1	17.7	684.8
2.1	0.1	2.2	36.4	3.6	40.0	65.5	9.5	75.0
$ 1,663.2	$ 213.6	$ 1,876.8	$ 1,806.0	$ 247.8	$ 2,053.8	$ 2,007.7	$ 218.5	$ 2,226.2
$ 7,191.7	$ 1,097.7	$ 8,289.4	$ 7,301.8	$ 1,316.7	$ 8,618.5	$ 7,171.6	$ 1,272.2	$ 8,443.8

Research and Development

Strategic Theme 1: Energy Security
(Basic, Applied, and Development)

Renewable Energy

The Office of Energy Efficiency and Renewable Energy (EERE) pursues its mission by investing in high-risk, high-value research and development (R&D) as well as deployment and promotion activities that would not be sufficiently conducted by the private sector. EERE works with public and private sector decision makers, partners and other stakeholders to develop programs and policies to facilitate the technologies and practices through efficiency mechanisms such as appliance efficiency standards, building codes, Federal fleet initiatives, energy education activities and financial assistance grants. EERE develops the technology and provides the technical assistance that can scale up use of renewable energy which may provide economic benefits, protect the environment and increase national energy security by reducing dependence on traditional energy sources. Programs activities include: Hydrogen Technology, Biomass & Biorefinery Systems R&D, Solar Energy, Wind Energy, Geothermal Technology, Water Power, Vehicle Technologies, Building Technologies, Industrial Technologies, Federal Energy Management Program, and Weatherization & Intergovernmental Activities.

Fossil Energy

The Office of Fossil Energy (FE) Coal Research Initiative consists of three key integrated strategies needed for carbon capture and storage (CCS) to become a viable option for reducing greenhouse gases in the Unites States and globally. Commercial-scale projects are operated through the Clean Coal Power Initiative (a cost-shared demonstration program for advanced cost-reduction technologies for new and retrofit CCS applications) and through the FutureGen program (which will demonstrate the capability to integrate electricity generation from coal with carbon capture, compression, transportation and geologic storage). Related R&D programs offer advances to central station power generation technology for reasonable-cost CCS, including Advanced Turbines, Gasification technology, Fuel Cells, Fuels, and Carbon Sequestration (which includes researching ways to separate and dispose of greenhouse gas from combustion). The Advanced Research program comprises a set of cross-cutting, long-term research projects that can potentially contribute to many aspects of the coal research program.

Nuclear Energy

The Office of Nuclear Energy (NE) leads Federal efforts to research and develop new nuclear technologies for energy and other applications and to maintain the national nuclear technology infrastructure. NE's portfolio of programs includes near-term efforts to help facilitate construction of new plants, research on advanced "next generation" nuclear reactor technologies, support for university reactors and development of advanced nuclear fuel cycle technologies that could improve nuclear safeguards to meet non-proliferation objectives, maximize energy from nuclear fuel and minimize the volume and toxicity of nuclear waste requiring ultimate disposal. NE also aims to serve the present and future energy needs of the nation by managing the safe operation and maintenance of the Department's nuclear infrastructure.

Electricity Infrastructure

The Office of Electricity Delivery and Energy Reliability R&D initiatives focus on technologies that can improve the reliability, efficiency, and security of the nations' electricity delivery system. Visualization and Controls research is expected to result in reduced frequency and duration of operational disturbances on the electric grid. High Temperature Superconductivity Cables are expected to increase the efficiency of the electric delivery system through reduced energy losses. Energy Storage and Renewable System Integration research activities could reduce peak prices of electricity and increase asset utilization as well as improve accessibility to a variety of energy sources for generation. Control System Security research focuses on hardening our energy infrastructure and mitigating cyber vulnerabilities in the energy sector. Smart grid research is aimed at advancing interoperability, communication standards and system engineering to balance greater intermittent energy supplies (e.g. renewables) with a potentially growing volatility in demand (e.g. plug-in hybrids) as consumers engage in energy management.

Strategic Theme 2: Nuclear Security
(Basic, Applied, and Development)

National Nuclear Security Administration (NNSA)

Researchers using Sandia National Laboratories' Z machine have increased the machine's X-ray power output by nearly 10 times in the last two years. The most recent advance resulted in an output X-ray power of about 290 trillion watts – for billionths of a second, about 80 times the entire world's output of electricity. The Z's advance in power is expected to make a major contribution to the DOE's science-based approach to managing the nuclear deterrent, which must use giant computing and laboratory experiments to provide the basis to sustain the nation's nuclear stockpile without underground nuclear testing. This achievement resulted from advances in theory and experiments by a team involving DOE and Department of Defense laboratories and universities.

NNSA advanced the nation's technology base and capability to detect foreign nuclear programs, materials, and detonations as part of our nuclear nonproliferation program. NNSA conceived, designed and built new capabilities to detect and verify foreign nuclear material production and delivered for launch two new space sensor payloads for detecting and reporting nuclear detonations. These payloads are launched by the Department of Defense to replenish and constantly improve the nuclear detection constellation as old satellites expire.

NNSA incorporated a new physics-based model for conducting assessments of nuclear weapons performance. NNSA scientists at the Los Alamos and Lawrence Livermore National Laboratories implemented the new models for two weapon systems in the stockpile. These new models incorporate knowledge and insights gained through the Science Campaign and are enabled by measurements made using the Los Alamos Neutron Science Center and Inertial Confinement Fusion facilities, as well as the capabilities provided by the Advanced Simulation and Computing Campaign. This is an excellent example of successful multi-lab collaboration to ensure the safety and reliability of the U.S. nuclear weapons stockpile.

The NNSA and DOE's Office of Science established a joint program in high energy density laboratory plasmas (HEDLP), a major sub-area within the discipline of High Energy Density Plasmas (HEDP). The purpose of the joint program is to effectively steward HEDLP within the DOE while maintaining the interdisciplinary nature of this area of science. The HEDLP program is jointly funded by the Office of Science and NNSA.

Strategic Theme 3: Scientific Discovery and Innovation
(Basic)

A primary goal of the Office of Science is to achieve the major scientific discoveries that will drive U.S. competitiveness; inspire America and revolutionize approaches to the Nation's energy, national security and environmental quality challenges. Other goals are to deliver the scientific facilities, train the next generation of scientists and engineers and provide the laboratory capabilities and infrastructures required for U.S. scientific primacy. These goals are inherently linked as scientific discoveries are dependent upon cutting edge technology and facilities support. Science supports research activities in the following areas: Advanced Scientific Computing relevant to the complex challenges faced by the Department and providing world class supercomputer and networking facilities for scientists; Basic Energy Sciences including work in the natural sciences that emphasizes fundamental research in materials science, chemistry, geosciences and physical biosciences; Biological and Environmental Research provides the foundational science for alternative fuels, advanced climate predictions, terrestrial carbon sequestration, subsurface bio-geo-processes and radiobiology at a range of scales from the molecular to the global Earth; Fusion Energy Sciences activities including broad-based fundamental research efforts aimed at producing the knowledge needed for a fusion energy source and to be a world leader in plasma physics and high energy density physics research; High Energy Physics activities directed at understanding the nature of matter and energy; Nuclear Physics activities directed at understanding the fundamental forces and particles of nature as manifested in nuclear matter; and, Small Business Innovative Research/ Technology Transfer support for energy related technologies.

Strategic Theme 4: Environmental Responsibility
(Applied and Development)

Environmental Management

The Office of Environmental Management maintains a Technology Development and Deployment Program. The overall goal of this program is to eliminate technical barriers to cleanup by reducing technical uncertainty, improving safety performance by applying improved or new technologies, increasing confidence in achieving long-term cleanup goals, addressing emerging issues and leveraging investments in scientific research conducted by other parts of the Department.

Civilian Radioactive Waste Management

The Office of Civilian Radioactive Waste Management leads the Department in the engagement of more than 25 years of applied R&D relating to deep geologic disposal of high-level radioactive waste and spent nuclear fuel. This R&D program resulted in the Department submitting a license application to the NRC in June 2008 for authorization to construct the repository and its acceptance and docketing for formal NRC review in September 2008.

Required Supplementary Information – Unaudited

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

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	$3,704 million
Capital Equipment	130 million
Total	**$3,834 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, 2008, an amount of $3,704 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 68 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) are 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 $130 million of deferred maintenance was estimated to be needed as of September 30, 2008, to return capital equipment assets to acceptable operating condition.

U.S. Department of Energy Budgetary Resources by Major Account

As of September 30, 2008
($ in millions)

	Fossil Energy R&D 89X0213	Science 89X0222	Weapons Activities 89X0240	Other Defense Activities 89-0243	Defense Environmental Cleanup 89X0251
BUDGETARY RESOURCES					
Unobligated Balance, Brought Forward, Oct 1	$ 464	$ 14	$ 165	$ 43	$ 103
Recoveries of Prior Year Unpaid Obligations	9	2	1	3	7
Budget Authority	584	4,118	8,152	1,821	5,461
Nonexpenditure Transfers, Net	150	47	5	(4)	-
Authority not Available	(7)	(82)	(58)	(7)	(49)
Total Budgetary Resources	$ 1,200	$ 4,099	$ 8,265	$ 1,856	$ 5,522
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 593	$ 4,080	$ 8,218	$ 1,832	$ 5,491
Unobligated Balances Available	600	19	47	23	25
Unobligated Balances not Available	7	-	-	1	6
Total Status of Budgetary Resources	$ 1,200	$ 4,099	$ 8,265	$ 1,856	$ 5,522
CHANGE IN OBLIGATED BALANCE					
Obligated Balance, Brought Forward, Oct 1	$ 743	$ 2,378	$ 2,449	$ 407	$ 2,074
Obligations Incurred	593	4,080	8,218	1,832	5,491
Less: Gross Outlays	(525)	(3,855)	(8,340)	(1,231)	(5,644)
Obligated Balance Transferred, Net	-	-	-	-	1
Less: Recoveries of PY Obligations, Actual	(9)	(2)	(1)	(3)	(7)
Change in Uncollected Customer Payments, Federal	-	-	499	(726)	-
Obligated Balance, Net, End of Period	$ 802	$ 2,601	$ 2,825	$ 279	$ 1,915
NET OUTLAYS	$ 525	$ 3,855	$ 6,044	$ 897	$ 5,644

	Defense Nuclear Nonproliferation 89-0309	Naval Reactors 89X0314	Nuclear Energy 89-0319	Energy Efficiency and Renewable Energy 89X0321	Bonneville Power Administration 89X4045
BUDGETARY RESOURCES					
Unobligated Balance, Brought Forward, Oct 1	$ 433	$ 6	$ -	$ -	$ 47
Recoveries of Prior Year Unpaid Obligations	1	-	-	-	-
Budget Authority	1,680	782	970	2,424	3,965
Nonexpenditure Transfers, Net	(8)	-	11	77	(82)
Authority not Available	(342)	(7)	(9)	(17)	(1,172)
Total Budgetary Resources	$ 1,764	$ 781	$ 972	$ 2,484	$ 2,758
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 1,743	$ 776	$ 956	$ 2,456	$ 2,720
Unobligated Balances Available	21	5	14	28	38
Unobligated Balances Not Available	-	-	2	-	-
Total Status of Budgetary Resources	$ 1,764	$ 781	$ 972	$ 2,484	$ 2,758
CHANGE IN OBLIGATED BALANCE					
Obligated Balance, Brought Forward, Oct 1	$ 1,708	$ 205	$ -	$ -	$ 2,036
Obligations Incurred	1,743	776	956	2,456	2,720
Less: Gross Outlays	(1,751)	(792)	(316)	(809)	(2,662)
Obligated Balance Transferred, Net	-	-	-	-	-
Less: Recoveries of PY Obligations, Actual	(1)	-	-	-	-
Change in Uncollected Customer Payments, Federal	-	-	-	(359)	8
Obligated Balance, Net, End of Period	$ 1,699	$ 189	$ 640	$ 1,288	$ 2,102
NET OUTLAYS	$ 1,745	$ 792	$ 316	$ 484	$ (424)

	Western Area Power Administration 89X5068	Uranium Enrichment D&D 89X5231	U.S. Enrichment Corporation Fund 95X4054	All Other Appropriations	Combined Statement of Budgetary Resources
BUDGETARY RESOURCES					
Unobligated Balance, Brought Forward, Oct 1	$ 206	$ 1	$ 1,473	$ 1,125	$ 4,080
Recoveries of Prior Year Unpaid Obligations	-	-	-	30	53
Budget Authority	901	628	68	3,169	34,723
Nonexpenditure Transfers, Net	-	-	-	(277)	(81)
Authority not Available	(2)	(6)	-	(175)	(1,933)
Total Budgetary Resources	$ 1,105	$ 623	$ 1,541	$ 3,872	$ 36,842
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 878	$ 620	$ -	$ 2,850	$ 33,213
Unobligated Balances Available	227	3	-	988	2,038
Unobligated Balances not Available	-	-	1,541	34	1,591
Total Status of Budgetary Resources	$ 1,105	$ 623	$ 1,541	$ 3,872	$ 36,842
CHANGE IN OBLIGATED BALANCE					
Obligated Balance, Brought Forward, Oct 1	$ 203	$ 190	$ -	$ 2,853	$ 15,246
Obligations Incurred	878	620	-	2,850	33,213
Less: Gross Outlays	(834)	(558)	-	(4,188)	(31,505)
Obligated Balance Transferred, Net	-	-	-	(1)	-
Less: Recoveries of PY Obligations, Actual	-	-	-	(30)	(53)
Change in Uncollected Customer Payments, Federal	(5)	-	-	293	(290)
Obligated Balance, Net, End of Period	$ 242	$ 252	$ -	$ 1,777	$ 16,611
NET OUTLAYS	$ 168	$ (93)	$ (68)	$ 1,450	$ 21,335

Memorandum from the Inspector General

Department of Energy
Washington, DC 20585
November 13, 2008

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Report on the Department of Energy's Fiscal Year 2008 Consolidated Financial Statements

Pursuant to the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP (KPMG) to perform the audit of the Department of Energy's (Department) fiscal year 2008 Consolidated Financial Statements.

KPMG audited the consolidated balance sheets and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources as of and for the years ended September 30, 2008, and 2007 and concluded that these consolidated financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. KPMG has issued an unqualified opinion based on its audits and the reports of other auditors for the year ended September 30, 2008.

Auditors also considered the Department's internal controls over financial reporting 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 these consolidated financial statements. This work resulted in one matter related to unclassified network and information systems security being identified as a significant deficiency. Although the characteristics of the network security weaknesses that caused this deficiency are similar to those that were reported last year, the frequency of specific audit findings associated with this weakness had declined when compared to prior years. This deficiency is not considered to be a material weakness. With regard to the specific findings associated with this significant deficiency, the Department concurred and agreed to take corrective action. As for the tests of compliance, the audit disclosed no instances of noncompliance that are required to be reported under applicable audit standards and requirements.

The auditors applied certain limited procedures to the information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections of the Agency Financial Report. This information is not a required part of the consolidated financial statements and was not audited. Instead, the auditors relied primarily on inquiries of management with respect to the methods of measurement and presentation of this information.

The preparation and audit of financial statements involve many parties. The Department is responsible for preparing and submitting its consolidated financial statements in accordance with Office of Management and Budget requirements 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. 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 render an independent opinion on the Department's consolidated financial statements.

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

Attachment

cc: Acting Deputy Secretary of Energy
Under Secretary for Nuclear Energy
Under Secretary of Energy
Under Secretary for Science
Chief of Staff
Chief Financial Officer
Chief Information Officer

Audit Report: OAS-FS-09-01

Independent Auditors' Report

KPMG
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 sheets of the United States Department of Energy (Department) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2008 audit, we also considered the Department's internal controls over financial reporting 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 these consolidated financial statements.

As discussed in this report, certain power marketing administrations of the Department, whose Department-related financial data is included in the accompanying consolidated financial statements, 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 financial statements.

SUMMARY

As stated in our opinion on the consolidated financial statements, based upon our audits and the reports of other auditors, we conclude that the Department's consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our opinion 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 commercial spent nuclear fuel 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 accounting for its contractors' pension and other postretirement benefit plans as of the end of fiscal year 2007.

Our consideration of internal control over financial reporting resulted in one matter, related to unclassified network and information systems security, being identified as a significant deficiency. However, this significant deficiency is not considered to be a material weakness.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

KPMG

The following sections discuss our opinion on the Department's consolidated financial statements; our consideration of the Department's internal controls over financial reporting; our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the United States Department of Energy as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources for the years then ended.

We did not audit the financial statements of Bonneville Power Administration as of and for the years ended September 30, 2008 and 2007, whose Department-related financial data reflect total assets of $19,848 million and $19,938 million, and total net costs of $(404) million and $(586) million, respectively. We also did not audit the financial statements of Western Area Power Administration as of and for the year ended September 30, 2007, whose Department-related financial data reflect total assets of $2,838 million and total net costs of $190 million. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the Department's fiscal year 2008 consolidated financial statements, insofar as it relates to the fiscal year 2008 amounts included for Bonneville Power Administration, and fiscal year 2007 amounts included for Bonneville Power Administration and Western Area Power Administration is based solely upon the reports of the other auditors.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Energy as of September 30, 2008 and 2007, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 14 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of $266 billion and $264 billion as of September 30, 2008 and 2007, 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 17 to the consolidated financial statements, the Department is involved as a defendant in several matters of litigation relating to its inability to accept commercial spent nuclear fuel 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 $12 billion and $11 billion as of September 30, 2008 and 2007, respectively.

As discussed in Note 15 to the consolidated financial statements, the Department adopted the provisions of Statement of Financial Accounting Standards No 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, to account for its contractors' pension and other postretirement benefit plans as of September 30, 2007.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We and the other auditors 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 audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Consolidating Schedules section of the Department's 2008 *Agency Financial 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, and custodial activities of the Department's components individually. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, based upon our audits and the reports of other auditors, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

The information in the Message from the Secretary and the Other Accompanying Information section of the Department's fiscal year 2008 *Agency Financial Report* is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. This report also includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's consolidated financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

In our fiscal year 2008 audit, we noted the following matter, described in more detail in Exhibit I, involving internal control over financial reporting that we consider to be a significant deficiency. However, we do not believe this significant deficiency is a material weakness.

- ***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.

Exhibit II presents the status of prior year significant deficiencies.

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.

COMPLIANCE AND OTHER MATTERS

The results of certain of our tests of compliance as described in the Responsibilities section of this report, 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* or OMB Bulletin No. 07-04, as amended. This report also includes our consideration of the results of the other auditors' testing of compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

RESPONSIBILITIES

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the Department.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 consolidated financial statements of the Department based on our audits and the reports of other auditors. We conducted our audits 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. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are 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.

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 audits and the reports of other auditors provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2008 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. 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 express an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2008 consolidated financial statements are 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 financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803(a) of 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. However, 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.

The Department's response to the finding identified in our audit is presented in Exhibit I. We did not audit the Department's response and, accordingly, we express no opinion on it.

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 10, 2008

Independent Auditors' Report
Exhibit I – Significant Deficiency

Unclassified Network and Information Systems Security

The Department uses 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 address identified weaknesses at the sites whose controls we, and the Department's Office of Health, Safety and Security (HSS), reviewed in prior years. Although the frequency of network security weaknesses has declined when compared with prior years, we and the HSS continued to identify similar weaknesses at sites reviewed in fiscal year 2008, and the characteristics and severity of those weaknesses remained consistent with our prior year findings. The Department recognizes these weaknesses and has categorized unclassified cyber security as a leadership challenge issue in its Federal Managers' Financial Integrity Act assurance statement for fiscal year 2008. Significant improvements are still needed in the areas of password management, configuration management, and restriction of network services. Continuing weakness in these areas may be indicative of systemic problems.

Our fiscal year 2008 audit also disclosed other information system security weaknesses, similar to our prior year findings. Specifically, we noted weaknesses in the areas of user access controls, password management, network services, configuration management, and use of versions of application and operating system software that were outdated or not appropriately patched to correct known vulnerabilities.

We also noted that the National Nuclear Security Administration (NNSA) and certain other Department elements had not undertaken or not completed actions aimed at improvement of management oversight of the cyber security practices of subordinate organizations and field sites, even though such reviews were previously agreed to be necessary. Lack of effective review by Headquarters elements for compliance with mandatory cyber security policies and directives has permitted subordinate organizations and field sites to apply their own interpretations. This has resulted in widely varying degrees of compliance and contributed to the extent of weaknesses that we found in cyber security controls. Further, the Department's Office of Inspector General (OIG) has reported deficiencies in the Department's security incident management, testing of security controls, access controls, and configuration management, including the implementation of standard security configurations for cyber security controls, in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated September 2008. The OIG also noted that NNSA had not timely incorporated Federal and Department policies and security requirements, and had not performed management reviews of field sites' performance even though management had agreed that reviews were needed. 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 technology controls, and made progress in addressing previously identified cyber security weaknesses by enhancing its management of the unclassified cyber security program. At the Headquarters level, the Office of Chief Information Officer (OCIO), NNSA, and the Office of the Under Secretary of Energy have recently issued a revised policy that provides direction on management, operating, and technical controls. NNSA and program elements also incorporated Federal cyber security requirements into a number of management and operating contracts. Finally, a formal working group was established to ensure that the Department's cyber security guidance complies with National Institute of Standards and Technology (NIST) guidance. However, at the time of our audit fieldwork, progress towards implementation of these policies was incomplete and consisted largely of planning for future implementation.

The Department has also continued to have difficulty in timely implementation of strategic government-wide cyber security initiatives. Specifically, certain of the Department's organizations and sites took limited action to implement mandatory government-wide security configuration standards for cyber security controls, even though there was Departmental instruction to do so, and other Department elements were able to comply.

The identified weaknesses in unclassified network and information systems security 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 strengthen the management review process to include better monitoring of field sites to ensure the adequacy of cyber security program performance, and improve the use of government-wide security configuration standards in the resolution of the vulnerabilities and control weaknesses described above.

Therefore, we recommend that program officials, in conjunction with the Chief Information Officer, fully implement policies and procedures to ensure that the Federal information security standards are met, that networks and information systems are adequately protected against unauthorized access, and that field site performance is reviewed. Detailed recommendations to address the issues discussed above have been separately reported to the program offices and the OCIO.

Management's Response:

The Department concurs with the recommendation. During the past year, the Department developed cyber security directives that will institutionalize the Department-wide risk-based approach to cyber security management. One directive, addressing certification and accreditation and cyber security responsibilities, has been issued. Other directives, addressing minimum controls, incident handling, and media sanitization are in final, formal review. The Department's Chief Information Officer will continue to work with and support program officials as they fully implement policies and procedures to ensure that (1) cyber security directives, which apply NIST standards and guidance, are followed, (2) information and information systems are adequately protected, and (3) field site performance is reviewed.

The Department made significant progress toward streamlining its cyber security incident management process, and successfully consolidated separate cyber incident handling centers into the new Cyber Incident Coordination Capability which began operation on October 1, 2008. The success of the Department-wide cyber security awareness and training programs has improved the detection and reporting of cyber security incidents, enabling the Department to mitigate the effects of those attacks and further improve the Department's overall cyber security posture.

Under the Department's cyber security governance structure, programs are required to provide cyber security direction within their organizations, including the field, through Program Cyber Security Plans (PCSPs). These PCSPs are required to follow Government-wide and Department cyber security policy and direction, taking into account mission-specific risks and requirements. As part of its cyber security compliance monitoring efforts, the Department's Chief Information Officer will continue to review the PCSPs, as well as to review a sample of certification and accreditation documentation packages from across the entire Department of Energy complex.

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

Fiscal Year 2007 Audit Findings (with parenthetical disclosure of year first reported)	**Status at September 30, 2008**
Accounting for Environmental Liabilities – Considered a Significant Deficiency (2007)	Significant actions implemented – No longer considered a significant deficiency.
Unclassified Information Systems Security – Considered a Significant Deficiency (1999)	Not fully implemented – Unclassified network and information systems security issues continue to be reported in Exhibit I as a significant deficiency.