FY 2008

U.S. DEPARTMENT OF
# ENERGY

# AGENCY FINANCIAL REPORT

DOE/CF-0032

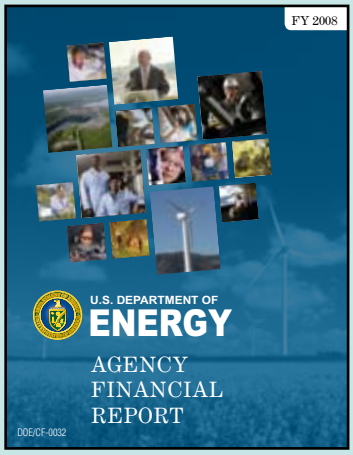
# Foreword

The Reports Consolidation Act of 2000 authorizes Federal agencies to consolidate various reports in order to provide performance, financial and related information in a more meaningful and useful format. In accordance with the Act, the Department of Energy (Department or DOE), in previous years, has produced a Performance and Accountability Report (PAR). For FY 2008, the Department has chosen again to produce an alternative report to the consolidated PAR and will continue to participate in the FY 2008 pilot pursuant to the Office of Management and Budget's (OMB) Circular A-136. The Department believes that this reporting approach will simplify and shorten the performance presentations for readers while utilizing the Internet for providing and leveraging additional performance information. The Department's FY 2008 pilot reporting includes the following three components and is available at the website below:

**Agency Financial Report (AFR)** [available November 17, 2008]

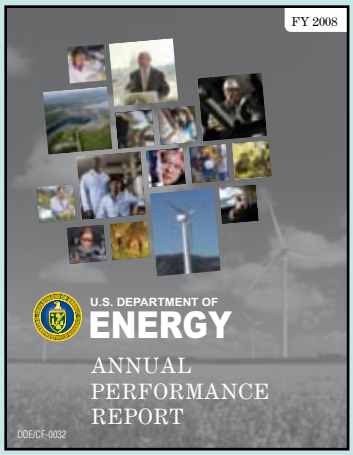
The AFR, the following report, is organized by the following three major sections:

- *Management's Discussion and Analysis* section provides executive-level information on the Department's history, mission, organization, key activities within five strategic themes, analysis of financial statements, systems, controls and legal compliance and other challenges facing the Department.
- *Financial Results* section provides a Message from the Chief Financial Officer, the Department's consolidated and combined financial statements and the Auditors' Report.
- *Other Accompanying Information* section provides the Inspector General's Management and Performance Challenges, Improper Payments Information Act Reporting Details and other statutory reporting.



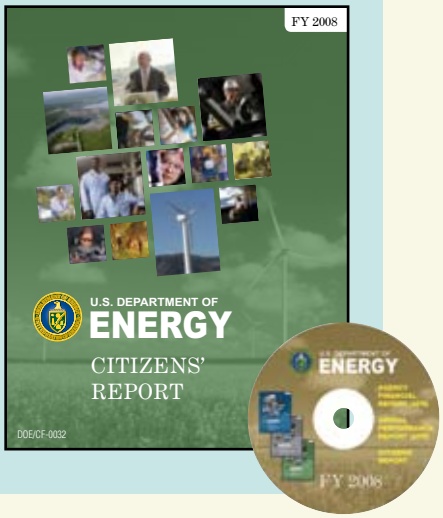

**Annual Performance Report (APR)**
[available January 15, 2009]

The APR will be produced in conjunction with the Congressional Budget Justifications and will provide the detailed performance information and descriptions of results by each performance measure.




**Citizens' Report**
[available no later than January 15, 2009]

This document will summarize the Department's financial and performance information from the AFR and APR using a forward-looking perspective. A compact disc (CD) of all three integrated reporting components is available on the back cover.




This report meets the following legislated reporting requirements:

- Department of Energy Organization Act of 1977 requires an annual report on agency activities.
- Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires a report on the status of internal controls and the agency's most serious problems.
- Federal Financial Management Improvement Act (FFMIA) of 1996 requires an assessment of the agency's financial systems for adherence to Government-wide requirements.
- Inspector General (IG) Act of 1978 (Amended) requires information on management actions in response to IG audits.
- Government Management Reform Act (GMRA) of 1994 requires agency audited financial statements.
- Reports Consolidation Act of 2000 requires the consolidated reporting of performance, financial and related information in a PAR.
- Improper Payments Information Act (IPIA) of 2002 requires reporting on agency efforts to identify and reduce erroneous payments.

**All three PAR pilot reports will be available at www.cfo.doe.gov/cf1-2/2008parpilot.htm**

Printed with soy ink on recycled paper

# Table of Contents



# Message from the Secretary

I am pleased to present the Department of Energy's fiscal year 2008 Agency Financial Report (AFR). This report provides key financial and performance information for Congress and the American people. It summarizes our efforts to manage taxpayer resources efficiently and responsibly while accomplishing our mission of "Discovering the solutions to power and secure America's future."

This financial report is the first of three integrated reporting components that the Department will issue through our continued participation in an alternative reporting pilot program with the Office of Management and Budget. The remaining two pilot report components, the Annual Performance Report and the Citizens' Report, will be available in January 2009.

We are in the midst of challenging times. The volatility in global oil prices this past year has demonstrated the urgent need for alternative energy sources. The International Energy Agency's most recent World Energy Outlook estimates the world's primary energy needs will grow by more than 50 percent by 2030. To meet that demand will require major changes and significant resource investment over decades around the world, at all stages of the energy cycle.

One of the Department's primary goals is to promote energy security through the development and deployment of reliable, clean and affordable energy. Progress has been seen in the areas of plug-in hybrid electric vehicles, cellulosic ethanol, nuclear power, clean coal, solar power and wind energy. Advances in the distribution of electric power are underway with research and development in the area of High Temperature Superconductivity.

As we address this increased global energy demand, we must also address the environmental impact of our growing energy use. This creates a set of unique energy challenges for the world that no one nation or sector can solve alone. A consensus now exists among industrialized nations – in evidence at the last G-8 Summit – that effective carbon management must be undertaken, but in ways that do not undermine economic growth and account for those nations' desires to deliver greater prosperity for their people.

With the continued threat of terrorism, the security of the nuclear weapons and materials around the world remains another primary challenge. The Department maintains and improves the safety, security, reliability and performance of the U.S. nuclear weapons stockpile. We are striving to achieve a nuclear weapons complex that is smaller, safer, more secure and less expensive. This year, the Department's National Nuclear Security Administration downblended approximately 100 metric tons of U.S. highly enriched uranium – enough material for thousands of nuclear weapons – into low enriched uranium for peaceful use as nuclear reactor fuel.

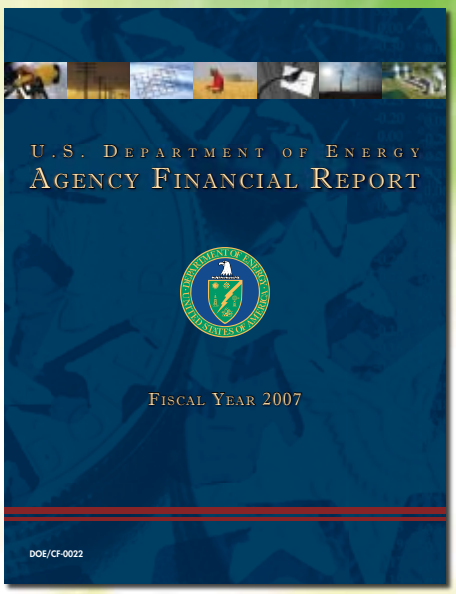
We are persistent in our commitment to scientific discovery and innovation, which are the major engines of increasing productivity – indispensable to ensuring growth, job creation and rising incomes for American families in the technologically driven 21st Century. This investment is essential if the United States is to maintain its world-class, scientific leadership and global competitiveness. The Department is the largest Federal supporter of basic research in the physical sciences as we provide more than 40 percent of total Federal funding. Our Science program leads the nation to support research in the physical sciences in a broad array of research subjects in order to improve our energy security and address issues ancillary to energy, such as climate change, genomics and life sciences. I am particularly proud of standing up three major new Department of Energy Bioenergy Research Centers. This effort has mobilized teams of the nation's top scientists and researchers to accelerate the necessary transformational breakthroughs for a next-generation biofuels economy that could transform the transportation sector.

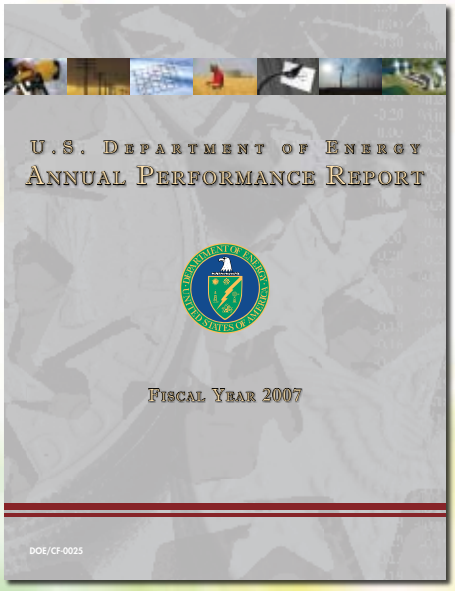
The Department continues to face the challenge of protecting the environment by providing a responsible resolution to the environmental legacy of nuclear weapons production. This year, we released our Engineering and Technology Roadmap, which provides strategic initiatives to reduce technical risks and improve technologies and processes for the cleanup of Cold War era nuclear waste. In addition, a license application for a high-level waste repository at Yucca Mountain was submitted to the Nuclear Regulatory Commission. This application represents the culmination of over 20 years of work by some of our nation's leading scientists, engineers and technical experts, which will further encourage the expansion of nuclear power in the United States.

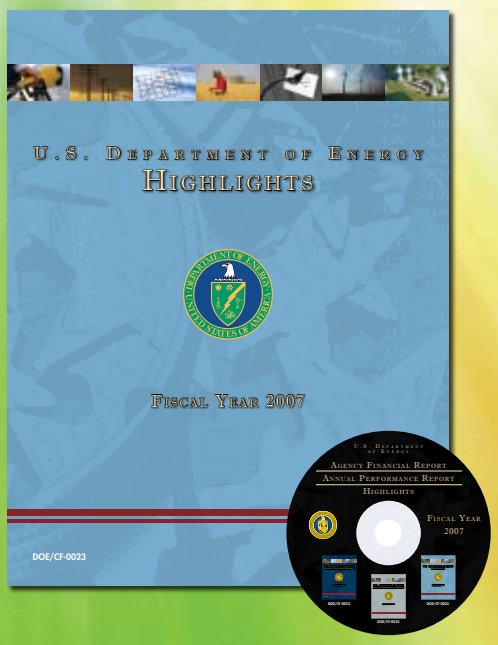
The independent public accounting firm KPMG LLP conducted an audit of the Department's fiscal year 2008 financial statements contained in this report. Based on the results of that audit, I am very proud to announce that the Department has received an unqualified audit opinion. The Department has worked extremely hard to sustain our financial achievements and continues to demonstrate results of effective stewardship over the public funds entrusted to us by the American people. The Department has also taken actions to strengthen controls and reporting processes for performance data. Based on our internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete and reliable, and accurately describes the results achieved by the Department. A more detailed discussion of the Department's performance information and its completeness will be included in our Annual Performance Report available in January 2009.

The Department of Energy is committed to having a positive influence on the lives of all Americans. I am very proud of the Department's Federal employees and contractor staff who work to contribute to the country's economic, environmental, and national security.

Samuel W. Bodman
November 14, 2008




# 2007 Certificate of Excellence

AGA

## CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING®

Presented to the

*U.S. Department of Energy*

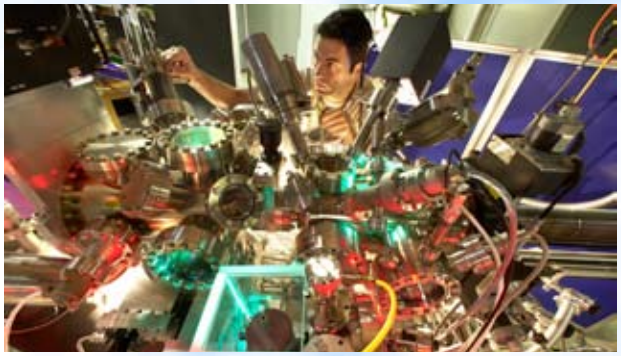
In recognition of your outstanding efforts preparing DOE's Performance and Accountability Report for the fiscal year ended September 30, 2007.

A *Certificate of Excellence in Accountability Reporting* is presented by AGA to federal government agencies whose annual Performance and Accountability Reports achieve the highest standards demonstrating accountability and communicating results.

John H. Hummel, CGFM
Chair, Certificate of Excellence
in Accountability Reporting Board

Relmond P. Van Daniker, DBA, CPA
Executive Director, AGA

# Management's Discussion and Analysis



Stanford Synchroton Radiation Laboratory at Stanford Linear Accelerator Center (SLAC).

Acting Deputy Secretary Kupfer at Colombian Coal Mine.

Outdoor Test Facility at National Renewable Energy Laboratory.

High Explosives Application Facility, Lawrence Livermore National Laboratory.

## Mission

*Discovering the solutions to power and secure America's future*

## Vision

*A unified Department of Energy that keeps its commitments to achieve results for America*

## Operating Principles

- *Ensure safe, secure, and environmentally responsible operations*
- *Act with a sense of urgency*
- *Work together*
- *Treat people with dignity and respect*
- *Make the tough choices*
- *Keep our commitments*
- *Embrace innovation*
- *Always tell the truth*
- *Do the right thing*

## Strategic Themes

- *Strategic Theme 1 – Energy Security*
- *Strategic Theme 2 – Nuclear Security*
- *Strategic Theme 3 – Scientific Discovery and Innovation*
- *Strategic Theme 4 – Environmental Responsibility*
- *Strategic Theme 5 – Management Excellence*

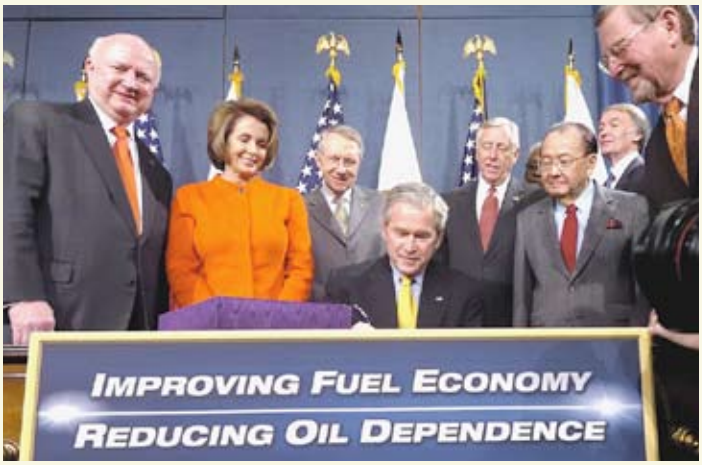
# History

The Department has one of the richest and most diverse histories in the Federal Government, with its lineage tracing back to the Manhattan Project and the race to develop the atomic bomb during World War II. Following that war, Congress created the Atomic Energy Commission in 1946 to oversee the sprawling nuclear scientific and industrial complex supporting the Manhattan Project and to maintain civilian government control over atomic research and development. During the early Cold War years, the Commission focused on designing and producing nuclear weapons and developing nuclear reactors for naval propulsion. The creation of the Atomic Energy Commission ended the exclusive government use of the atom and began the growth of the commercial nuclear power industry, with the Commission having authority to regulate the new industry.

In response to changing needs and an extended energy crisis, the Congress passed the Department of Energy Organization Act in 1977, creating the Department of Energy. That legislation brought together for the first time, not only most of the government's energy programs, but also science and technology programs and defense responsibilities that included the design, construction and testing of nuclear weapons. The Department provided the framework for a comprehensive and balanced national energy plan by coordinating and administering the energy functions of the Federal Government. The Department undertook responsibility for long-term, high-risk research and development of energy technology, Federal power marketing, some energy conservation activities, the nuclear weapons programs, some energy regulatory programs and a central energy data collection and analysis program.

Over its history, the Department has shifted its emphasis and focus as the energy and security needs of the Nation have changed. Today, the Department contributes to the future of the Nation by promoting our energy security, maintaining the safety and reliability of our nuclear stockpile, cleaning up the environment from the legacy of the Cold War and developing innovation in science and technology.

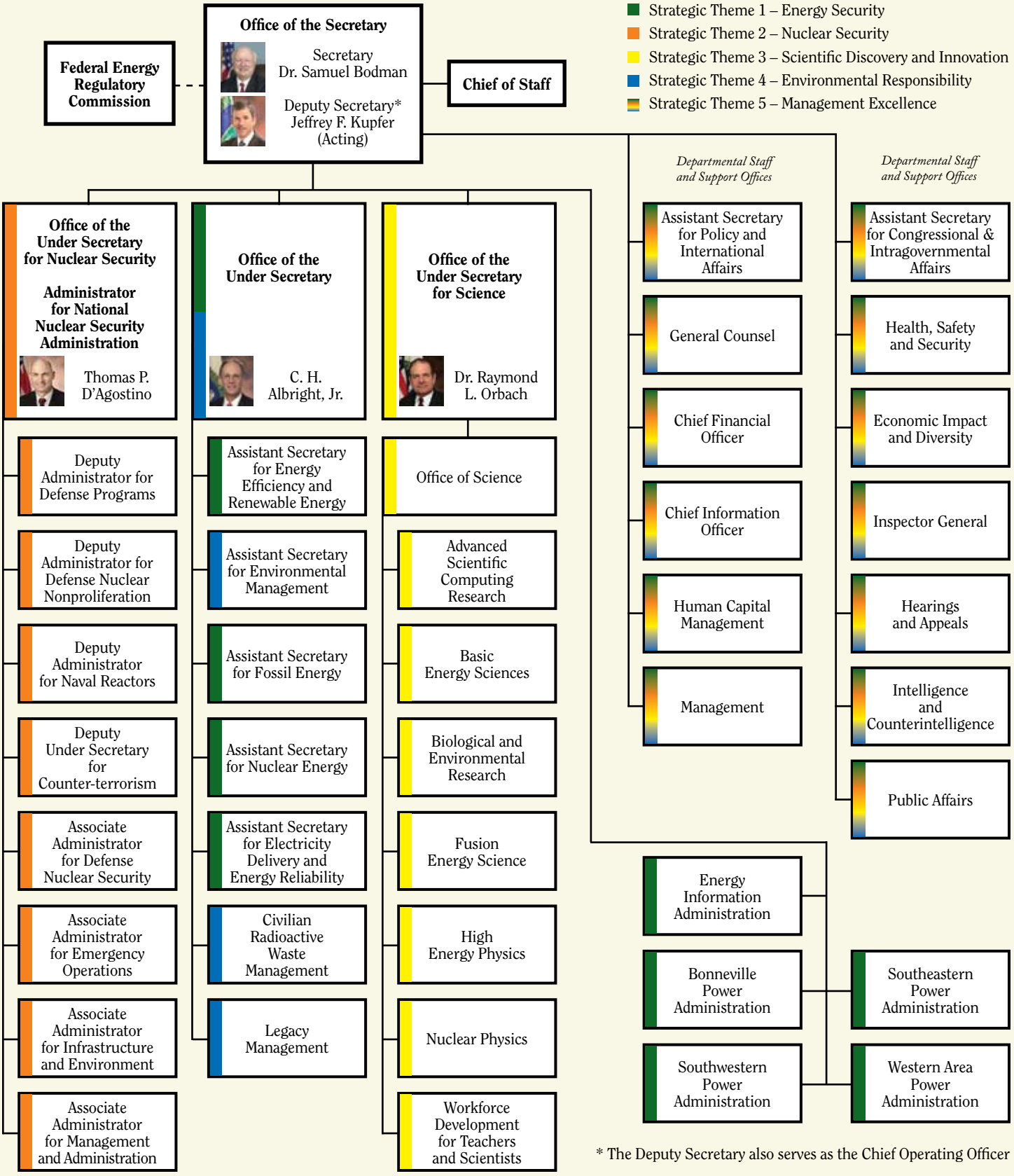
President George Bush signs Energy Policy Act of 1992.




President Bush signing the Energy Independence and Security Act of 2007.

Secretary Bodman and Al-Naimi.

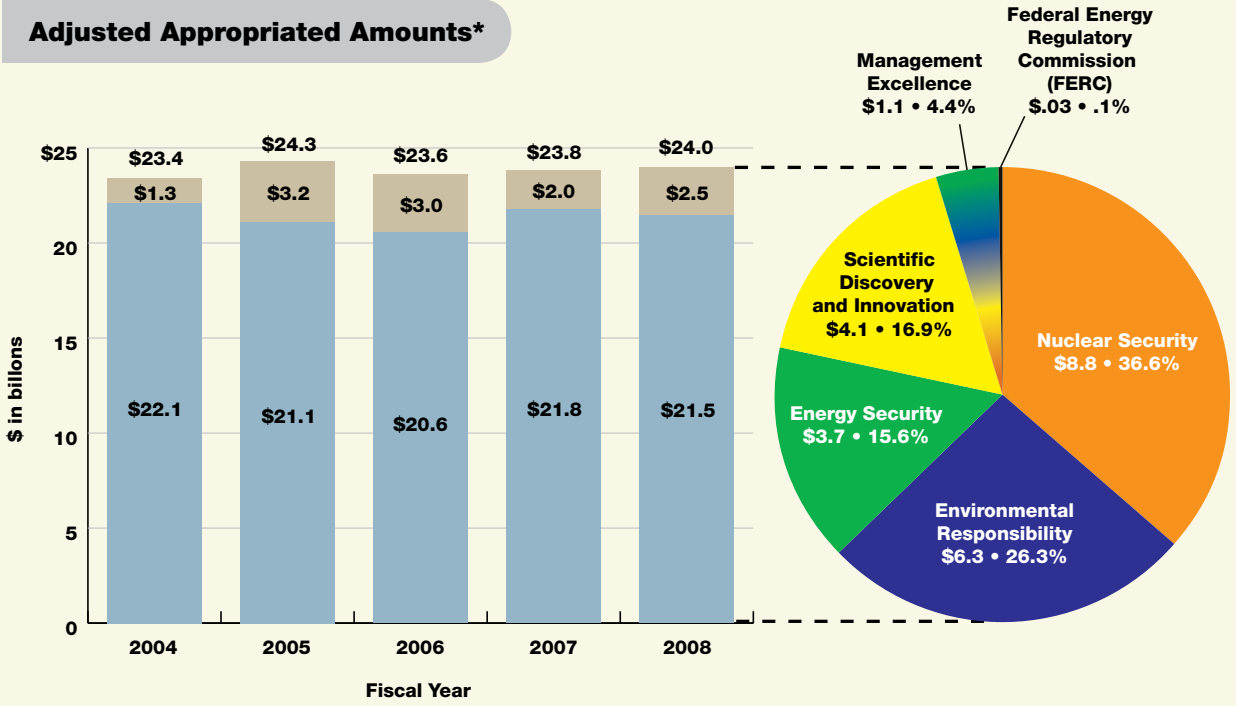
# Agency Organizational Structure




* The Deputy Secretary also serves as the Chief Operating Officer

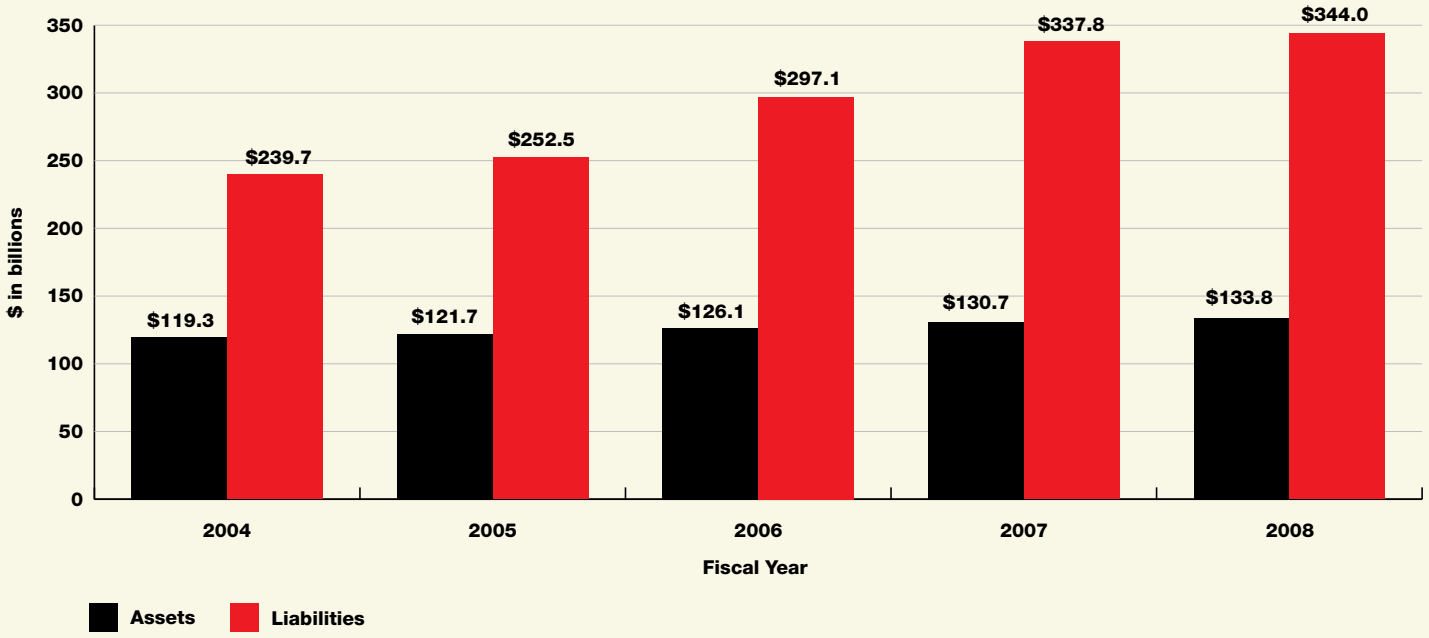
# Financial Resources

## Adjusted Appropriated Amounts*



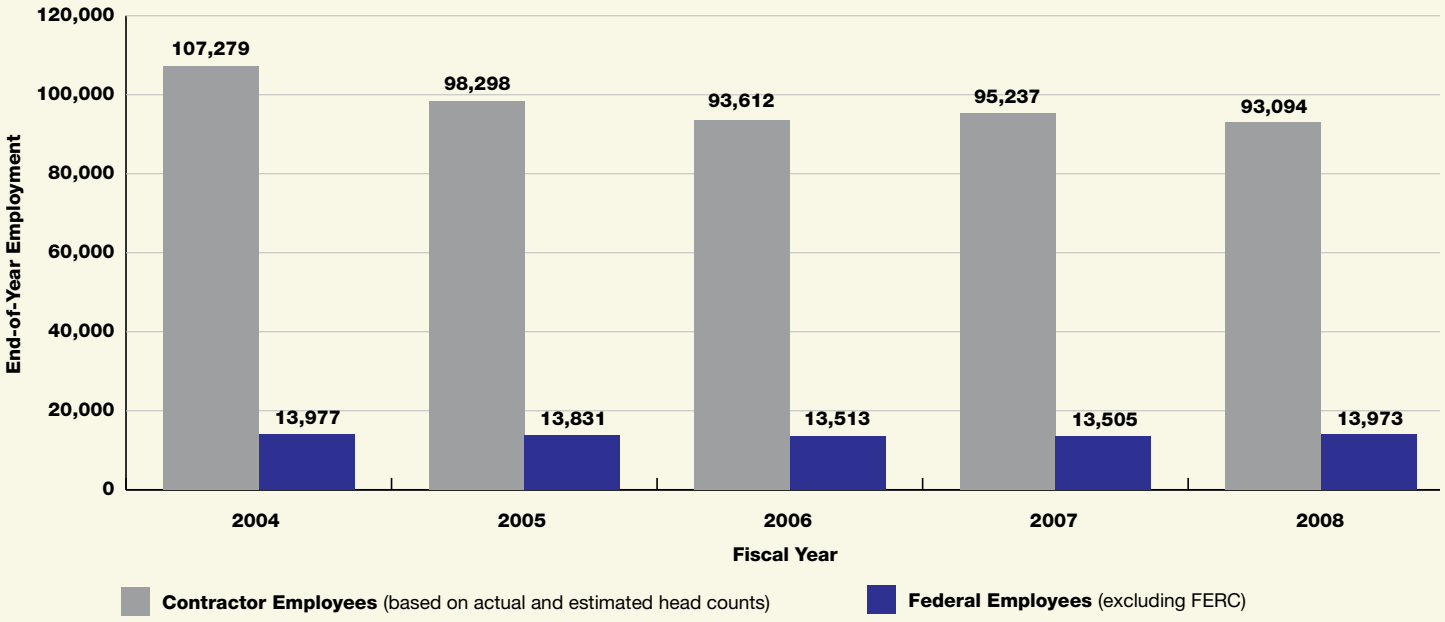

* Adjustments include reprogrammings, transfers-in from other Federal agencies and recissions.

## Assets and Liabilities

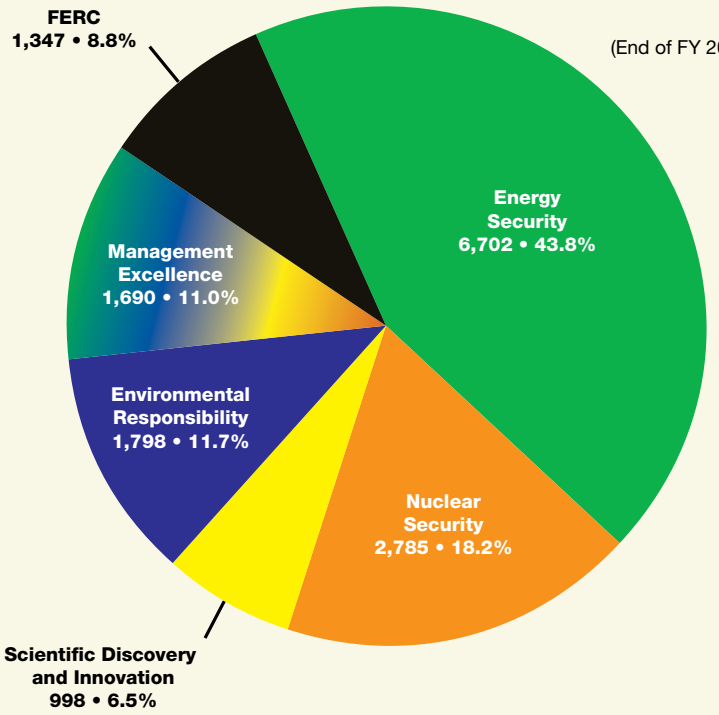


# Human Capital Resources

## DOE Federal and Contractor Employees

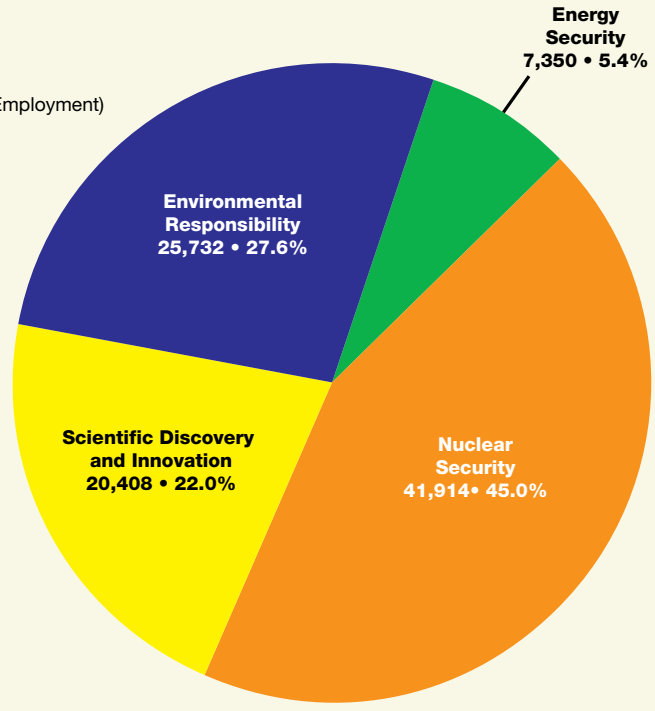



## DOE Federal Employees by Strategic Theme

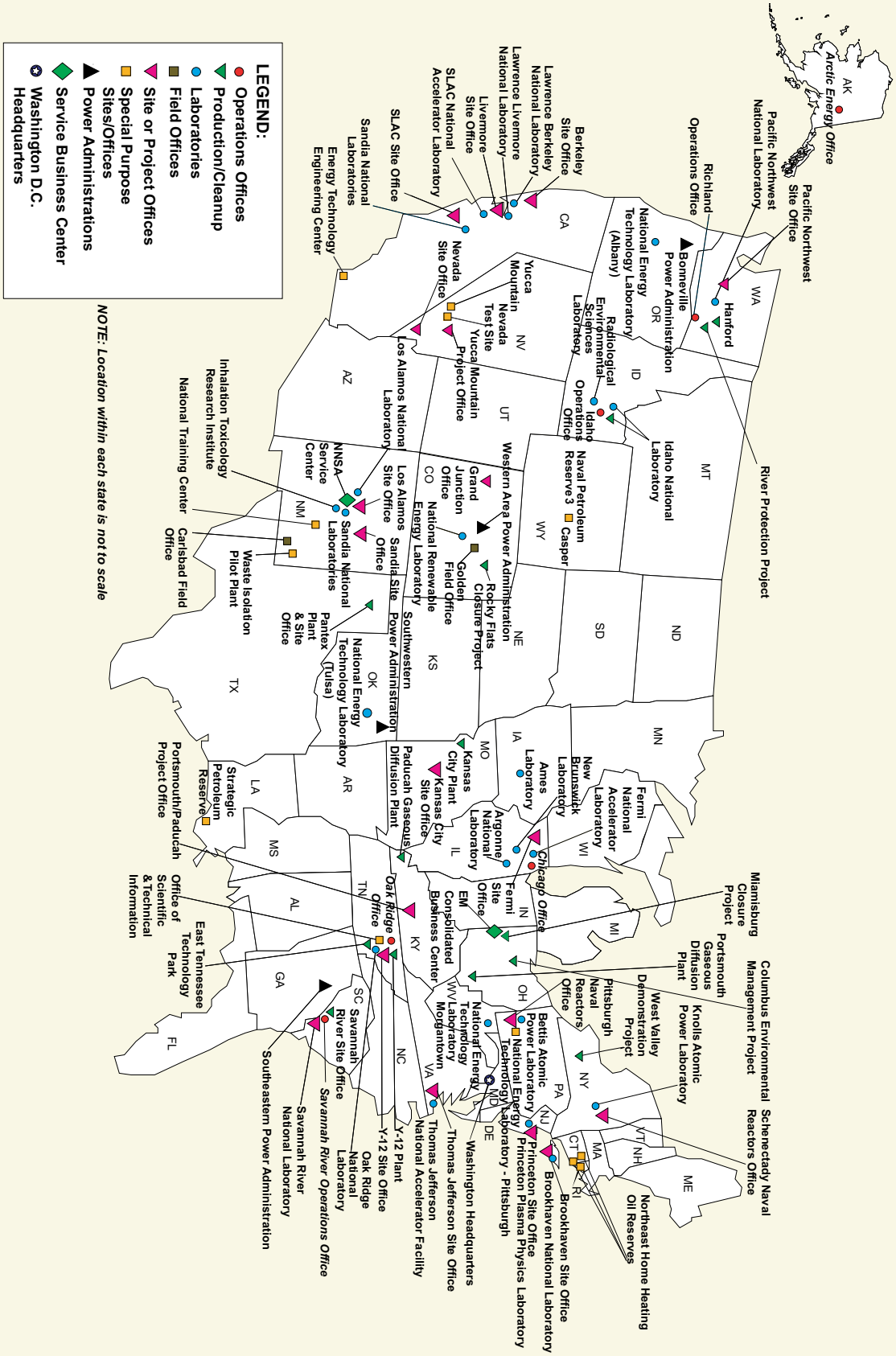



## DOE Contractor Employees by Strategic Theme

(Not available for Management Excellence Theme)



# Major Laboratories and Field Facilities



## Performance and Accountability Report Card

| Score | Requirement or Initiative | Supporting Indicators |
|---|---|---|
| G | Government Management Reform Act – Financial Statement Audit | — Unqualified Audit Opinion |
| G | Federal Managers' Financial Integrity Act – Internal Controls (Section II) Financial Systems (Section IV) | — No Material Weaknesses (Section II)<br>— Financial Systems generally conform to (Section IV) requirements and no FISMA significant deficiencies identified. |
| G | OMB Circular A-123, Appendix A | — No Material Weaknesses |
| G | Federal Financial Management Improvement Act | — Substantially comply with Federal financial management system requirements. |
| G | Federal Information Security Management Act (FISMA) | — No FISMA significant deficiencies identified. Annual report indicated DOE making progress although challenges continue to exist. (http://ig.energy.gov/documents/IG-0801.pdf) |
| G | Improper Payments Information Act | — <1% Erroneous Payment Rate<br>Not Considered Significant Risk per OMB Guidance |

## President's Management Agenda

In 2001, the President unveiled the President's Management Agenda (PMA) and challenged the federal government to become more efficient, effective, results-oriented and accountable. Over the past seven years, the PMA has become the primary framework by which the Department has implemented changes to support the President's management goals. The PMA reflects the President's on-going commitment to achieve immediate and measurable results that matter to the American people.

Each agency is held accountable for its performance in carrying out the PMA through quarterly scorecards issued by the Office of Management and Budget (OMB). Agencies are scored green, yellow or red on their status in achieving overall goals or long-term criteria, as well as their progress in implementing improvement plans. The Department is scored against six PMA initiatives highlighted in the chart below. Further information on OMB's management of the PMA may be found at http://www.ExpectMore.gov.

| President's Management Agenda Scorecard www.Results.gov | Current Status as of September 30, 2008 | Progress in Implementation |
|---|---|---|
| Human Capital | Y | G |
| Commercial Services Management | R | Y |
| Financial Performance | G | G |
| E-Government | Y | Y |
| Performance Improvement | G | G |
| Real Property | G | G |

G Green (Success): Implementation is proceeding according to plan.

Y Yellow (Mixed Results): Some slippage or other issue(s) requiring adjustment.

R Red (Unsatisfactory): Initiative in serious jeopardy absent significant management intervention.

# DOE by the Numbers

| | |
|---|---|
| $33,213 | FY 2008 budgetary resources (obligations incurred $ in millions) |
| 727,000,000 | Barrels of current capacity in the Strategic Petroleum Reserve |
| 138 | Number of patents in FY 2008 resulting from DOE-sponsored research and development |
| 86 | Number of Nobel Laureates affiliated with DOE and predecessor agencies |
| 4 | Number of top 10 computers in the world affiliated with DOE (Top 500 List) |
| 140,000,000 | Cumulative miles of safe, reliable and militarily effective nuclear propulsion plant operation |

# Program Assessment Rating Tool

In 2002, the OMB developed the Program Assessment Rating Tool (PART) as an instrument for implementing the PMA and the Budget and Performance Integration Initiative. The motivation behind the PART was the administration's desire to assess and measure the accomplishments of federal programs so that the federal government could improve its performance. The PART provides federal agencies with a disciplined tool for assessing program planning, management and performance against quantitative, outcome-oriented goals. It is a tool to inform the funding and management decisions so that programs can become more effective. As an instrument for periodically evaluating the efficiency and effectiveness of federal programs, the PART enables managers to identify and rectify existing and potential problems associated with program performance.

From FY 2002 through 2008, the Department has evaluated 55 of its current programs. Of these assessed programs, 75 percent are rated as "Moderately Effective" or "Effective." The following chart shows DOE's average results by strategic theme:

**DOE PART Results By Strategic Theme**

| | Average Score | Average Rating |
|---|---|---|
| Theme 1: Energy Security | 68 | Adequate |
| Theme 2: Nuclear Security | 85 | Effective |
| Theme 3: Scientific Discovery and Innovation | 86 | Effective |
| Theme 4: Environmental Responsibility | 66 | Adequate |
| DOE-Wide Results | 75 | Moderately Effective |

Theme 5, Management Excellence is not included in the PART. More information on PART scores and OMB's findings is available at www.ExpectMore.gov.

# Strategic Themes and Program Performance


The Department's commitment to its mission is outlined in its Strategic Plan. The Department has worked with OMB and Congress to extend the life of its 2006 Strategic Plan into the next Presidential Administration. Under the strategic roadmap, the Department strives to deliver results along five strategic themes and 16 strategic goals to achieve its mission.

The performance, financial and other related information presented in this report is structured around these themes and goals. The Department's Strategic Plan can be viewed at www.energy.gov/about/strategicplan.htm.

Solar Decathlon on the Mall.

Theme 1 | Theme 2 | Theme 3 | Theme 4 | Theme 5

## Energy Security

*Promoting America's energy security through reliable, clean and affordable energy.*

Hydropower, Southeastern Power Administration.

### Strategic Goals

1) Energy Diversity
2) Environmental Impacts of Energy
3) Energy Infrastructure
4) Energy Productivity

### Supporting Offices

1) Nuclear Energy
2) Fossil Energy
3) Energy Efficiency and Renewable Energy
4) Electricity Delivery and Energy Reliability
5) Energy Information Administration
6) Power Marketing Administrations

**Federal Employees** (End of year employment): **6,702**
**Contractor Employees** (Actual and estimated head counts): **5,040**
**Program Costs** (gross $ in millions): **$6,880**

**Strategic Goal 1 – 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.

**Strategic Goal 2 – 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.

**Strategic Goal 3 – Energy Infrastructure:** Create a more flexible, more reliable and higher capacity U.S. energy infrastructure.

**Strategic Goal 4 – Energy Productivity:** Cost-effectively improve the energy efficiency of the U.S. economy.

Energy is a force powering business, manufacturing and the transportation of goods and services to serve the American and world economies. Energy supply and demand plays a vital role in our national security and the economic output of our nation.

The Department of Energy is working to meet these challenges through implementing four goals to improve our energy security. This includes increasing the diversity of domestic energy supply options which in turn reduces our susceptibility to fluctuation in the energy markets. We are working to discover clean energy alternatives that minimize the impacts to our environment but at a competitive cost that does not burden the U.S. consumer. We are pursuing technologies to improve the reliability of our energy infrastructure to meet higher future energy needs. And we are working to improve the efficiency of our energy use to reduce costs and curtail increasing demand for energy.

The Department of Energy had both accomplishments and challenges throughout FY 2008 in meeting its mission of

promoting America's energy security through reliable, clean and affordable energy. These include:

## Highlighted Accomplishments

Strategic Petroleum Reserve.

- **Ensuring a Secure Oil Supply:** Maintained four government-owned Strategic Petroleum Reserve oil storage facilities with a combined storage capacity of 727 million barrels of crude oil, representing an investment of more than $20.5 billion in energy security.

- **Securing Energy Availability:** DOE was instrumental in meeting the needs of U.S. refineries after Hurricanes Gustav and Ike caused extensive power outages and substantial disruptions in crude oil supplies. Contracts were awarded at year-end releasing approximately 5 million barrels of crude oil from the Reserve to respond to the damaged logistical supply system. The crude oil and associated premiums will return in 2009.

- **Developing New Clean Renewable Fuels:** DOE continued to make progress in reducing the cost of cellulosic ethanol by improving fermentation yield and conversion of tars from gasification. Both of these accomplishments are critical to achieving the 2012 goal of $1.33/gal ethanol. In addition, DOE awarded seven demonstration-scale cellulosic biorefineries projects and is negotiating two more. These demonstrations, coupled with the four commercial-scale demonstrations represent substantial progress toward validating cost-competitiveness of cellulosic biofuels.

- **Solar Energy Breakthrough:** World record for solar cell efficiency of 40.8 percent achieved at DOE's National Renewable Energy Laboratory that puts us on a path to increase clean energy supply and reduce costs in the future. This technology will lead to higher efficiency for concentrating photovoltaic technologies and help achieve the goal of developing solar cells that are projected to be ready for widespread deployment at a levelized cost of electricity of 5 to 10 cents per kilowatt hour by 2015.

- **New Nuclear Power Plants:** Two DOE industry partners had combined construction and operating license applications docketed by the Nuclear Regulatory Commission (NRC) for review, representing significant progress toward deployment of new nuclear power plants.

- **Fossil Power Advances:** DOE continues to make progress in its development of advanced, affordable Integrated Gasification Combined Cycle (IGCC) technology. The new technology that DOE has demonstrated at pilot scale would achieve a thermal efficiency of 42 percent at a capital cost of $1,608/kW, compared to the baseline capital cost of $1,840/kW, according to systems analysis projections of full scale IGCC systems.

- **Developing Clean Coal Technologies:** Restructured the FutureGen project to demonstrate cutting-edge carbon capture and storage technology at multiple commercial-scale clean coal power plants.

- **Supplying Critical Energy Data and Analysis:** DOE's Energy Information Administration (EIA) provided unbiased energy information on current energy markets to promote sound policy-making and public understanding of energy and its impact on the economy and the environment. EIA's weekly petroleum supply and natural gas shortage reports were closely watched indicators of current energy market conditions. EIA's energy projections were widely-used baselines for analyses of proposed energy and environmental policies.

## Challenges

- **Alternative Energy Costs:** The cost to the consumer for clean energy alternatives is still higher, in most cases, than traditional energy sources such as coal and oil.

- **New Energy Supplies:** Clean, renewable energy technologies only account for 10 percent of total U.S. primary energy production.

- **Modernizing the Electric Grid:** Transmission and other infrastructure instruments will be required to cost effectively and efficiently integrate renewable energy resources into the nation's electric grid.

Electric Grid Research.

Plug-In Hybrid Electric Vehicle at National Renewable Energy Laboratory.

Transmission Towers at Western Area Power Administration.

# Nuclear Security

*Ensuring America's nuclear security.*

Warhead Safety Component.

## Strategic Goals

1) Nuclear Deterrent
2) Weapons of Mass Destruction
3) Nuclear Propulsion Plants

## Supporting Offices

1) National Nuclear Security Administration

**Federal Employees** (End of year employment): **2,785**
**Contractor Employees** (Actual and estimated head counts): **41,914**
**Program Costs** (gross $ in millions): **$9,088**

**Strategic Goal 1 – Nuclear Deterrent:** Transform the nation's nuclear weapons stockpile and supporting infrastructure to be more responsive to the threats of the 21st Century.

**Strategic Goal 2 – 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.

**Strategic Goal 3 – Nuclear Propulsion Plants:** Provide safe, militarily effective nuclear propulsion plants to the U.S. Navy.

USS New Hampshire, Naval Reactors.

Ensuring America's National Nuclear Security is a major focus of the Department of Energy. This is accomplished through maintaining a reliable and functional nuclear deterrent while at the same time transforming our nuclear capability to emerging 21st century threats such as terrorism. The Department is also working to prevent nuclear weapons or radiological materials falling into the hands of terrorists or other hostile entities by securing nuclear materials and pursuing a non-proliferation strategy. Finally, the Department works to provide the U.S. Navy with safe and effective nuclear propulsion plants.

The Department of Energy had both accomplishments and challenges throughout FY 2008 in meeting its mission of ensuring America's nuclear security. These include:

## Highlighted Accomplishments

- **Formulated a National Nuclear Deterrent Strategy:** In conjunction with the Secretary of Defense, the Department of Energy reported to Congress on the type of deterrent strategy needed for "National Security and Nuclear Weapons in the 21st Century."

- **Securing Domestic Nuclear Materials:** Completed construction of the Highly Enriched Uranium Materials Facility at the Y-12 National Security Center in Oak Ridge, Tennessee, which allows us to consolidate uranium storage and improve security. Continued an aggressive effort to improve the physical security at sites around the country.

Highly Enriched Uranium Materials Facility, Y-12.

- **Assisted in Securing Foreign Nuclear Materials:** Completed security upgrades for 39 buildings containing weapons usable material at Russian nuclear sites and installed radiation detection equipment at seven major ports and 53 border crossings in Russia and six other countries.

- **Partnered with Other Countries to Counter Weapons of Mass Destruction:** Conducted international outreach and training to assist foreign governments in developing emergency management programs to counter the threats from weapons of mass destruction.

- **Maintaining a Reliable and Functional Nuclear Deterrent:** Built the world's fastest computer, the Roadrunner at Los Alamos National Laboratory (LANL), which performs 1,000 trillion calculations per second and enables more reliable simulations of nuclear weapons performance.

Roadrunner Supercomputer.

## Challenges

- **Underground Nuclear Test Ban:** Maintaining a reliable U.S. nuclear stockpile without underground testing is a significant technical and management challenge.

- **Consolidating Domestic Nuclear Materials:** During the transition to a smaller, safer, more secure and less expensive nuclear weapons complex, the Department must obtain the proper certifications for packaging the hazardous material and take extremely high security measures before, during and after each shipment.

# Scientific Discovery and Innovation

*Strengthening U.S. scientific discovery, economic competitiveness and improving quality of life through innovations in science and technology.*

## Strategic Goals

1) Scientific Breakthroughs
2) Foundations of Science
3) Research Integration

## Supporting Offices

1) Science

**Federal Employees** (End of year employment): **998**
**Contractor Employees** (Actual and estimated head counts): **20,408**
**Program Costs** (gross $ in millions): **$3,790**

**Strategic Goal 1 – Scientific Breakthroughs:** Achieve the major scientific discoveries that will drive U.S. competitiveness; inspire America; and revolutionize our approaches to the nation's energy, national security and environmental quality challenges.

**Strategic Goal 2 – 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.

**Strategic Goal 3 – Research Integration:** Integrate basic and applied research to accelerate innovation and to create transformational solutions for energy and other U.S. needs.

The Department of Energy delivers discoveries and scientific tools that transform our understanding of energy and matter and advance the national, economic and energy security of the United States. The Department endeavors to achieve the major scientific discoveries that will drive U.S. competitiveness, inspire America and revolutionize our approaches to the nation's energy, national security and environmental quality challenges. We also deliver the scientific facilities, train the next generation of scientists and engineers, and provide stewardship over ten national laboratories, their capabilities and infrastructure required for U.S. scientific primacy; and integrate basic and applied research to accelerate innovation and to create transformational solutions.

The Department of Energy had both accomplishments and challenges throughout FY 2008 in meeting its mission to strengthen U.S. scientific discovery, economic competitiveness and improving quality of life through innovations in science and technology. These include:

## Highlighted Accomplishments


Bio Energy Science Center.

- **Discovering New Clean Renewable Fuels:** Opened three new DOE Bioenergy Research Centers where top-scientists can discover breakthroughs that will make biofuel production cost-effective.

- **Using Nanoscience to Engineer Better Materials:** Provided the five DOE Nanoscience Research Centers with advanced tools for researchers to study matter at the atomic scale. Researchers will be able to design materials with properties tailored to specific needs such as strong, lightweight materials, new lubricants and more efficient solar energy cells.


Linac Coherent Light Source.

- **Building the World's Best Scientific Instruments:** Moved closer to completion of the Linac Coherent Light Source, the world's first x-ray free electron laser, which will enable scientists for the first time to observe chemical reactions and biological processes at the molecular level in real time. Began construction of the 12 giga-electron-volt Continuous Electron Beam Facility Upgrade Project which will allow scientists to study the basic building blocks of matter with unprecedented precision and resolution.

- **Probing the Secrets of the Universe:** Launched the Fermi Gamma-ray Space Telescope, in partnership with NASA, to observe and understand high-energy particles in space and search for the potential components of dark matter.

- **Improving Climate Predictions:** Deployed the Atmospheric Radiation Measurement mobile facility in China which will provide new observations of clouds and dust to improve climate predictions.

- **World's Fastest Computers:** Upgraded the Jaguar supercomputer (Oak Ridge, Cray XT4) to be the fastest in the world for open science; will be used to simulate complex physical, biological and socioeconomic systems with greater realism and predictive power.

## Challenges

- **Burgeoning Global Energy Crisis and Economic Competition:** Today America faces the dual challenge of a burgeoning global

energy crisis and intensifying global economic competition that makes the search for fundamental breakthroughs in science and technology more urgent than ever. Overcoming our energy and environmental challenges and keeping America competitive will require more than incremental improvements in current technologies; it will require the transformational breakthroughs that only fundamental research in basic science can provide.

– **Training Future Scientists and Engineers:** There is a growing need for scientists and engineers in the private and public sectors, including researchers, to operate the national laboratories across the nation. Providing technical and scientific training is vital to ensure America's economic and energy future.

– **Foundational Research for Tomorrow's Economy:** Like early research on electrons and computers, today's basic research must lay the foundation for America's future economic prosperity and energy security. Basic research in physics, chemistry, biology and supercomputing must lead to next generation breakthrough technologies.



# Environmental Responsibility

*Protecting the environment by providing a responsible resolution to the environmental legacy of nuclear weapons production.*

## Strategic Goals

1) Environmental Cleanup
2) Managing the Legacy

## Supporting Offices

1) Environmental Management
2) Legacy Management
3) Civilian Radioactive Waste

**Federal Employees** (End of year employment): 1,798
**Contractor Employees** (Actual and estimated head counts): 25,732
**Program Costs** (gross $ in millions): $5,678

Northwest Scrap Yard, Paducah.

**Strategic Goal 1 – Environmental Cleanup:** Complete cleanup of the contaminated nuclear weapons manufacturing and testing sites across the United States.

**Strategic Goal 2 – Managing the Legacy:** Manage the Department's post-closure environmental responsibilities and ensure the future protection of human health and the environment.

The Federal government is charged with the dual responsibilities of addressing the nuclear weapons production legacy of our past and providing the necessary environmental infrastructure for today that will ensure a clean and safe environment for future generations. To meet those objectives, the Department of Energy seeks to complete the cleanup of the contaminated nuclear weapons manufacturing research and testing sites across the United States and manage the Department's post-closure environmental responsibilities while ensuring the future protection of human health and the environment.

The Department of Energy had both accomplishments and challenges throughout FY 2008 in meeting its mission of protecting the environment by providing a responsible resolution to the environmental legacy of nuclear weapons production.

These include:

## Highlighted Accomplishments

- **Remediation Plan:** Released an Engineering and Technology Roadmap in March 2008, which details initiatives aimed at reducing the technical risks and uncertainties associated with cleaning up nuclear waste from nuclear weapon production in energy research, over the next 10 years.

- **Hanford Site Completes Regulatory Milestone Ahead of Schedule:** Retrieved 9,700 cubic meters of radioactive, solid waste from the Hanford Site in Washington State meeting a Tri-Party Agreement milestone more than three months ahead of schedule and below budgeted cost.


Cleanup at Hanford.

- **License Application Submitted:** Sent application to the NRC in June 2008 seeking authorization to build a national repository for spent nuclear fuel and high-level waste at Yucca Mountain, Nevada; the NRC has since docketed the application and accepted it for full technical review.


Yucca Mountain License Application.

### Challenges

- **Weapons Cleanup:** Completing the cleanup of 100 contaminated nuclear weapons manufacturing and testing sites across the United States by 2025.

- **Yucca Mountain Delays:** Delays in beginning acceptance of spent nuclear fuel at commercial utilities have resulted in court judgments against the Department. These judgments are required to be paid out of the U.S. Treasury's judgment fund and are in addition to the funds that will be required to license, construct and operate the repository and supporting infrastructure. Currently, the earliest projected date that the repository could begin operations is 2020 and based on that repository opening date, taxpayer liabilities are currently estimated to be over $12 billion.

Robot Technology, Yucca Mountain.



# Management Excellence

*Enabling the mission through sound management.*

### Strategic Goals

1) Integrated Management
2) Human Capital
3) Infrastructure
4) Resources

### Supporting Offices

1) Chief Information Officer
2) Chief Financial Officer
3) Intelligence and Counterintelligence
4) General Counsel
5) Congressional and Intergovernmental Affairs
6) Human Capital Management
7) Health, Safety and Security
8) Economic Impact and Diversity
9) Inspector General
10) Hearing and Appeals
11) Management
12) Public Affairs
13) Policy and International Affairs

**Federal Employees** (End of year employment): 1,690
**Contractor Employees** (Actual and estimated head counts): not available
**Program Costs** (gross $ in millions): not available

**Strategic Goal 1 – Integrated Management:** Institute an integrated business management approach throughout DOE with clear roles and responsibilities and accountability to include effective line management oversight by both Federal and contractor organizations.

**Strategic Goal 2 – Human Capital:** Ensure that the DOE workforce is capable of meeting the challenges of the 21st Century by attracting, motivating and retaining a highly skilled and diverse workforce to do the best job.

**Strategic Goal 3 – Infrastructure:** Build, modernize and maintain facilities and infrastructure to achieve mission goals and ensure a safe and secure workplace.

**Strategic Goal 4 – Resources:** Institutionalize a fully integrated resource management strategy that supports mission needs and postures the Department for continuous business process improvement.

The mission of the Department is enabled through the work of good management processes performed by our major program and staff offices. To manage the Department better, we are working to integrate management processes across the Department and clarify responsibility and accountability in the work that cuts across the organization. We are focused on recruiting, retaining and motivating the next generation of DOE workers before our aging workforce begins to retire. We are cognizant that our facilities are aging and continuing to conduct cutting age mission work in a safe and secure manner will require that we maintain our facilities in good working order. Finally, we are focused on using our financial resources wisely and improving business processes where practical to improve efficiency and reduce costs.

The Department of Energy had both accomplishments and challenges throughout FY 2008 in meeting its responsibilities to enable the Department's mission through sound management. These include:

### Highlighted Accomplishments

- **Improving Business Processes:** Linked human capital management efforts and policies to the Department's missions, strategies and goals while providing for continuous improvement in efficiency and effectiveness.

- **Technological Advancement:** Strengthened information technology management through consistent execution of robust information technology (IT) Capital Planning and Investment Control oversight and reporting processes designed to ensure successful investment performance.

- **Asset Accountability:** Improved financial performance in project management by enhanced use of Earned Value Management (EVM) techniques that objectively track physical accomplishment of work and provide early warning of performance problems; currently, 70 percent of the Department's capital asset projects have certified EVM systems.

- **Strengthening Human Capital:** Implemented workforce planning techniques throughout the agency and continue to work with DOE business elements to pilot new planning and simulation tools to further assist in the development of consistent workforce plans across DOE.

- **Succession Planning:** Enhanced outreach and recruitment strategies and implemented a comprehensive talent management system – Leadership and Management Plan to Succeed – designed to ensure the DOE has a continuous supply of internal and external candidates for leadership positions.

- **Procurement Improvements:** Deployed DOE-wide corporate Strategic Integrated Procurement Enterprise System, which will replace and consolidate as many as 30 procurement-related systems across the Department. Issued revised contracting authority that raised delegation levels to $50 million for major DOE contracting offices. Instituted a corporate Acquisition Career Management Training program to ensure that DOE's acquisition workforce receives timely and focused contract training. Completed a comprehensive Root Cause Analysis of contract and project management deficiencies in April 2008 and approved a Corrective Action Plan in July 2008.

### Challenges

- **Recruiting Employees:** An increased attrition rate due to retirements and competition with the private sector for the most talented prospects in the scientific, technical, operational and management professions has resulted in the need to enhance recruitment strategies and streamline the hiring process to fill critical vacancies and avoid hiring delays and the inability to attract top recruits. DOE will need to hire approximately 5,000 new employees in the next four years just to maintain current workforce levels.

- **Cyber Security:** Protecting DOE's computer networks from cyber attacks that have increased in complexity, frequency and aggression. DOE is attacked over ten million times each day in a wide variety of ways. Although DOE has a cyber security defense based on industry and government best practices, cyber attacks continue to evolve to avoid detection by these defenses.

DOE, Forrestal Building.

Secretary Bodman Speaking to the Nation's Future Leaders.

# Analysis of Financial Statements

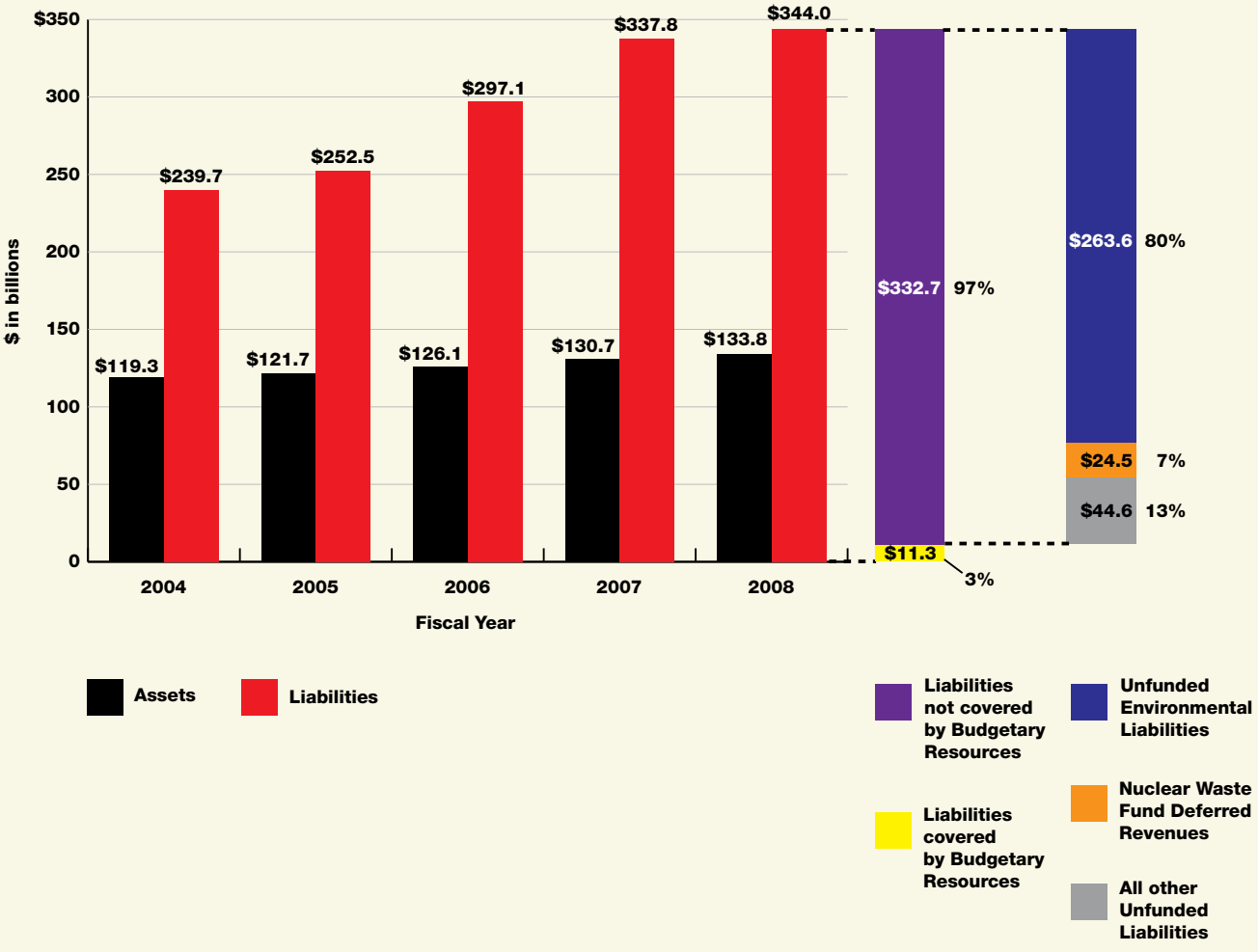
The Department's financial statements are included in the Financial Results section of this report. Preparing these statements is part of the Department's goal to improve financial management and provide accurate and reliable information that is useful for assessing performance and allocating resources. The Department's management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). The statements have been prepared from the Department's books and records in accordance with generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the OMB. The financial statements are prepared in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

## Balance Sheet

The Department has significant unfunded liabilities that will require future appropriations to fund. The most significant of these represent ongoing efforts to clean up environmental contamination resulting from past operations of the nuclear weapons complex. The FY 2008 environmental liability estimate totaled $266 billion and represents one of the most technically challenging and complex cleanup efforts in the world. Estimating this liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental cleanup activities will depend

**Total Assets and Liabilities with Breakdown of FY 2008 Liabilities**



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.

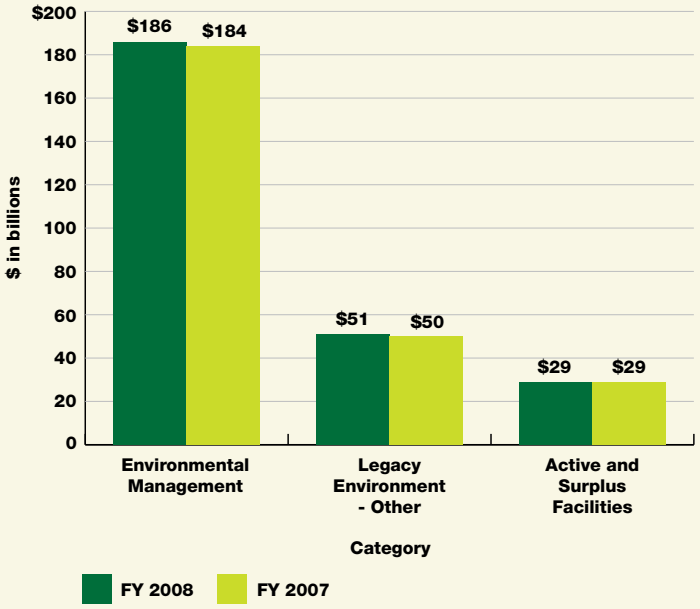
### Net Cost of Operations

The major elements of net cost (see chart) include program costs, unfunded liability estimate changes and earned revenues. Unfunded liability estimate changes result from inflation adjustments; improved and updated estimates; revisions in acquisition strategies, technical approach, or scope; and regulatory changes. The Department's overall net costs are dramatically impacted by these changes in environmental and other unfunded liability estimates. Since these estimates primarily relate to past years of operations, they are not included as current year program costs, but rather reported as "Costs Not Assigned" on the Consolidated Statements of Net Cost. A relatively smaller increase in the Department's environmental liability estimates recorded in FY 2008 than in the prior two years resulted in the majority of the significant decrease in FY 2008 Costs Not Assigned.

### Budgetary Resources

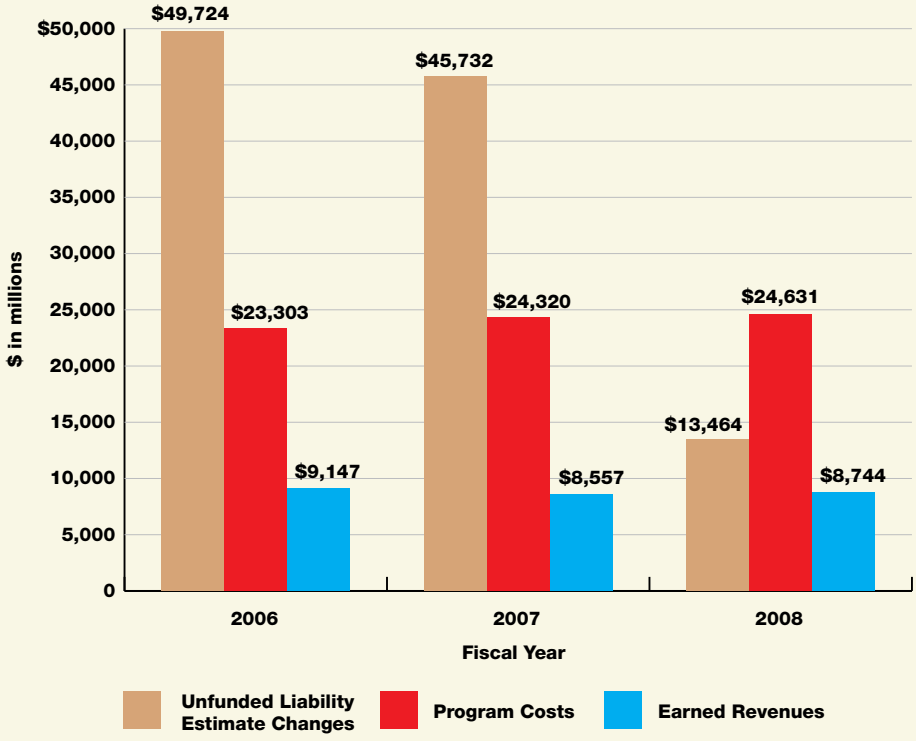
The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the Department for the year and the status of those resources at the end of the fiscal year.

### Composition of Environmental Cleanup and Disposal Liability

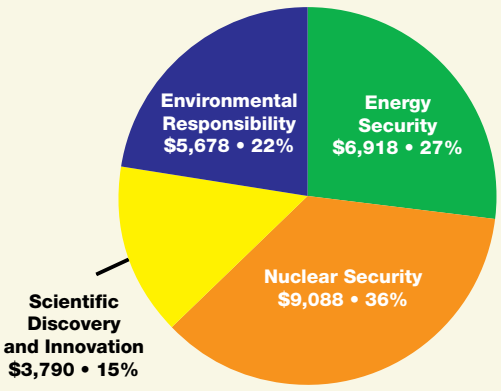



The Department receives most of its funding from general government funds administered by the Department of the Treasury and appropriated for Energy's use by Congress.

### Major Elements of Net Cost

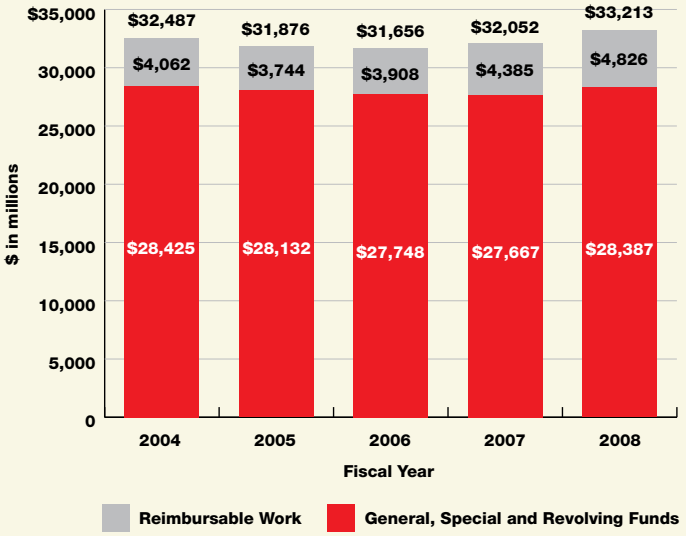



### FY 2008 Program Costs (Gross) Breakdown by Strategic Theme




* A portion of the program costs for the Management Excellence strategic theme is distributed among the other four strategic themes.

## Obligations Incurred




Since budgetary accounting rules and financial accounting rules may recognize certain transactions at different points in time, Appropriations Used on the Consolidated Statements of Changes in Net Position will not match costs for that period. The primary difference results from recognition of costs related to changes in unfunded liability estimates.

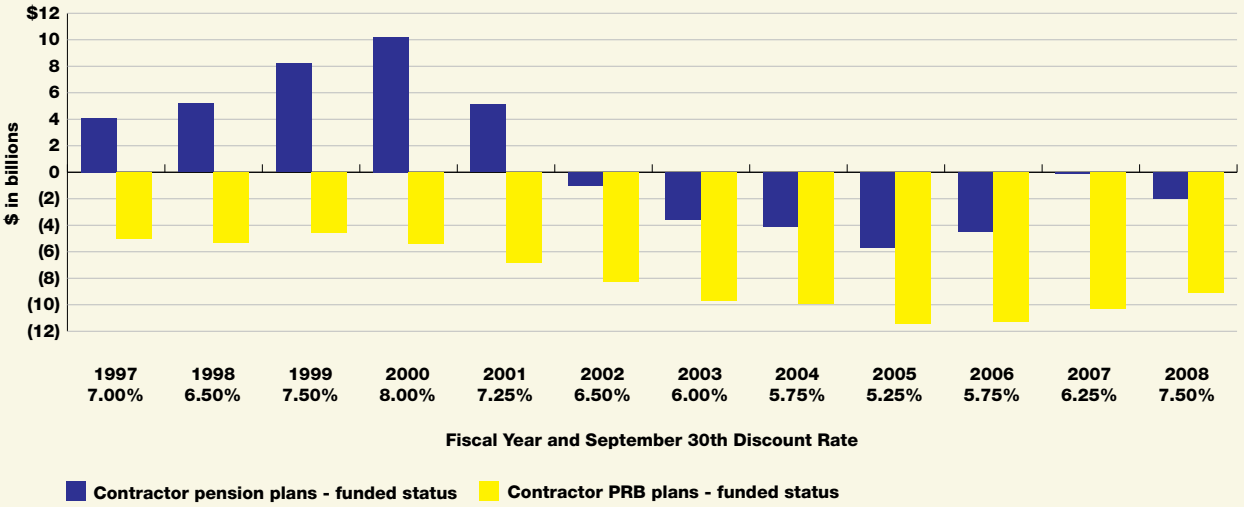
### Contractor Pension/Postretirement Benefit Obligations Trend Analysis

A 125 basis point increase in the discount rate (to its highest level in eight years) used to estimate contractor employee pension plan obligations for September 30, 2008 helped to offset a portion of the effect of poor asset performance for FY 2008. Still there was a decline in the funded status from an under funding of less than $0.1 billion in FY 2007 to an under funding of $2.0 billion in FY 2008 for these plans. Of the $1.9 billion decline in the pension funded status from FY 2007 to FY 2008, ($4.5) billion was due to the increase in the discount rate from 6.25 percent on September 30, 2007, to 7.5 percent on September 30, 2008, and $5.8 billion due to much smaller than expected pension plan asset values based on the contractors' long-term rate of return assumption. The $1.3 billion net impact of these two large changes in the funded status plus $0.7 billion for the cost of additional benefits accruing and ($0.1) billion for other gains during the year represent the total change of $1.9 billion.

A similar change in the discount rate used to estimate the obligations of contractor postretirement benefits other than pensions (PRB) improved the funded status by $1.8 billion of the total improvement of $1.2 billion from an under funding of $10.3 billion in FY 2007 to an under funding of $9.1 billion in FY 2008. In addition, the funded status declined by $0.6 billion due to other liability increases during the year ($0.4 billion attributable to experience versus the actuarial assumptions plus $0.2 billion in cost of additional benefits accruing). Assets are not generally set aside to fund PRB plans as they are for pension plans, so PRB plans are not expected to ever become fully funded.

Prior to the adoption of Statements of Financial Accounting Standards (SFAS) No. 158 as of September 30, 2007, changes in the estimated plan benefit obligations were generally amortized over an extended time period, and therefore did not result in an immediate change in obligations recorded by the Department. However, under SFAS No. 158 the funded status of the plans is now fully reflected in the assets and liabilities recorded by the Department. The chart below shows the total net funded status for contractor employee pension and PRB plans and the year-end discount rate from FY 1997 to FY 2008.

## Contractor Pension/Postretirement Benefit Obligations Trend Analysis



# Analysis of Systems, Controls and Legal Compliance

## Management Assurances

The Department's management is responsible for establishing and maintaining an effective system of internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). To support management's responsibilities, the Department is required to perform an evaluation of management and financial system internal controls as required by Sections II and IV, respectively, of FMFIA, OMB Circular A-123, *Management's Responsibility for Internal Control*, and internal controls over financial reporting as required by Appendix A of the Circular. The following assurances are made based on the results of these evaluations, which are reflected in reports and representations completed by senior accountable managers within the Department.

The Department has completed its evaluation of management and financial system internal controls. Based on that assessment, the Department can provide reasonable assurance that management internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations, as of September 30, 2008, were operating effectively with no material weaknesses found in their design or operation. Evaluation results also indicated that the Department's financial systems generally conform to governmental financial system requirements and substantially comply with requirements of the Federal Financial Management Improvement Act.

In addition, the Department has completed its FY 2008 baseline assessment and evaluation of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, as required by Appendix A of OMB Circular A-123 and Departmental requirements. The evaluation included an assessment of both entity and process controls, as required. Based on the results of the evaluation, the Department is providing reasonable assurance that internal controls over financial reporting as of June 30, 2008, were working effectively and no material weaknesses were identified in the design or operation of the specific controls over financial reporting evaluated.

While the Department has no material weaknesses to report as a result of the above internal control evaluations, the Department is continuing its work to address nine Leadership Challenges. These Leadership Challenges represent the most important strategic management issues facing the Department in accomplishing its mission now and in the coming years.

Samuel W. Bodman
November 14, 2008

## Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires that agencies establish internal controls and financial systems to provide reasonable assurance that the integrity of Federal programs and operations is protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist.

In response to the FMFIA, the Department developed an internal control program which holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of internal controls. Annually, senior managers at the Department are responsible for evaluating the adequacy of the internal controls surrounding their activities and determining whether they conform to the principles and standards established by the OMB and the Government Accountability Office (GAO). The results of these evaluations and other senior management information are used to determine whether there are any internal control problems to be reported as material weaknesses. The Departmental Internal Control and Audit Review Council, the organization responsible for oversight of the Internal Control Program, makes the final assessment and decision for the Department.

The Department's evaluation for FY 2008 identified no material weaknesses in the design or operation of its management and financial system internal controls.

## Appendix A of OMB Circular A-123

Internal control requirements for publicly traded companies contained in the Sarbanes-Oxley Act of 2002 paved the way for the Federal Government to also strengthen its internal control requirements. The issuance of Appendix A of OMB Circular A-123 provides specific requirements to agencies for conducting management's assessment of internal control over financial reporting. In FY 2006, the Department adopted, with the approval of OMB, a three-year, phased implementation approach for completing a baseline assessment of all key processes and controls under these requirements by the end of FY 2008. In accordance with this plan, the Department has completed the baseline assessment of all high, medium and low-risk activities at contractor locations and Federal sites.

The Department's evaluation for FY 2008 did not identify any material weaknesses as of, or subsequent to, June 30, 2008.

### Federal Financial Management Improvement Act

The Federal Financial Management Improvement Act (FFMIA) of 1996 was designed to improve Federal financial management and reporting by requiring that financial management systems comply substantially with three requirements: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the United States Government Standard General Ledger at the transaction level. Furthermore, the Act requires independent auditors to report on agency compliance with the three stated requirements as part of financial statement audit reports.

The Department has evaluated its financial management systems and has determined that they substantially comply with Federal financial management systems requirements, applicable Federal accounting standards and the U.S. Government Standard General Ledger at the transaction level.

### Leadership Challenges

The Department carries out multiple complex and highly diverse missions. Although the Department is continually striving to improve the efficiency and effectiveness of its programs and operations, there are some specific areas that merit a higher level of focus and attention. These areas oftentimes require long-term strategies for ensuring stable operations and represent the most daunting Leadership Challenges the Department faces in accomplishing its mission. Due to the Department's significant efforts taken to address long-standing problems with its management of projects, the previously reported Project Management Leadership Challenge is no longer considered a stand alone challenge and has been incorporated into the contract administration challenge.

The Reports Consolidation Act of 2000 requires that, annually, the Inspector General (IG) prepare a statement summarizing what he considers to be the most serious management and performance challenges facing the Department. These challenges are included in the Other Accompanying Information section of this report. Similarly, in FY 2003 the GAO identified six major management challenges and program risks to be addressed by the Department.

The Department, after considering all critical activities within the agency and those areas identified by the IG and GAO, has identified nine Leadership Challenges that represent the most important strategic management issues facing the Department now and in the coming years. It is the Department's goal that the strategies to address these areas will also help mitigate related IG and GAO management challenges.

To highlight how the Department's strategies for mitigating its Leadership Challenges align with the IG and GAO challenge areas, the following table provides a crosswalk of the relationship between the three. Please note that the IG and GAO did identify areas that are not currently reported as Leadership Challenges by the Department. While the ongoing importance of those areas is recognized and they continue to receive appropriate management attention, management does not consider them to be Leadership Challenges.

| IG Challenge Areas FY 2008 | GAO Challenge Areas | DOE Leadership Challenges |
|---|---|---|
| Contract Administration **S** | Resolve problems in contract management that place the agency at high risk for fraud, waste and abuse **S** | Contract and Project Administration **S**<br>Acquisition Process Management **S** |
| Safeguards and Security **D** | Address security threats and problems **D** | Security **D** |
| Environmental Cleanup **D** | Improve management for cleanup of radioactive and hazardous wastes **D** | Environmental Cleanup **D**<br>Nuclear Waste Disposal **D** |
| Stockpile Stewardship **D** | Improve management of the Nation's nuclear weapons stockpile **D** | Stockpile Stewardship **D** |
| Cyber Security **S** | | Cyber Security **S** |
| Energy Supply **D** | Enhance leadership in meeting the Nation's energy needs **D** | |
| **IG Watch List** | | |
| Human Capital Management **S** | | Human Capital Management **S** |
| Worker and Community Safety **S** | | Safety & Health **S** |
| Infrastructure Modernization **D** | Revitalize infrastructure **S** | |

**D Mission Direct S Mission Support**

## Contract and Project Administration

### Description

Congress has directed that the Department take corrective action to be removed from the GAO High Risk List for inadequate contract and project oversight and management. DOE has been on this GAO list since its inception in 1990.

### Key Strategies Implemented

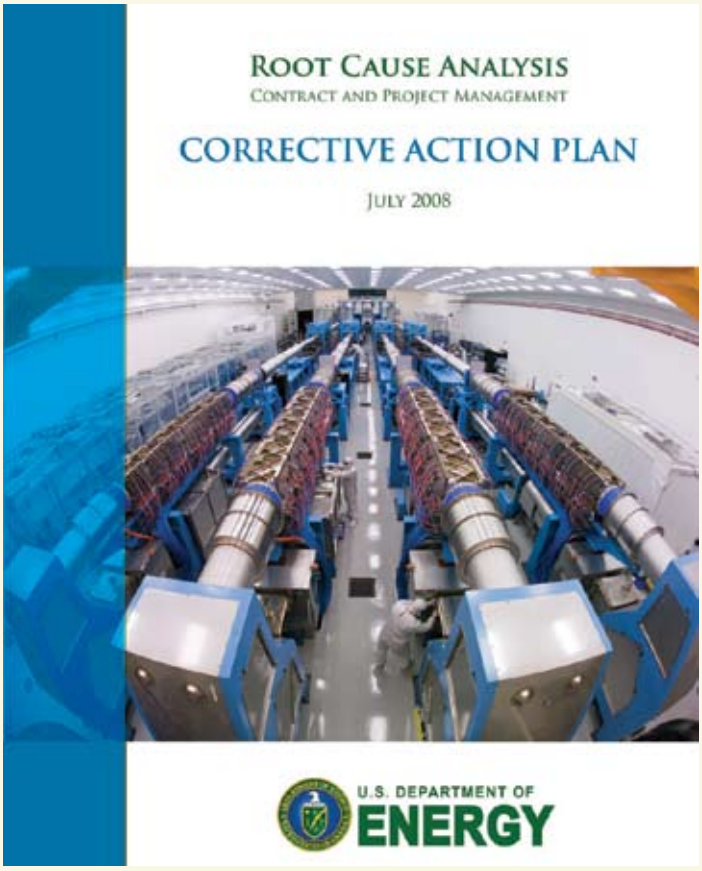
The Department completed a comprehensive Root Cause Analysis of contract and project management deficiencies in April 2008 and approved a Corrective Action Plan (CAP) in July 2008. The CAP provides quantifiable, actionable measures with key milestone dates for progress assessment. A CAP Executive Steering Committee (ESC) was established to oversee implementation and thereby ensure that DOE'S efforts to improve contract and project management are focused on addressing the root causes with meaningful and lasting solutions that provide demonstrable results. ESC membership includes representatives from the Under Secretaries' Offices, the Office of Management and the Office of the Chief Financial Officer. The approval of the CAP initiated action on four of the eight corrective measures. CAP implementation and metric status were briefed to the GAO and the OMB in September 2008.

### Overarching Vulnerabilities

Key issues identified in the CAP will require a realignment of resources to acquire the appropriate federal staff, contractor support and technology solutions to capture, evaluate and redirect efforts on major projects under construction and in the planning stages. Policies regarding full funding and incremental funding, acquisition strategies and contractor and federal personnel accountability will require changes to Departmental Orders and directives. Secretarial support, along with support from GAO and OMB, will be necessary to affect these broad ranging policy and cultural changes expeditiously. The Department's project management autonomy is in jeopardy if improvement in its project management abilities is not demonstrated, as this function could be directed to other agencies or be subjected to increased oversight. Failure to make significant, measurable progress on these issues may also adversely impact the Department's budget and ability to meet mission milestones and statutory requirements.

### Key Strategies Planned

The FY 2009 goals are to improve project front-end planning, enhance the federal project and contract management workforce, align and integrate budget profiles and project cost baselines and improve independent government cost estimates. Action on the next three corrective measures to improve risk management, strengthen federal ownership through sound acquisition strategies and update project and contract management policy and standards will begin at the start of the new calendar year. Action on the final corrective measure, to improve oversight, clarify roles and responsibilities and better align organizational structures is scheduled to begin in July 2009. All corrective measures are planned to be completed by the 3rd quarter of FY 2011. Corrective measures will be monitored, measured and reported quarterly to senior Departmental leadership, OMB and GAO. In addition, DOE has committed to conducting semi-annual meetings with OMB and GAO to review CAP status and report progress to the House and Senate Appropriations Committees in the annual budget request.




Corrective Action Plan.

## Acquisition Process Management

### Description

The Department is the largest civilian contracting agency in the Federal Government and spends approximately 90 percent of its annual budget on contracts to operate its scientific laboratories, engineering and production facilities and environmental restoration sites. A June 2006 GAO report cited concerns involving delays in awarding contracts and the need for a systematic method. This concern was reiterated by a recent report of the National Academy of Public Administration. In FY 2007, the Department conducted its own assessment of the Business Clearance process and in November of 2007, the Office of Procurement and Assistance Management issued a report on "Reengineering the Business Clearance Process" which identified a number of findings and recommendations for improving the acquisition process including the functioning of the Department's Federal procurement systems throughout the DOE complex.

### Key Strategies Implemented

In response to the recommendations of the reengineering report, the Department initiated actions to implement six major initiatives to improve timeliness in awarding contracts, the quality of procurement transactions, and the effectiveness and efficiency of the Department's procurement systems. Actions have been completed on four of the six initiatives as follows:

- Revise Department-wide Policy and Guidance Pertaining to the HQ Business Clearance Process;
- Establish a Procurement Management Review (PMR) Program;
- Assess the Adequacy of the Department's Acquisition Workforce; and
- Revise Procurement Delegation Thresholds.

### Overarching Vulnerabilities

The Department has been challenged, both externally and internally, to improve the efficiency and efficacy of the procurement process. Additionally, DOE has determined that it needs to improve the quality of both its procurement systems across the DOE complex and the procurement transactions which they produce. These vulnerabilities should be eliminated or mitigated by the initiatives which are being implemented during FY 2009. There will always be inherent risks whenever the Government procures goods or services. However, the process changes and oversight systems, such as the PMR, will ensure that future risks and vulnerabilities will be avoided or minimized.

### Key Strategies Planned

Significant progress has been made in addressing this DOE Leadership Challenge. The majority of actions implementing the recommended corrective measures have been completed. During FY 2009, the Department will make further progress by completing the remaining actions for the initiatives: (1) Implement improvements to the Business Clearance Process and (2) Develop a Concept of Operations to establish a Source Evaluation Board Secretariat Function. Additionally, under the recently re-implemented Procurement Management Review program, the Department will conduct up to six reviews of DOE procurement systems in order to improve the quality of procurement processes in the field.

**Headquarters Business Clearance Process Guiding Principles**

- ✔ Timely acquisition planning is critical.
- ✔ Effective oversight control systems are essential to ensuring the high quality/ integrity of procurement transactions.
- ✔ Collaboration and cooperation are required for timely, effective procurement processes.

## Security

### Description

The need for improved homeland defense, highlighted by the threats of terrorism and weapons of mass destruction, created new and complex security issues that must be surmounted to ensure the protection of our critical energy resources, infrastructure and personnel.

### Key Strategies Implemented

The Department implemented the following activities in FY 2008 in order to address the security challenge:

- Program and staff offices have completed a review of all Departmental security requirements to identify and validate the basis of each requirement and to ensure the requirements are performance-based, meaningful, clear and concise without being overly prescriptive or redundant.
- The Department continues to work towards meeting the current Design Basis Threat Policy (recently revised and issued as the Graded Security Protection (GSP) Policy) by restructuring security management systems, deploying security technologies and implementing the elite protective force model; consolidating and improving special nuclear material storage facilities; and modifying contractual incentives and performance metrics for their contractor partners to enhance the Department's overall security program effectiveness.
- The Office of Departmental Personnel Security was established to better coordinate personnel security policies; strengthen drug testing requirements; establish a professional education and certification program for Personnel Security specialists; and formalize Personnel Security adjudications processes.

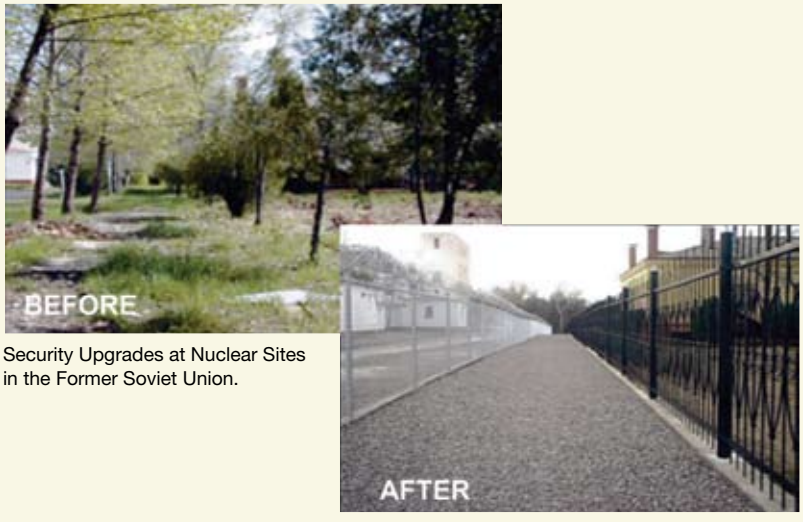
### Overarching Vulnerabilities

Continuing security challenges include implementing multifaceted strategies to provide required levels of security while minimizing costs and turnover of key personnel due to an aging workforce.

### Key Strategies Planned

DOE will strengthen its security posture by:

- Implementing the requirements of the GSP Policy by updating vulnerability assessments, implementing the elite protective force model and consolidating and improving nuclear material storage facilities;
- Revising, issuing and implementing the DOE Personnel Security Manual;
- Continuing the implementation of Homeland Security Presidential Directive 12 physical and logical access control system requirements to streamline the access authorization process and provide greater security against insider threats;
- Continuing to implement cost-effective security technologies combined with integrated protection tactics to improve protective force survivability and act as force multipliers;
- Maintaining levels of expertise by providing security training and professional development courses through the National Training Center; and
- Continuing to foster improvements to security performance through robust independent oversight and enforcement programs.



Security Upgrades at Nuclear Sites in the Former Soviet Union.


Site Security Training Facility, Y-12.

## Environmental Cleanup

### Description

Environmental Management's (EM) mission is to cleanup the environmental legacy of nuclear weapons production and nuclear energy research. Fifty years of conducting these activities in a different atmosphere and under less stringent standards than today have resulted in unique hazards and requires complex technical solutions within a large suite of environmental regulations.

### Key Strategies Implemented

The Department's environmental cleanup mission is being accomplished through the execution of discrete projects in accordance with applicable rules and regulations while ensuring that worker safety is the Department's number one priority as it carries out the cleanup mission. These projects, some of which will take decades to complete, are being carried out in accordance with industry standard project and contract management principles.

The National Academy of Public Administration (NAPA) conducted a management review of the Department's cleanup program. During the course of the review, recommendations and proposals for improvements in contract and project management performance provided by NAPA were consistent with the strategies and initiatives that were underway. One of the ongoing strategies is the Department's partnering with the U.S. Army Corps of Engineers to identify enhancements required to meet "Best-in-Class" standards for contract and project management. Capabilities at each site and Headquarters were assessed to identify the systems and human capital (both numbers and skill mix) needed to achieve a Best-in-Class contract and project management organization. The assessment included contract execution and management functions and systems, roles and responsibilities of contract administration and project management staff. Gaps in critical areas such as project controls, baseline management, cost estimation, change control and schedule management were highlighted.

### Overarching Vulnerabilities

The Department's nuclear legacy cleanup scope is the third largest liability of the United States. To address this liability, several issues continue to challenge DOE's ability to establish and execute its cleanup program.

- Changing conditions modify the life-cycle cost and schedule estimates of the program. Technical and programmatic risks and associated uncertainties are an inherent part of such complex cleanup projects, which can last for decades and often require first of a kind solutions. DOE is defining the risks to the extent possible. The associated cost and schedule estimates assigned to them are being reflected in the life-cycle cost and schedule ranges.
- Compliance agreement milestones establish the scope of work to be performed at a given site and the dates by which the cleanup milestones must be achieved. In some cases, agreements were developed with detailed milestones that prejudged characterization results and focused on near-term milestones without necessarily addressing the highest risks. As EM cleanup progressed and further characterization was completed, it was clear that a cleanup prioritization solely focusing on achieving compliance milestones would not support the greatest reductions of risk and cleanup progress in the most cost-effective manner. Specific cleanup actions can be re-sequenced to reduce risk more quickly; therefore, EM has been reviewing its cleanup agreements with regulators to identify actions that can accelerate risk reduction.
- As well as being responsible for the cleanup of the legacy of the Manhattan Project and the Cold War, the Department must also accommodate new cleanup scope. DOE has a backlog of excess facilities and materials requiring cleanup and will need to integrate the disposition of these liabilities into its existing programs.

### Key Strategies Planned

The Department strongly supported the proposals and recommendations that resulted from the NAPA review and has proactively moved to implement. For instance, to specifically address project and contract management performance, the Department developed a Corporate Implementation Plan (CIP) as a roadmap to address the contract and project management challenges in pursuit of its Best-in-Class goal. The successful implementation of the CIP will: result in increased Federal ownership of cleanup projects; standardization of processes; clear communication of requirements and policy; timely and effective change control for both project management and contract management; and the identification and institutionalization of best practices across the complex.

To address human capital issues, the Department is using contractor resources to bridge the gap identified by the skills analysis while Federal staff are being hired. Currently, 30 percent of the gaps identified have been filled by Federal employees. Plans are underway to acquire the necessary Federal personnel resources to address the remaining needs identified in the analysis.

In addition, DOE has developed a planning process that analyzes life-cycle cost profiles for discrete scope elements to inform more optimum allocation of resources across the complex and to identify and accommodate additional cleanup scope. As part of this process, alternative approaches that maximize risk reduction and cost savings are being identified and evaluated.

## Nuclear Waste Disposal

### Description

The mission of the Office of Civilian Radioactive Waste Management (OCRWM) as authorized by the Nuclear Waste Policy Act of 1982, as amended, (NWPA) is to manage and dispose of the Nation's military and civilian high-level radioactive waste and spent nuclear fuel (SNF). This will be accomplished through the development and operation of a deep geologic repository in a manner that protects the health and safety of the public without harming the environment.

U.S. commercial nuclear reactors supply approximately 20 percent of the Nation's electricity and discharge approximately 2,000 metric tons of SNF each year. Currently, there is an inventory of approximately 58,000 metric tons of commercial SNF and high-level radioactive waste from defense and research activities, stored at 121 temporary locations in 39 States across the Nation. Building a repository to permanently dispose of this material has been a vital part of America's energy, environmental, and security policies for over 25 years.

Pursuant to the NWPA, DOE entered into standard contracts with commercial utilities that produce nuclear power agreeing to begin accepting SNF and high-level radioactive waste by January 1, 1998. In return, the utilities agreed to pay the costs of disposal through payments into the Nuclear Waste Fund based on the amounts of electricity generated and sold. The fees collected from the utilities average approximately $750 million annually. The Nuclear Waste Fund is invested in Treasury instruments which earn approximately $1 billion annually and the balance is approximately $21.1 billion.

### Key Strategies Implemented

In 2002, the President recommended and Congress approved a site at Yucca Mountain, Nevada, located on Federal land approximately 90 miles northwest of Las Vegas, for the development of a nuclear waste repository.

In June 2008, DOE submitted a license application for the repository, a major program milestone culminating more than two decades of intense scientific, design and engineering effort by the Nation's top scientists and engineers. The NRC docketed the application on September 8, 2008. According to the NWPA, the docketing of the license application initiates a three-year timeline, with a possible one-year extension, for the NRC to decide whether to grant a construction authorization. As Congress directed in the NWPA, NRC will serve as the regulator for the design, construction, operation and eventual decommissioning of the repository. NRC will conduct extensive technical reviews of the application and also conduct evidentiary hearings to adjudicate contentions raised by interested parties, including the State of Nevada.

The NRC licensing process is designed to be independent, objective, open, expert and comprehensive; thereby, providing assurance that public health and safety will be protected as the repository efforts proceed.

The OCRWM program is funded on a full-cost recovery basis, with the waste generators paying for their respective disposal costs through a fee established in the NWPA. In July 2008, DOE issued its updated total system life cycle cost estimate for the development, construction, operation and final decommissioning of the Yucca Mountain repository system. An assessment of the adequacy of the one mill per kilowatt/hour fee currently paid by nuclear utilities into the Nuclear Waste Fund based on this estimate accompanied the update and concluded that the fee is adequate and found no reason to adjust the fee at this time.

OCRWM has designed a special transportation, aging and disposal (TAD) canister to be the primary means of receiving SNF at Yucca Mountain. The TAD canister system minimizes the need for repetitive handling of SNF by using the same canister from the time it is sealed and leaves a nuclear power plant until it is emplaced in the repository. The system also eliminates the need for the construction of several multimillion square feet, multi-billion dollar facilities for handling spent fuel at the Yucca Mountain repository. In May 2008, DOE awarded two contracts for the design, licensing and demonstration of the TAD canister system.

### Overarching Vulnerabilities

Delays in beginning acceptance of spent fuel at the Yucca Mountain repository have already resulted in litigation and judgments for breach of contract against DOE, creating taxpayer liabilities estimated at over $12 billion, if the repository is able to begin operations at the earliest projected date of 2020. Further delays will only increase taxpayer liabilities. The judgments are paid from the Department of Treasury's Judgment Fund which consists of taxpayer funds and not funds from the Nuclear Waste Fund.

If the NRC issues a construction authorization (required by the NWPA to be no later than 2012), DOE will need significant annual funding increases of $1.0 billion to $1.5 billion to construct the repository and essential transportation infrastructure and systems in order to begin operations at the earliest projected date of 2020. The current budgetary process for appropriating funds from the Nuclear Waste Fund to DOE for Yucca Mountain-related activities does not allow the Fund to be used as originally intended by Congress. Without funding reform, Congress is unlikely to provide the resource levels required and the program will be unable to set a credible opening date for the repository. DOE estimates that taxpayer liabilities will further increase by an average of up to $500 million for each year the program is delayed beyond 2020.

Nuclear waste from power plants is currently stored at utility sites. However, millions of Americans live near the 121 temporary storage sites and a long-standing scientific and international consensus recognizes the importance to public safety and national security of consolidating the waste at a single, isolated, secure location. The Federal government continues to have a statutory obligation and financial liability to accept the SNF.

The Global Nuclear Energy Project initiative is pursuing reprocessing or "recycling" of the SNF as a potential component of the disposition path; however, even if the program manages to successfully develop and deploy such technologies, recycling would not remove the need for a repository. All countries that currently reprocess SNF are seeking to locate a permanent repository for certain products of reprocessing. The permanent repository is and will continue to be necessary for a number of reasons. For instance, certain commercial SNF, the large existing inventory of Navy SNF and DOE high-level radioactive waste are inappropriate or ill-suited for recycling. Any recycling also would produce some high-level radioactive waste that must be disposed of in a permanent repository.

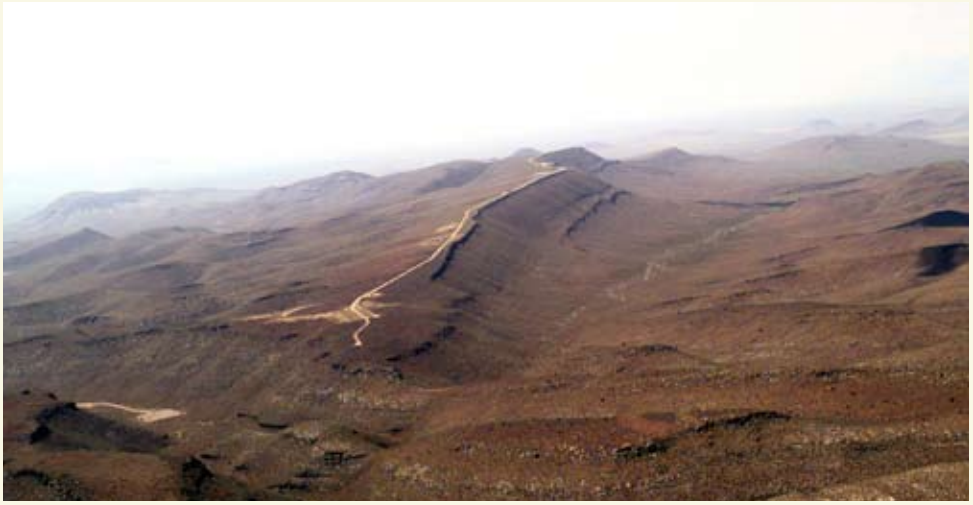
### Key Strategies Planned

Moving into the licensing process, OCRWM's key objective will be to provide adequate and timely responses to requests for additional information from the NRC staff and to provide other necessary support for the licensing effort. To achieve this objective, OCRWM has in place, and will strive to maintain throughout the process, both an expert, experienced legal and regulatory team and the scientific and technical team whose work underlies the license application and who possess a comprehensive and thorough expert understanding of the analyses and data evaluating the Yucca Mountain site.

Funding reform will be needed for the project to move forward, such as that proposed in the 110th Congress, S. 37 and H.R. 3358, which would reclassify utility fees paid into the Nuclear Waste Fund as discretionary and offset budget requests. This would result in program appropriations from the Nuclear Waste Fund not competing for appropriations with other Federal programs and not impacting the Federal budget deficit. To contain the taxpayer liability for the Department's delay (currently over $12 billion) by starting operations at a repository in 2020, DOE will need funding reform to assure adequate funding is available for increased construction costs starting in 2012.

In June 2008, OCRWM informed utilities interested in constructing new reactors that DOE is prepared to discuss a revision to the standard disposal contracts for the new reactors that are anticipated to be constructed to replace the existing commercial fleet. The NWPA requires that utilities have such a disposal contract with DOE or be engaged in good faith negotiations with DOE for such a contract, before the NRC may issue a license for a new reactor. Numerous utilities have indicated their desire to enter into contracts with DOE for new nuclear power plants they intend to construct and the Federal government is pursuing those negotiations.

The program is transitioning from a science focus to a project execution focus to function successfully as an NRC licensee to construct and operate the repository, as well as manage the transport and receipt of SNF and high-level radioactive waste. An important step in implementing this transition will be the reorganization of OCRWM, effective January 4, 2009, that is necessary to execute three major Federal projects: build and operate the repository; build and operate the Nevada rail line; and develop and operate the national transportation system for materials going to Yucca Mountain. Some of the key concepts of the new organization include: increasing the organization size and capabilities in Nevada; establishing a Chief Operating Officer in the Director's Office; having fewer direct reports to the Director; establishing a new Office of Technical Management; and establishing an Office of Project Management.



Yucca Mountain.

## Stockpile Stewardship

### Description

Stewardship of the Nation's nuclear weapons stockpile is one of the most complex, scientifically technical programs undertaken and the Department needs to ensure that all aspects of this mission-critical responsibility are fulfilled. Based on stockpile stewardship activities the Secretary, jointly with the Secretary of Defense, annually certifies to the President that the nuclear weapons stockpile is safe and reliable and whether underground nuclear testing needs to resume. Success is dependent upon unprecedented scientific tools to: better understand the changes that occur as nuclear weapons age; enhance the surveillance capabilities for determining weapon reliability; and extend weapon lives. The Department must ensure that problems in these areas are aggressively addressed.

### Key Strategies Implemented

The Stockpile Stewardship program is composed of discrete elements, several of which are management challenges in their own right. These discrete elements include, but are not limited to, project management, oversight of contractors/contract administration, safety and security, human capital management, and complex transformation. The planning, programming, budgeting and evaluation process ensures that the Department will meet the Nation's nuclear weapons mission. Key strategies include:

- Reducing the Nuclear Weapons Stockpile – Under the Moscow Treaty of 2002 between the United States and Russia, the United States agreed to reduce the size of operationally deployed strategic nuclear weapons to a level that is between 1,700 to 2,200 by 2012. Additionally, President Bush directed in 2004 that in eight years the size of the overall U.S. nuclear weapons stockpile be reduced nearly 50 percent from the time he entered office. That goal was met five years early, so he directed that the stockpile be reduced further by almost 15 percent more by 2012.

- Consolidating Nuclear Material – The Department plans to consolidate nuclear materials at five sites by 2012, with significantly reduced square footage at those sites by 2017. This will further improve security and reduce security costs and is part of the overall effort to transform the Cold War era nuclear weapons complex into a 21st century nuclear security enterprise.

- Consolidating the Nuclear Weapons Complex – Reflecting a reduced stockpile and the need to dismantle Cold War-era facilities, the Department has a plan, known as Complex Transformation, to move from the current aging nuclear weapons complex to a 21st century national security enterprise that is smaller, safer, more secure and more cost effective.

- Maintaining the Nuclear Weapons Stockpile – The United States has not deployed a new nuclear weapon in over 20 years, nor conducted an underground nuclear test since 1992. Instead, scientists maintain current warheads well beyond their original life using sophisticated supercomputers and facilities that test the safety, security and reliability of U.S. weapons in our laboratories versus through an underground nuclear test.

### Overarching Vulnerabilities

There is an aggressive approach to correct or mitigate problems as they are identified. For example, processes have been put in place to eliminate a backlog of surveillance tests and resolve deficiencies in the investigations conducted when weapons problems are identified. Plans and financial controls over weapons refurbishment have been strengthened. Self-assessments of project management processes of the Enhanced Surveillance Campaign have been completed, all sites have developed an Enhanced Surveillance Campaign Project Management Improvement Plan and the Enhanced Surveillance Campaign Risk Management Plan was issued. The Life Extension Programs and sub-elements are now subject to the planning, programming, budgeting and evaluation processes and the Department's project management processes. In addition, resource loaded plans that contain cost, scope and milestones were implemented for the Enhanced Test Readiness Program.

### Key Strategies Planned

The Department will continue to work through options to transform the Weapons Complex (smaller footprint, consolidated like functions). This comprehensive plan will enhance the capability to respond to national and global security challenges while facilitating the President's vision of a smaller stockpile consistent with our national security needs. To meet the challenges of managing the Stockpile Stewardship Program, there is special focus to:

- Improve the effectiveness of Federal oversight and the contractor assurance systems for nuclear safety, physical and cyber security;
- Ensure the effectiveness of nuclear weapons stockpile planning Complex Transformation;
- Reenergize the nuclear material consolidation for disposition efforts;
- Develop and articulate the organization's Vision for the Future for the integrated roles and missions of the National Security Laboratories;
- Integrate project management best practices; and
- Reenergize the Employer of Choice Initiative.

## Cyber Security

### Description

Cyber attacks are increasing in complexity and frequency, and are becoming more aggressive. DOE is attacked over 10 million times each day in a wide variety of ways. Although DOE has defense-in-depth mechanisms based on industry and government best practices, some of the very sophisticated attacks have been able to penetrate DOE networks and computers. Cyber attacks continue to evolve to avoid detection by these defenses. The DOE comprehensive cyber security program must continually employ the best available management practices and technical defenses to provide adequate protection of its systems and data in the face of the increasing threat.

### Key Strategies Implemented

DOE has implemented a comprehensive cyber security program, with complete and current DOE-wide cyber security guidance in place. Application of this guidance, including timely implementation throughout the DOE complex, depends on actions by the Under Secretaries and other leaders to develop, maintain and oversee implementation of cyber security in each of their organizations, including the DOE National Laboratories. FY 2008 milestones for the cyber security program include:

- Issuance of eight additional cyber security requirements documents and a cyber security Directive on cyber security process requirements;
- Complete re-design of the Department's network backbone to provide better cyber security protection through implementation of a Trusted Internet Connection architecture, including the use of additional protective monitoring capability, consistent with the government-wide Comprehensive National Cybersecurity Initiative, and procurement of equipment to implement this architecture;
- Conducting the second DOE Cyber Summit, which enabled senior leaders to better understand the continually evolving threat, and to plan, at a strategic level, the protection for the Department's most sensitive information;
- Focusing on cyber security awareness training, including outreach activities through workshops for each Departmental program; and
- Implementation of an enterprise-wide, consolidated cyber incident reporting capability.

### Overarching Vulnerabilities

The increased number of cyber attacks on DOE and other Federal systems and the increased sophistication of many of these attacks have made continually enhanced cyber security defense a critical part of IT planning and operations for Federal agencies. Protection of the integrity and availability of IT systems and data is essential for DOE to carry out its missions.

### Key Strategies Planned

Long-term and continuous corrective action is required due to the evolving nature of cyber security threats. The Department will continue to work towards sustaining and improving its cyber security program by:

- Updating its threat and risk assessment and issuing security architecture guidance;
- Enhancing DOE's enterprise-wide incident reporting capabilities;
- Issuing new directives on common controls and incident management;
- Reviewing security compliance across DOE and improving correction action tracking; and
- Updating training and awareness programs for new threats and defensive measures.

BlueGene/P Supercomputer.

## Human Capital Management

### Description

The Department requires a highly technical and specialized workforce to accomplish its scientific and technological missions. There is an ongoing challenge to maintain a capable workforce. The challenges in creating and implementing innovative human capital management strategies to maintain a workforce with the right people and skills is compounded by increased competition for individuals with the knowledge, skills and competencies that the Department needs; and the significant retirement challenge that threatens to rob the organization of critical skills. The average employee age is over 49 years and a significant number (30 percent) will be eligible to retire in the next three years. In 2007, retirements exceeded historical trends and attrition reached 7.6 percent. The attrition rate for the first half of 2008 climbed higher, to 8.3 percent. A continuation of this trend can deprive the organization of the skills needed to perform its mission. To maintain its workforce, DOE will need to hire over 5,000 new employees in the next four years.

### Key Strategies Implemented

In FY 2008, the Department continued to strategically manage its federal workforce with newly implemented workforce planning techniques throughout the Agency. DOE business elements piloted new automated planning and simulation tools to develop consistent workforce plans across the organization. It also enhanced strategic recruitment and outreach activities; implemented a new Corporate Intern Program; continued to improve the efficiency of the hiring processes; and implemented a new performance management system designed to improve individual and organizational performance accountability.

The National Nuclear Security Administration (NNSA) continues to build a vibrant human capital management program tailored to NNSA's unique mission needs. The Future Leaders Intern Program continues to be successful in bringing new talent into the organization. NNSA has implemented, in partnership with the Office of Personnel Management, an unprecedented pilot personnel demonstration project designed to rebuild DOE's basic Civil Service employment system. The effect of the sophisticated changes will alleviate many traditional regulation-based encumbrances on managerial discretion and flexibility when hiring, promoting, and rewarding employees, even while assuring adherence to the Government's fundamental personnel laws and merit-based Civil Service regulations.

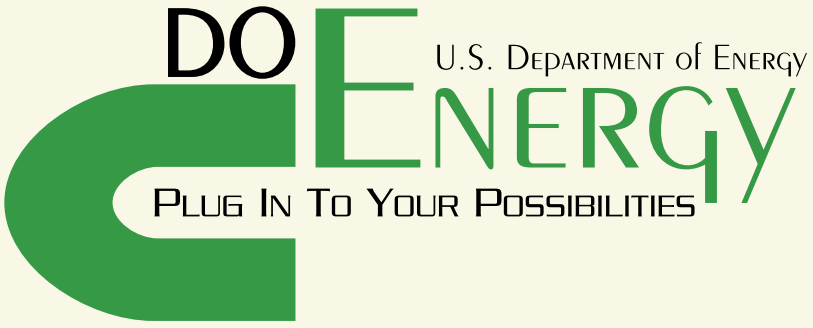
In addition, the Department has developed policies focused on efficient, effective and innovative plans for merit promotion; recruitment, relocation, and retention incentives; student loan repayment; and strategic management of human capital. Programmatic innovations include a performance management and recognition system; the development and use of Managed Staffing Plans in assigning staffing targets, and in identifying critical hiring needs, skills mix imbalances, and buyout eligible occupations; and an automated workforce analysis and planning process.

### Overarching Vulnerabilities

The Department has been successful in adding talent to its workforce during FY 2008. The workforce expanded from just fewer than 14,000 federal employees to nearly 15,500 during this period. The Department will continue to focus on competency –centric hiring and development to ensure that the workforce, albeit growing to meet attrition challenges, has the capability to do the work of the organization.

### Key Strategies Planned

DOE also continues to work in partnership with other Federal agencies to increase recruitment and hiring flexibilities and with hiring managers on innovative ways to fill mission critical and other hard-to-fill jobs. In addition, the Department is implementing a comprehensive enterprise talent management system to ensure a competent workforce through a more integrated approach to employee development.



## Safety and Health

### Description

Ensuring the safety and health of the public and the Department's workers is one of our top priorities in accomplishing our challenging scientific and national security missions. Due to the inherently critical nature of these issues, there is the need for continuous vigilance and improvement.

### Key Strategies Implemented

The Department implemented the following activities in FY 2008 in order to address the safety and health challenge:

- Departmental elements continued implementation of Integrated Safety Management concepts by performing additional and more robust oversight of worker safety, nuclear safety and quality assurance requirements, independent oversight reviews of site-specific and crosscutting safety programs, as well as enforcement of worker health and safety regulations.

- The Department issued DOE Standard 1189, Integration of Safety into the Design Process and amended DOE Order 413.1, *Program and Project Management for the Acquisition of Capital Assets*, to ensure the identification of hazards early in the design process for new or major modifications to DOE Hazard Category 1, 2 and 3 nuclear facilities and the use of an integrated team approach to design safety into the facility in a way that provides adequate protection for the public, workers and the environment.

- DOE implemented an aggressive outreach program that includes conducting focus group meetings with the Office of Health, Safety and Security, DOE program offices, worker trade unions, professional associations, and other stakeholders to establish and strengthen lines of communication, seek feedback and identify areas of interest and concern.

### Overarching Vulnerabilities

Continuing safety and health challenges include the need to maintain a culture of continuous safety and health improvement through re-enforcement and implementation of Integrated Safety Management and related programs.

### Key Strategies Planned

DOE will strengthen its safety culture of continuous improvement, worker involvement and management responsibility by:

- Developing safety goals and mechanisms for measuring progress against those goals for each of the major program elements;

- Completing a review of all Departmental safety requirements to identify and validate the basis of each requirement and to ensure the requirements are performance-based, meaningful, clear, and concise without being overly prescriptive or redundant;

- Strengthening the implementation of DOE safety-related programs, e.g., increasing the number of inspections to increase the number of sites eligible for DOE Voluntary Protection Program status and having all DOE sites independently certify their environmental management systems are in conformance with ISO 14000 standards;

- Maintaining levels of expertise by providing safety training and professional development courses through the National Training Center; and

- Continuing to foster improvements to safety performance through robust independent oversight and enforcement programs.

Department of Energy
HSS VPP
"Protecting our most important assets"

# 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)

| | Earmarked Funds (Note 18) | All Other Funds | Eliminations | Consolidated |
|---|---|---|---|---|
| **FY 2008** | | | | |
| **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)

| | Face | Unamortized Premium (Discount) | Interest Receivable | Investments Net | Unrealized Market Gains (Losses) | Market Value |
|---|---|---|---|---|---|---|
| **FY 2008** | | | | | | |
| 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** | | | | | | |
| 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 | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | FY 2008 | FY 2007 | FY 2008 | 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 | Less Federal Medicare Subsidy | 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.

| | Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| Asset Category | Target Allocation | Percent of Plan Assets at end FY 08 | Percent of Plan Assets at end FY 07 | Target Allocation | Percent of Plan Assets at end FY 08 | 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 Administrations | 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 Administrations | 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 Administrations | 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 Administrations | 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 Administrations | 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 Administrations | 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 Administrations | 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 Administrations | 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 | Depreciation & Other | Total | Direct Cost | Depreciation & 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 | Depreciation & Other | Total | Direct Cost | Depreciation & Other | Total | Direct Cost | Depreciation & 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 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.

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.

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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**

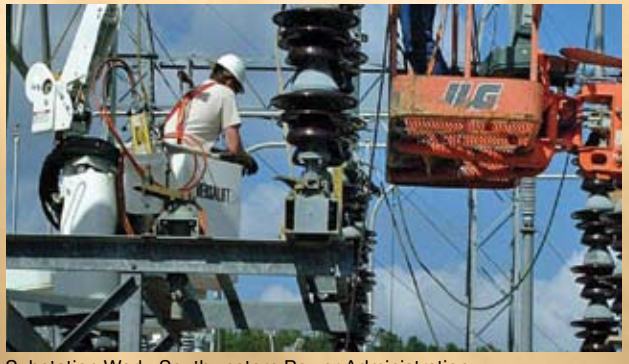
| Fiscal Year 2007 Audit Findings (with parenthetical disclosure of year first reported) | Status at September 30, 2008 |
|---|---|
| Accounting for Environmental Liabilities – Considered a Significant Deficiency (2007) | Significant actions implemented – No longer considered a significant deficiency. |
| 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. |

# Other Accompanying Information

Red Storm Supercomputer.

Exploratory Tunnel, Yucca Mountain.

Radiation Detection Measurements, Idaho National Laboratory.



Substation Work, Southwestern Power Administration.

# Inspector General's Management Challenges

On an annual basis, the Office of Inspector General identifies what it considers to be the most significant management challenges facing the Department of Energy. This effort is an important component of our effort to assess the Department's progress in addressing previously identified challenges, and it serves to highlight emerging issues facing the agency. The management challenge process also assists the Office of Inspector General in setting priorities for its reviews of Department of Energy programs and operations.

This year, we have identified six management challenges:

- Contract Administration
- Cyber Security
- Energy Supply
- Environmental Cleanup
- Safeguards and Security
- Stockpile Stewardship

Representing risks inherent to the Department's operations as well as those related to its management function, these challenges are, for the most part, not amenable to immediate resolution and must, therefore, be addressed through a concentrated, persistent effort over time. In addition to the management challenges, we also develop a "watch list," which consists of issues that do not meet the threshold of being classified as management challenges, yet warrant continued attention by the Department. This year, the watch list includes Human Capital Management, Infrastructure Modernization, and Worker and Community Safety.

For a number of years, the Office of Inspector General's management challenge list included both "contract management" and "project management" as separate challenge areas. The Department has undertaken a significant effort to address long-standing problems with its management of projects. In recognition of these efforts, we have eliminated project management as a stand-alone challenge. We take this action, recognizing that in a Department such as Energy, which is so contractor-dependent, there remains a direct link between success in administrating its thousands of contract instruments and effective project management. Although the Department's new project management initiatives are as yet untested, our analysis suggests that its remediation plan has the potential to resolve many of the problems we have identified in the past.

## Contract Administration

To accomplish its mission, the Department places significant reliance on contractors, employing over 100,000 contractor employees, and numerous subcontract employees. Contracts are awarded to industrial companies, academic institutions, and non-profit organizations that operate a broad range of Department facilities. In fact, a substantial portion of the Department's operations are carried out through contracts.

During FY 2008, the Office of Inspector General conducted a number of reviews, which highlighted the need for improved management of Department contracts. For example, we examined issues such as contract transition activities at the Nevada Test Site, excess charges at the Los Alamos National Laboratory, and changes to the Idaho Cleanup Project contract baseline. These reviews and other work performed by the Office of Inspector General underscore the challenge the agency has in administering major projects and the need for effective contract management.

To its credit, the Department, in coordination with the Office of Management, issued a Root Cause Analysis in April 2008, followed by a Corrective Action Plan in July 2008, as a means of improving its performance in the areas of contract and project management. The stated purpose of these documents was to provide a "roadmap to mitigate or eliminate the obstacles that have significantly impeded the Department's ability to complete projects on cost and schedule." The Corrective Action Plan identified the 10 significant issues and their underlying root causes, which contribute to contract and project weaknesses. Successful implementation of the plan should help address historic project and contract management issues.

In addition to the Corrective Action Plan, the Department has developed other strategies to improve deficiencies in the area of Contract Administration. However, given the number of contracts handled by the Department and the complexity and importance of the Department's numerous multi-million dollar projects, combined with the continuing concerns found during our reviews, we believe that the area of Contract Administration remains a significant management challenge.

## Cyber Security

Given the importance and sensitivity of the Department's activities, along with the vast array of data that is produced, cyber security has become a crucial aspect of the Department's overall security posture. In 2005, the Department established a Cyber Security Improvement Initiative, the goal of which was to identify improvements in cyber security controls throughout the complex. However, in recent years, threats to the Government's information systems infrastructure have actually become more frequent and more sophisticated, highlighting the Department's vulnerabilities in this arena.

Although the Department spent approximately $250 million during FY 2008 to implement cyber security measures, security challenges and threats to the Department's information systems continue and are evolving. Adversaries routinely attempt to

compromise the information technology assets of the Department. As such, it is critical that cyber security protective measures keep pace with the growing threat.

In 2008, as required by the Federal Information Security Management Act (FISMA), the Office of Inspector General conducted a review to determine whether the Department's unclassified cyber security program adequately protects data and information systems. While we concluded that the Department continued to make incremental improvements in its unclassified cyber security program, our evaluation determined that additional action was required to further enhance the agency's overall cyber security program and help reduce risks to both its systems and data. For example, our review identified opportunities for improvements in areas such as certification and accreditation of systems, contingency planning, systems inventory, and segregation of duties.

Other cyber security reviews conducted by the Office of Inspector General addressed the certification and accreditation of national security systems and the management of public accessible websites. We also completed a FISMA review of cyber operations at the Federal Energy Regulatory Commission, which identified a number of areas for improvement. In total, each of these reviews highlighted the risks associated with protecting the Department's computer systems and personnel information. As a result of these risks and in light of recent events involving intrusions to the Department's systems, we have identified Cyber Security as a significant management challenge.

### Energy Supply

Recent spikes in the cost of energy have underscored fundamental concerns related to the availability of energy supplies in this country. This issue has had a dramatic impact on energy consumers and the U.S. economy, with implications for our national security. While the Department's authorities in this area are indirect, there is an expectation that the Department will play a leadership role in ensuring that the Nation's energy needs are met through the development, implementation, and execution of sound energy policy. Providing the leadership to ensure reliable, affordable, and environmentally sound energy supply represents a significant management challenge for the Department.

Changes to the Energy Policy Act (Act) has provided the Department with the opportunity to aggressively implement key provisions of the legislation, while leading the effort to increase our national investment in alternative fuels and clean energy technologies. An important and far-reaching provision of the Act authorized the Department to provide loan guarantees for projects that "avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases and employ new or significantly improved energy production technologies as compared to commercial technologies in service in the United States." The Department hopes to begin approving projects under its Loan Guarantee Program in the coming months. If effective, the Department's Loan Guarantee Program as well as other Department initiatives could provide vital assistance in ensuring that the next generation of American energy technologies are developed successfully and cost efficiently.

Nonetheless, the energy issues facing the world today will not be resolved overnight. Addressing these issues will require both short-term and long-term solutions. For example, the Department is tasked with helping to modernize our national energy infrastructure; expand the Strategic Petroleum Reserve; invest in clean energy technologies such as hydropower, wind, solar, and cellulosic biomass; and promote conservation in our homes and businesses. Given the importance of stabilizing the country's energy supply and the challenges that this monumental task requires, we have categorized Energy Supply as a significant management challenge facing the Department.

### Environmental Cleanup

Since its establishment, the Department has had an important environmental mission. With the end of the Cold War, this mission took on even greater importance, as the agency began to dispose of large volumes of solid and liquid radioactive waste, resulting from more than 50 years of nuclear defense and energy research work. Currently, there is more than 1.5 million cubic meters of solid radioactive waste and 88 million gallons of radioactive liquid waste that requires disposal. The disposal and cleanup costs associated with these efforts is projected to be in the hundreds of billions of dollars.

Due to the risks and hazards associated with this difficult and costly task, we conducted a series of reviews during FY 2008 to assess the Department's activities in fulfilling its mission with regard to environmental cleanup. For example, as early as 1943, the Los Alamos National Laboratory began disposing of its hazardous waste in pits, trenches, shafts, and landfills. In March 2005, the Laboratory, the New Mexico Environment Department, and the Department of Energy signed a Consent Order to address the potential release of contamination from this waste. However, an April 2008 audit disclosed that, absent a dramatic change in approach, it is unlikely that the Department will complete certain long-term remediation activities at Los Alamos in accord with applicable requirements. The Department has experienced delays in removing waste from various facilities, making it unlikely that remediation milestones established in the Consent Order will be met. Our finding at Los Alamos is consistent with a broader observation made recently by Department management that the agency would not meet some milestones and obligations contained in environmental agreements that have been negotiated over many years.

The Los Alamos cleanup effort highlights just one example of the monumental task that the Department faces to ensure that contaminated materials and radioactive waste are disposed of in

a safe, timely, and cost-effective manner. Overseeing the largest cleanup effort in the world, the Department has made significant progress at several locations. However, the Department continues to experience delays and cost overruns associated with programs at various sites. As has been the case in previous years, Environmental Cleanup remains a management challenge that warrants significant attention on the part of Departmental management.

### Safeguards and Security

With the advancement of the Manhattan Project and the race to develop the atomic bomb during World War II, the origins of the Department are inextricably linked to principals of national security. While the Department has shifted its focus over its history as the needs of the Nation have changed, special emphasis on safeguards and security has remained a vital aspect of the Department's mission. The Department plays a vital role in the Nation's security by ensuring the safety of the country's nuclear weapons, advancing nuclear non-proliferation, and providing safe and efficient nuclear power plants for the United States Navy. In order to faithfully execute its mission, the Department employs numerous security personnel, protects various classified materials and other sensitive property, and develops policies designed to safeguard national security and other critical assets.

Over the past year, the Department has made strides in implementing safeguards and security measures to protect the agency's numerous employees and facilities. While this progress is positive, we conducted, during FY 2008, several reviews that highlighted the need for continued improvement in this area. For example, we examined topics such as to compartmental information, security clearances, foreign visits, and the certification and accreditation of national security information systems. In each of these areas, we identified instances in which the Department needed to improve its policies, procedures, and/or operations relating to safeguards and security.

These examples as well as other work by the Office of Inspector General highlight the importance of Safeguards and Security and the necessity for continued focus and improvement by Department management on this crucial management challenge.

### Stockpile Stewardship

The Department is responsible for the maintenance, certification, and reliability of the Nation's nuclear weapons stockpile. In order to ensure that our nuclear weapons continue to serve their essential deterrence role, the Department conducts stockpile surveillance and engineering analyses, refurbishes selected nuclear systems, and sustains the ability to restore the manufacturing infrastructure for the production of replacement weapons.

Given the importance and complexity of the Department's role in ensuring the vitality of the U.S. nuclear stockpile, we have classified Stockpile Stewardship as a significant management challenge. In recent years, the Office of Inspector General has conducted a number of reviews to examine the Department's activities and management strategies in this arena. For example, a July 2008 review examined the nuclear weapon's safety programs at the Sandia National Laboratory. Although ultimate responsibilities for nuclear weapons safety rests with Federal managers, Sandia National Laboratories, a contractor-operated entity, produces independent safety assessments, which identify potential safety issues. We found that the Laboratory had not resolved internal disagreements about the need to address identified nuclear weapon safety issues or made the Department aware of these disagreements.

In another review, we identified issues relating to the Department's heavy water inventory, which is used in support of the stockpile stewardship program. Based on our analysis, the Department's heavy water inventory is adequate to meet near-term requirements, but absent new sources of material, the inventory is likely to be fully depleted by 2019. Further, the Department has yet to establish a path forward to secure new sources of heavy water. If the Department does not take timely action to secure new sources of material, it is a risk of not being able to fulfill its future national security missions, including current and future weapons life extension programs.

In addition, as noted in other Office of Inspector General reviews, the Department needs to make improvements in its life extension and surveillance programs. Also, existing practices related to the cost and scheduling of stockpile stewardship activities needs to be closely monitored. While we recognize that the Department has taken action in recent years to further enhance the safety and reliability of the Nation's nuclear weapons stockpile, additional action is necessary to sustain a viable nuclear weapon stockpile.

# Summary of Financial Statement Audit and Management Assurances

| Audit Opinion | Unqualified | | | | |
|---|---|---|---|---|---|
| **Restatement** | No | | | | |
| | | | | | |
| **Material Weaknesses** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Ending Balance** |
| ***Total Material Weaknesses*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |

| **Effectiveness of Internal Control over Financial Reporting (FMFIA Section II)** | | | | | | |
|---|---|---|---|---|---|---|
| Statement of Assurance | Unqualified | | | | | |
| | | | | | | |
| **Material Weaknesses** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| No Material Weaknesses reported | | | | | | |
| | | | | | | |
| ***Total Material Weaknesses*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |

| **Effectiveness of Internal Control over Operations (FMFIA Section II)** | | | | | | |
|---|---|---|---|---|---|---|
| Statement of Assurance | Unqualified | | | | | |
| | | | | | | |
| **Material Weaknesses** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| No Material Weaknesses reported | | | | | | |
| | | | | | | |
| ***Total Material Weaknesses*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |

| **Conformance with financial management system requirements (FMFIA Section IV)** | | | | | | |
|---|---|---|---|---|---|---|
| Statement of Assurance | Systems conform to financial management system requirements | | | | | |
| | | | | | | |
| **Non-Conformances** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| No non-conformances reported | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| ***Total non-conformances*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** | ***0*** |

| **Conformance with Federal Financial Management Improvement Act (FFMIA)** | | |
|---|---|---|
| | Agency | Auditor |
| Overall Substantial Compliance | Yes | Yes |
| 1. System Requirements | Yes | |
| 2. Accounting Standards | Yes | |
| 3. USSGL at Transaction Level | Yes | |

# Financial Management Systems Plan

## Integrated Management Navigation Program

The Integrated Management Navigation (iManage) Program is the Department's solution for managing enterprise-wide systems initiatives. The initiatives aim to achieve improved financial and business efficiencies, integrated budget and performance and expanded electronic government in support of the President's Management Agenda. The iManage Program is a collaborative effort to modernize, consolidate, streamline, and integrate financial, budgetary, procurement, personnel, program and performance information. The program is supported at the core by a portal/central data warehouse that links common data elements from each of the Department's business systems and supports both external and internal reporting. The major system components that make-up iManage are:

- iManage Data Warehouse (IDW)/iPortal
- Standard Accounting and Reporting System (STARS)
- Corporate Human Resources Information System (CHRIS)
- Strategic Integrated Procurement Enterprise System (STRIPES)
- iManage Budget (iBudget)

The primary focus of the iManage Program has been on the modernization, integration and implementation of the Department's corporate financial and business systems. Significant accomplishments have been made in this area and additional work is in progress to complete the modernization of all business systems. However, iManage is now shifting much of its focus to the value of providing products and services to support the Department's strategic vision, mission and decision-making, as well as, interactive peer-to-peer participation. iManage must also address the future workforce needs, specifically: decreased learning curve and improved access to training; increased access to experts and peers; more work using the web and remote access; and improved access to systems and information. iManage will "Connect our People, Simplify our Work and Liberate our Data."

## Current Systems

**iManage Data Warehouse (IDW)/iPortal – IDW** is a central data warehouse linking common data elements from multiple DOE corporate business systems including human resources, payroll, travel, procurement and financial management (accounting and budget) systems. This data is integrated, aggregated and summarized to provide mission critical reporting and query capability.

The iPortal is the iManage "face" to its customers. It provides access to iManage applications, personalized dashboards, messaging (thresholds/alerts), discussion boards, collaboration capabilities, news, reporting, graphing and data exchange capabilities to DOE executives, managers and staff. An initial beta version of the iPortal, deployed August 2008, includes capabilities such as web conferencing and communities of practice. The iPortal will be an evolutionary process with new features being released on a regular schedule.

**Standard Accounting and Reporting System (STARS)** – STARS provides the Department with a modern, comprehensive and responsive financial management system that provides the foundation for linking budget formulation, budget execution, financial accounting, financial reporting, cost accounting and performance measurement. The financial management component will be integrated with the other major corporate business systems, procurement, budget formulation and execution and human resources.

**Corporate Human Resource Information System (CHRIS)** – CHRIS is a single, integrated Human Resource (HR) system created through a phased approach to provide the highest quality HR information and services to the Department's executives, managers and employees. The primary objectives for CHRIS are to enhance operational efficiencies; reduce paperwork; eliminate redundant information systems; eliminate non-value added work; and provide strategic information necessary to make informed human resource management decisions.

**Strategic Integrated Procurement Enterprise System (STRIPES) –** STRIPES is the procurement and contracts management component of iManage. STRIPES replaced and consolidated federal corporate, regional and local procurement-related systems across the Department. STRIPES automates all procurement and contract activities required or directly associated with planning, awarding and administering various unclassified acquisition and financial assistance instruments; thereby, increasing the internal efficiency of the Department. STRIPES was deployed at Headquarters and a few smaller offices April 2008. The majority of remaining field sites are scheduled for deployment in FY 2009.

## Systems Underway

**iBudget (formerly Standard Budget System)** – iBudget will be the first Department-wide integrated budget formulation and budget execution system. iBudget will standardize budget formulation; streamline budget execution processes; integrate budget and performance data; consolidate corporate budget data; provide analytic capability for "slice/dice" and "what-if" projections; and integrate with other business management and Field systems. Budget formulation will begin a phased deployment in FY 2009.

# Improper Payments Information Act Reporting

The Improper Payments Information Act (IPIA) of 2002, Public Law (P.L.) No. 107-300, requires agencies to annually review their programs and activities to identify those susceptible to significant improper payments. In addition, the National Defense Authorization Act for Fiscal Year 2002 (P.L. No. 107-107) established the requirement for government agencies to carry out cost effective programs for identifying and recovering overpayments made to contractors, also known as "Recovery Auditing." The OMB has established specific reporting requirements for agencies with programs that possess a significant risk of erroneous payments and for reporting on the results of recovery auditing activities.

## Improper Payments

Improper payments are monitored by the Department on an annual basis to ensure our error rates remain at minimal levels.

For determining payments subject to the Improper Payments Information Act, the Department includes all payments, whether from contracts or grants. The Departmental erroneous payment rate has remained below one percent since the inception of our tracking program in FY 2002.

## Recovery Auditing

The Department has established a policy for implementing recovery auditing requirements. This policy prescribes requirements for identifying overpayments to contractors and establishes reporting standards to track the status of recoveries. Analysis of payment activities confirmed a low percentage of overpayments and a high recovery rate. The Department will continue to focus on both the identification and recovery of improper payments to maintain our record of low payment errors and ensure effective stewardship of public funds.

**Recovery Auditing ($ in millions)**

| FY 2007 | | | | FY 2004 – FY 2006 | | FY 2004 – FY 2007 | |
|---|---|---|---|---|---|---|---|
| Amount Subject to Review | Actual Amount Reviewed and Reported* | Amounts Identified for Recovery | Amounts Recovered | Amounts Identified for Recovery | Amounts Recovered | Cumulative Amounts Identified for Recovery | Cumulative Amounts Recovered |
| $19,398 | $9,837 | $11 | $10 | $43.5 | $35.8 | $54.5 | $45.8 |

* Utilized a statistically determined sample size at the 90 percent level of confidence.

**Improper Payment Rates and Outlook ($ in millions)**

| | FY 2007 | | | FY 2008 | | | FY 2009 | | | FY 2010 | | | FY 2011 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Payment Type | Outlays $ | Improper Outlays $ | % of Improper Outlays | Outlays $ | Improper Outlays $ | % of Improper Outlays | Outlays $ | Improper Outlays $ | % of Improper Outlays | Outlays $ | Improper Outlays $ | % of Improper Outlays | Outlays $ | Improper Outlays $ | % of Improper Outlays |
| Vendor/ Contracts | 16,753 | 16.0 | .10 | 15,770 | 13.0 | .08 | 15,120 | 12.0 | .08 | 14,470 | 3.0 | .02 | 13,820 | 3.0 | .02 |
| Payroll | 6,373 | 3.0 | .05 | 6,428 | 2.0 | .03 | 6,163 | 2.0 | .03 | 5,898 | 1.0 | .02 | 5,633 | 1.0 | .02 |
| Travel | 438 | 0.4 | .09 | 283 | 0.3 | .11 | 271 | 0.3 | .11 | 260 | 0.1 | .02 | 248 | 0.1 | .02 |
| Other | 409 | 0.3 | .07 | 324 | 0.0 | .01 | 311 | 0.0 | .01 | 297 | 0.1 | .02 | 284 | 0.1 | .02 |
| Total | 23,973 | 19.7 | .08 | 22,805 | 15.3 | .07 | 21,865 | 14.3 | .07 | 20,925 | 4.2 | .02 | 19,985 | 4.2 | .02 |

# Other Statutory Reporting – Management's Response to Audit Reports

Pursuant to the Inspector General Act Amendments of 1988 (Public Law 100-504), agency heads are to report to Congress on the status of final action taken on audit report recommendations. This report complements a report prepared by the Department's IG that provides information on audit reports issued during the period and on the status of management decisions made on previously issued IG audit reports.

## Inspector General Audit Reports

The Department responds to audit reports by evaluating the recommendations they contain, formally responding to the IG, and implementing agreed upon corrective actions. In some instances, we are able to take corrective action immediately and in others, action plans with long-term milestones are developed and implemented. The audit resolution and follow-up process is an integral part of the Department's effort to deliver its priorities more effectively and at the least cost. Actions taken by management on audit recommendations increase both the efficiency and effectiveness of our operations and strengthen our standards of accountability.

During FY 2008, the Department took final action on 70 IG reports with the agreed upon actions including final action on five IG operational, financial and pre-award audit reports with funds put to better use. At the end of the period, 91 reports awaited final action.

## Status of Final Action on IG Audit Reports for FY 2008

The following chart provides more detail on the audit reports with open actions and the dollar value of recommendations and funds "put to better use" that were agreed to by management.

| Audit Reports | Number of Reports | Agreed-Upon Funds to Better Use ($ in millions) |
|---|---|---|
| Pending final action at start of FY 2008 | 114 | $324.8 |
| With actions agreed upon | 47 | $.7 |
| Total pending final action | 161 | $324.5 |
| Achieving final action | 70 | $196.8 |
| Requiring final action at end of FY 2008 | 91 | $127.7 |

## Inspector General's Contract Audit Reports

During FY 2008, there was one IG contract audit report pending final action.

### Contract Audit Reports Statistical Table FY 2008

Total Number of IG Contract Audit Reports (Contract and Financial Assistance) and the dollar value of disallowed costs:

| Contract Audit Reports | Number of Reports | Disallowed Costs* ($ in millions) |
|---|---|---|
| Pending final action at start of FY 2008 | 1 | $0 |
| With actions agreed upon | 0 | $0 |
| Total pending final action | 1 | $0 |
| Achieving final action | 0 | $0 |
| Recoveries | 0 | - |
| Reinstatements | 0 | - |
| Requiring final action at end of FY 2008 | 1 | $0 |

* The amount of costs questioned in the audit report with which the contracting officer concurs and has disallowed as a claim against the contract. Recoveries of disallowed costs are usually obtained by offset against current claims for payment and subsequently used for payment of other eligible costs under the contract.

## Government Accountability Office Audit Reports

The GAO audits are a major component of the Department's audit follow-up program. At the beginning of FY 2008 there were 43 GAO audit reports awaiting final action. During FY 2008, the Department received 30 additional final GAO audit reports, of which 21 required tracking of corrective actions and nine did not because the reports did not include actions to be taken by the Department. The Department completed agreed-upon corrective actions on 16 audit reports during FY 2008, leaving 48 GAO reports awaiting final action at year-end.

# Glossary of Acronyms

AFR – Agency Financial Report
APR – Annual Performance Report
ARO – Asset Retirement Obligations
BPA – Bonneville Power Administration
CAP – Corrective Action Plan
CCS – Carbon Capture and Storage
CD – Compact Disc
CERCLA – Comprehensive Environmental Response, Compensation, and Liability Act
CGS – Columbia Generating Station
CHRIS – Corporate Human Resources Information System
CIP – Corporate Implementation Plan
CPA – Cleanup Priority Act
CSRS – Civil Service Retirement System
D&D – Decontamination and Decommissioning
DOD – Department of Defense
DOE – Department of Energy
EEOICPA – Energy Employees Occupational Illness Compensation Program Act
EERE – Office of Energy Efficiency and Renewable Energy
EM – Environmental Management
ERISA – Employee Retirement Income Security Act
ES&H – Environment, Safety, and Health
ESA – Endangered Species Act
ESC – Executive Steering Committee
EVM – Earned Value Management
FCRPS – Federal Columbia River Power System
FE – Office of Fossil Energy
FERC – Federal Energy Regulatory Commission
FERS – Federal Employees Retirement System
FFMIA – Federal Financial Management Improvement Act
FISMA – Federal Information Security Management Act
FMFIA – Federal Managers' Financial Integrity Act
FY – Fiscal Year
GAO – Government Accountability Office
GMRA – Government Management Reform Act
GSP – Graded Security Protection
HEDLP – High Energy Density Laboratory Plasmas
HEDP – High Energy Density Plasmas
HEU – Highly Enriched Uranium
HR – Human Resource
HTS – High Temperature Superconductivity
HWMA – Hazardous Waste Management Act
IDW – iManage Data Warehouse
IG – Inspector General
IGCC – Integrated Gasification Combined Cycle
IOU – Investor Owned Utility
IPIA – Improper Payments Information Act
IT – Information Technology
LANL – Los Alamos National Laboratory
LEU – Low Enriched Uranium
MMS – Mineral Management Service
MT – Metric Tons
MTU – Metric Tons of Uranium
NAPA – National Academy of Public Administration
NE – Office of Nuclear Energy
NEPA – National Environmental Policy Act
NNSA – National Nuclear Security Administration
NRC – Nuclear Regulatory Commission
NRD – Natural Resources Damages
NWF – Nuclear Waste Fund
NWPA – Nuclear Waste Policy Act
OCRWM – Office of Civilian Radioactive Waste Management
OMB – Office of Management and Budget
OPM – Office of Personnel Management
PAR – Performance and Accountability Report
PART – Program Assessment Rating Tool
PL – Public Law
PMA – Power Marketing Administrations
PMA – President's Management Agenda
PMR – Procurement Management Review
PRB – Post Retirement Benefits
R&D – Research and Development
REP – Residential Exchange Program
RIK – Royalty-in-Kind
ROD – Record of Decision
RPSA – Residential Purchase and Sale Agreements
RSSI – Required Supplementary Stewardship Information
SFAS – Statement of Financial Accounting Standards
SFFAS – Statement of Federal Financial Accounting Standards
SNF – Spent Nuclear Fuel
SPR – Strategic Petroleum Reserve
STARS – Standard Accounting and Reporting System
STRIPES – Strategic Integrated Procurement Enterprise System
TAD – Transportation, Aging and Disposal
TVA – Tennessee Valley Authority
UF6 – Uranium Hexafluoride
USEC – United States Enrichment Corporation
WAPA – Western Area Power Administration

# Internet References/Links

**2008 DOE PAR Pilot Reports**
http://www.cfo.doe.gov/cf1-2/2008parpilot.htm

**Atomic Energy Commission**
http://www.cfo.doe.gov/me70/manhattan/civilian_control.htm

**Basic energy sciences**
http://www.science.doe.gov/Program_Offices/BES.htm

**Biological and environmental research**
http://www.science.doe.gov/ober/ober_top.html

**Biomass & Biorefinery Systems R&D**
http://www1.eere.energy.gov/biomass/

**Budget and Performance Integration Initiative**
http://www.whitehouse.gov/omb/budintegration/index.html

**CFOJobs**
http://www.cfojobs.gov/

**Cleaning up the environment**
http://www.cfo.doe.gov/strategicplan/environmental.htm

**Computational science**
http://www.energy.gov/sciencetech/computing.htm

**Department of Energy**
http://www.energy.gov/index.htm

**Energy Information Administration**
http://www.eia.doe.gov

**Energy security**
http://www.cfo.doe.gov/strategicplan/energysecurity.htm

**Evaluation Report on the Department's Unclassified Cyber Security Program - 2008**
http://ig.energy.gov/documents/IG-0801.pdf

**ExpectMore.gov**
http://www.whitehouse.gov/omb/expectmore/

**FutureGen**
http://www.fossil.energy.gov/programs/powersystems/futuregen/

**Geothermal Technology**
http://www1.eere.energy.gov/geothermal/

**High Temperature Superconductivity (HTS)**
http://www.oe.energy.gov/hts.htm

**Hydrogen Technology**
http://www1.eere.energy.gov/hydrogenandfuelcells/

**Manhattan Project**
http://www.cfo.doe.gov/me70/manhattan/

**National Nuclear Security Administration**
http://nnsa.energy.gov/

**Nuclear stockpile**
http://www.cfo.doe.gov/strategicplan/nuclearsecurity.htm

**Office of Electricity Delivery and Energy Reliability**
http://www.oe.energy.gov/

**Office of Energy Efficiency and Renewable Energy**
http://www.eere.energy.gov/

**Office of Fossil Energy**
http://fossil.energy.gov/

**Office of Management and Budget**
http://www.whitehouse.gov/omb/

**Office of Nuclear Energy**
http://www.nuclear.gov

**President's Management Agenda**
http://www.whitehouse.gov/omb/budintegration/pma_index.html

**Program Assessment Rating Tool**
http://www.whitehouse.gov/omb/part/

**Reports Consolidation Act of 2000**
http://www.cbo.gov/ftpdocs/21xx/doc2193/s2712.pdf

**Results.gov**
http://www.whitehouse.gov/results/

**Roadrunner at Los Alamos National Laboratory (LANL)**
http://www.lanl.gov/roadrunner/

**Root Cause Analysis Corrective Action Plan**
http://management.energy.gov/documents/Final_CAP_Report_Website.pdf

**Science and technology**
http://www.cfo.doe.gov/strategicplan/scientific.htm

**Solar Energy**
http://www1.eere.energy.gov/solar/

**Strategic Petroleum Reserve**
http://www.spr.doe.gov/

**Strategic Plan**
http://www.energy.gov/about/strategicplan.htm

**Strategic Themes**
http://www.cfo.doe.gov/strategicplan/mission.htm

**Top 500 supercomputer sites**
http://www.top500.org/list/2008/11/100

**Vehicle Technologies**
http://www1.eere.energy.gov/vehiclesandfuels/

**Water Power**
http://www1.eere.energy.gov/windandhydro/

**Wind Energy**
http://www1.eere.energy.gov/windandhydro/

**Yucca Mountain**
http://www.ocrwm.doe.gov/ym_repository/index.shtml

**The Department welcomes your comments on how to improve the Agency Financial Report.**

Please provide comments and requests for additional copies to:

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**This report available at**
**www.cfo.doe.gov/cf1-2/2008parpilot.htm**