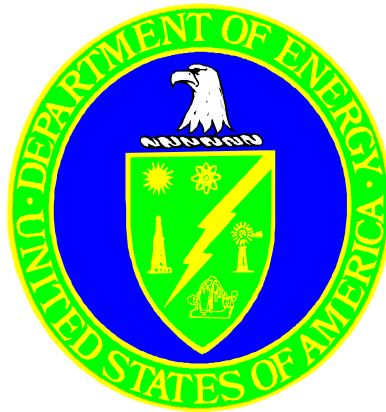


U.S. DEPARTMENT OF ENERGY

Report on Carryover Balances for Fiscal Year Ended September 30, 1999



March 28, 2000

Prepared by: Office of Chief Financial Officer

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SUMMARY OF ANALYSIS

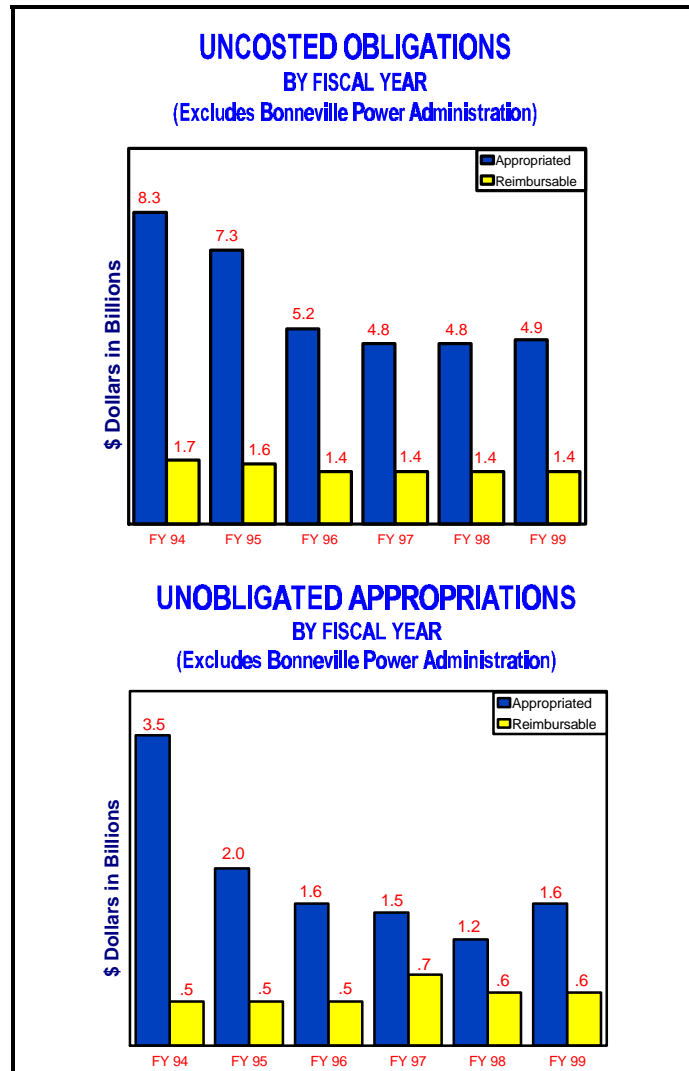
Over the past several years, the Department of Energy (DOE) has made significant progress in reducing its level of uncosted balances. In fact, since FY 1997, the Department has maintained uncosted balance levels lower than the preceding 16 years. In FY 1999, total Department-wide balances remained fairly constant with the FY 1998 year-end level.

As Exhibit 1 shows, since FY 1994, the Department has reduced its uncosted balances for appropriated activities by \$3.4 billion (41%). In FY 1999, total department wide uncosted balances increased \$86.3 million, as compared to FY 1998. However, uncosted balances as a percentage of total obligational authority decreased by 0.3%. Most of the increase is related to Defense Environmental Management Privatization (+\$361.2 million) where work will not be costed until specified goals are met and services are delivered.

Looking at the last three years, balances have remained fairly constant. This leveling off is consistent with the Department's analysis efforts which indicate that DOE has approached its natural uncosted balance level. To this end, the Department's uncosted balance was \$23 million below target levels in FY 1998 and \$51 million below in FY 1999. Based on these variances and the detailed review and analysis of balances throughout DOE, we believe that any additional reductions in uncosted balances are expected to be relatively minor (barring any extraordinary funding issues).

In addition to our work on managing uncosted obligations, the Department has also significantly reduced unobligated balances for appropriated activities since FY 1994. In FY 1999, unobligated balances for appropriated activities increased by \$347.4M million over FY 1998 levels. This was primarily due to a major increase in privatization funding and an emergency supplemental appropriation received late in the fiscal year, both of which are discussed later in the report.

Exhibit 1



Despite these unforeseen increases, our unobligated balances as a percent of total obligational authority decreased from 9% to 8%. This further demonstrates the Department's commitment to truly reducing excess balances rather than recategorizing them. These reductions are representative of the increased emphasis being placed on better understanding, reviewing, and managing these balances throughout the Department.

Finally, the Department anticipates using \$106.2 million of prior year balances for its FY 2001 Budget Request. This is in addition to \$161.3 million being used to fund Departmental programs in FY 2000. The Department's use of prior year balances between FY 1999 and FY 2001 (projected) is \$441.7 million. (Figures as of February 7, 2000)

Composition of FY 1999 Year End Uncosted Obligations

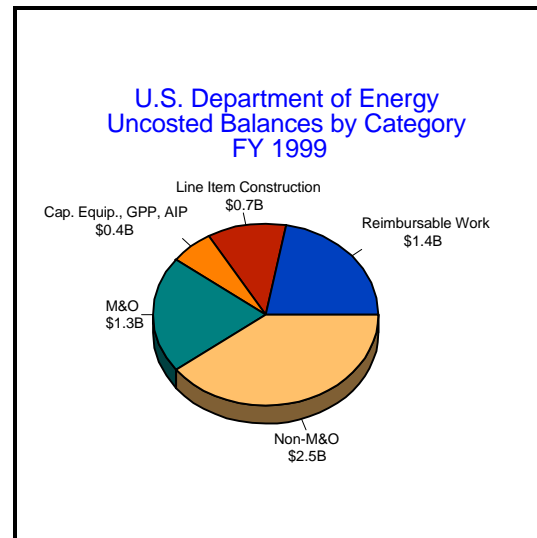
Exhibit 2 presents the composition of the Department's \$6.3 billion uncosted balance as of September 30, 1999.

\$1.4 billion was associated with reimbursable work funded by appropriations and funds of other Federal agencies and non-Federal entities. These funds are under external control and cannot be used to offset DOE appropriations. Another \$0.7 billion is associated with Line Item construction projects. Uncosted balances for construction activities are reviewed annually through the Congressional Report on Prior Year Construction Projects.

\$0.4 billion is related to Capital Equipment, General Plant Projects (GPP) and Accelerator Improvement Projects (AIP). Another \$1.3 billion is attributed to uncosted balances arising from the operating activities of the Department's management and operating (M&O) contractors, including Integrated and Integrating contractors and subcontracts. The final \$2.5 billion results from operating and prime contract activities not related to the Department's M&Os.

The balances at September 30, 1999, are not static but reflect a snapshot in time. As DOE programs continue to function, funds uncosted at fiscal year end may be partially or completely expended by the mid-point of the next fiscal year or may have already been identified and/or withdrawn to offset future budget requests. Remaining balances are being monitored to assure they do not inappropriately increase uncosted balances at year-end FY 2000.

Exhibit 2



Background & Analysis Approach

It is not possible to completely eliminate uncosted obligations. Uncosted obligations represent the portion of contractual obligations related to goods and services which have not yet been received, used, or consumed. The Department of Energy is one of only a few Federal agencies which has a cost-based accounting system, consistent with OMB cost and accrual accounting requirements.

On October 24, 1992, the President signed the Energy Policy Act of 1992 into law (P.L. 102-486). Section 2307 of the Act requires the Department to submit an annual report to Congress on the status of its uncosted obligations. We have expanded the scope of this report to include both uncosted and unobligated balances to present a more comprehensive picture of Departmental performance in managing carryover balances. This is the eighth annual submission of that report.

In April 1996, the General Accounting Office (GAO) issued its report "DOE Needs to Improve its Analysis of Carryover Balances." In that report, GAO stated that the Department "does not have a standard, effective approach for identifying excess carryover balances that may be available to reduce future budget requests. Instead it relies on broad estimates of potentially excess balances in its individual programs. As a result, DOE cannot be sure whether the amount of carryover balances it proposes for use by its programs is adequate, too small, or too large..."

Recognizing there is a legitimate rationale for retaining some level of uncosted balances and to address GAO concerns, the DOE developed a comprehensive approach for the systematic analysis of uncosted balances. This approach is based on establishment of percentage thresholds specifying levels of uncosted balances consistent with sound financial management for specific types of financial/contractual arrangements. This allows the Department to evaluate its overall performance based on the variance between target thresholds and actual balances.

A threshold is defined as an analytical reference point (i.e., a specific dollar value or percentage of funds available) beyond which uncosted obligated balances should be given greater scrutiny. That does not mean that balances in excess of threshold are inappropriate. It does mean these balances will become subject to more intense review and will require more detailed justification to accurately determine their appropriateness.

In order to focus analysis efforts on those areas where the Department can exercise the most control, costs and uncosted balances are segregated into discrete categories which display similar and predictable costing rates. The following table outlines the various uncosted categories and their respective thresholds:

CATEGORY	THRESHOLD
Contractor operating costs: This category includes costs incurred by Major Operating Contractors (MOC) which manage Departmental sites.	13% of the Total Funds Available to Cost (TAC) for operating activities for the fiscal year just ended.

CATEGORY	THRESHOLD
Capital Equipment, GPP & AIP: Capital equipment meets the accounting criteria for capitalization. General Plant Projects and Accelerator Improvement Projects are grouped in this category because they share similar costing patterns.	50% of the Total Funds Available to Cost (TAC) for capital equipment, GPP and AIP respectively for the fiscal year just ended.
Non-Integrated Operating & Prime Contract Costs: Costs for other than M&O/IMC contractors.	17% of the Total Funds Available to Cost (TAC) for non-integrated activities for the fiscal year just ended.
<ul style="list-style-type: none"> ◆ Line Item Construction ◆ Grants ◆ CRADAs and other Cooperative Agreements ◆ Reimbursable Work 	Not Subject to a Specific Threshold. These Costs should be reported and evaluated on a case-by-case basis throughout the life of the contractual instruments. (Consistent with GAO's approach)

The analysis process requires all Departmental elements (Headquarters organizations, Field organizations, Major Operating Contractors) to review their uncosted balances against the above thresholds and report the results. Each element arrays their uncosted balances in a standard format which discloses programs with uncosted balances in excess of the defined thresholds. For each program that exceeds the defined threshold, a narrative justification is required which explains the major drivers for the balances and either a request to retain the balances based on a defined planned usage or an acknowledgment that the balances can be withdrawn for higher priority use.

The increased emphasis on analyzing these balances as a result of this new direction has contributed greatly to the Department's success in reducing its uncosted balances.

Summary Threshold Analysis

Since FY 1997, the Department has maintained uncosted balance levels lower than the preceding 16 years having shown a steady decline from the FY 1993 level of \$10.8 Additionally, DOE's FY 1999 uncosted balance is \$51 million below the anticipated net threshold.

Chart 3 of the appendix presents the results of the Department's threshold analysis. Exhibit 3 details the threshold results for seven selected appropriations which exceeded the assigned thresholds in FY 1999. Explanations of significant variances follow.

Exhibit 3

Appropriation	FY 1999 Ending Uncosted Balance	FY 1999 Threshold Amount	Variance	Percent Variance
89X0249 Defense Environmental Mgmt. Privatization	\$361.2M	\$61.4M	\$299.8M	488%
89X0243 Other Defense Activities	\$567.1M	\$462.5M	\$104.6M	23%
89X5227 Nuclear Waste Fund	\$59.3M	\$37.7M	\$21.6M	57%
89X0213 Fossil Energy Research & Development	\$255.3M	\$195.0M	\$60.3M	31%
89X0215 Energy Conservation	\$338M	\$266.3M	\$71.7M	27%
89X0218 Strategic Petroleum Reserve	\$57.6M	\$38.0M	\$19.6M	52%
89X0219 Naval Petroleum & Oil Shale Reserves	\$29.5M	\$9.8M	\$19.7M	201%

EXPLANATION OF SIGNIFICANT THRESHOLD VARIANCES:

Energy and Water Development Appropriations

Appropriation Number 89X0249, Defense Environmental Management Privatization -

Exceeds appropriation threshold by a net amount of \$299.8 million. The major driver for this uncosted balance is up-front funding for projects under the Privatization Initiative. The Privatization Initiative is designed to shift risk and responsibility for financing construction of major cleanup or waste disposal facilities to the private sector. Typically, the government sets aside budget authority to cover contractual obligations and to provide an incentive for private sector investment, but does not pay the contractor until specified goals are met and services are delivered. If the government terminates the contract for convenience, funds budgeted would be used to liquidate the government's termination liability. The nature of these contracts produces higher than average uncosted balances as funds are held until the contractor constructs the required waste treatment facility and begins processing waste. These balances are reviewed each year to ensure that the remaining uncosted balances are in line with the level of planned privatization activities and the funds remain necessary to support the initiatives for which they were originally appropriated.

Appropriation Number 89X0243, Other Defense Activities - Exceeds the appropriation threshold by a net amount of \$104.6 million (down from \$130.2 million last year), primarily due to cooperative agreements related to the Materials, Protection, Control, and Accounting (MPC&A) program and the Initiatives for Proliferation Prevention (IPP) program. The MPC&A program is working to upgrade physical security at over 40 sites in Russia that use or store weapons-usable nuclear materials to prevent their unauthorized removal. The IPP program is designed to employ former Soviet weapons scientists, engineers, and technicians in peaceful projects at their scientific institutes and prevent their acceptance of work in countries wanting to develop nuclear weapons programs.

Both the MPC&A and IPP programs involve negotiating unique agreements with countries of the Former Soviet Union (FSU) which result in higher than usual uncosted balances for a number of reasons. First of all, many of these agreements are multi-year in nature, which leaves significant uncosted balances in the early years of the contract since portions of the work may be scheduled for the subsequent year(s). Secondly, DOE laboratories must have full funding in hand before beginning contract discussions with Russian institutes, while the ensuing contract negotiations and performance of work may then span several months and must take advantage of limited windows of opportunity. Further, payments cannot be made to Russian institutions until after specified deliverables are completed and accepted.

In addition, the MPC&A program has legally committed the majority of its uncosted balances into contracts with the Russians by the end of each fiscal year. These balances are then almost entirely costed in the following fiscal year upon completion and acceptance of the contracted work. Through this funding process, significant balances are expected at the end of the fiscal year, however, these balances represent legal commitments by the Government which must be met in the subsequent year. While the balances are significant, the Department believes it has achieved an equilibrium between year-end balances and the amount of work that can be reasonably achieved in the following fiscal year. Withdrawal of these funds or rapid acceleration of work would yield severe adverse impacts on the program success and increased costs.

While these issues are largely unavoidable, the Department continues to look for opportunities to mitigate the lag between obligations and costs. However, these funds are still necessary to achieve the programmatic activities for which they were originally appropriated.

Appropriation Number 89X5227, Nuclear Waste Fund - Exceeds appropriation threshold by a net amount of \$21.6 million. This balance is primarily the result of: 1) purchase commitments placed at the end of the fiscal year which are largely earned and will be costed in FY 2000; 2) management and operating contractor performance fee which is held until evaluated and approved in FY 2000; 3) a lease termination liability required by OMB Circular No. A-11; 4) procurement delays in awarding certain contracts; and, 5) delays in the Yucca Mountain Site Characterization effort as a result of deficiencies detected by the quality assurance program. These deficiencies, while causing increased uncosted balances at year end, resulted in a redirection of planned work with little impact on final cost and schedule. All of these balances remain necessary to support the activities for which they were originally appropriated.

Appropriation Number 89X0222, Science - Although the uncosted balances for the Science account remain under the threshold guidelines, there was a \$114.8 million increase over the FY 1998 level. This increase in balances can be explained by two major factors: the Spallation Neutron Source construction project received a significant increase in funding which will cost out over time, and Congressionally mandated projects which are in various stages of approval.

Interior and Related Agencies Appropriations

Appropriation Number 89X0213, Fossil Energy Research and Development - The uncosted balance exceeds the appropriation threshold by a net amount of \$60.3 million. It is primarily the result of a number of items including: 1) a short-term continuing resolution (63 days) in FY 1999 which limited funding availability early in the fiscal year and impacted program planning and funding schedules, thus delaying obligations which resulted in lower than usual costs for the year; 2) the presence of cost shared research and development contracts which are costed over a particular period or throughout the life of the work and which may span a multi-year period; 3) the award of a number of contracts late in the fiscal year in response to Broad-based Agency Announcements and Program Solicitations; and 4) uncosted balances retained to pay final vouchers for contracts currently in closeout and awaiting final audits by DCAA. All of these funds are still necessary to fund the programmatic activities for which they were originally appropriated.

Appropriation Number 89X0215, Energy Conservation - Exceeds appropriation threshold by a net amount of \$71.7 million, primarily the result of contracting mechanisms and operating procedures (such as cost-shared contracts and competitive R&D awards) necessary to conduct the types of research and development activities supported by the Energy Conservation appropriation. These contracting vehicles inherently provide levels of uncosted balances which are higher than normal operating funding, but which are equally justifiable.

For example, Energy Efficiency frequently enters into cost-shared research activities, which are subcontracted through the Department's laboratories. The "Building America" program and the "Partnership for a New Generation of Vehicles" program both fall into this category. Funds for these and other cost-shared activities are most often multi-year in nature and require full up-front funding to ensure program continuity. This funding process, while necessary, results in higher uncosted balances than normal operating activities due to the out year funding commitments.

Another characteristic unique to Energy Conservation research activities is the length of time required to make competitive awards after the start of the fiscal year. Competitive solicitations are subject to a two month solicitation period, a two month application period, and a two to three month period for final award. This delays the obligation of funds significantly. Funds which might otherwise be obligated in December, for example, would now be obligated in June or July. Therefore, an additional 6 to 7 months (approximately 48 to 56 percent) of uncosted obligations might be expected at year end.

These are typical examples of circumstances which affect uncosted balances for this appropriation. The Department continues to monitor these activities to ensure that any over

threshold amounts are in fact attributable to these types of contractual agreements. These funds are still necessary to achieve the programmatic activities for which they were originally appropriated.

Appropriation Number 89X0218, Strategic Petroleum Reserve - The uncosted balance exceeds the appropriation threshold by a net amount of \$19.6 million. This is primarily the result of a number of items including: 1) \$14.7 million for firm fixed price construction projects under the Life Extension Program; 2) \$2.7 million for major firm fixed price maintenance construction projects; 3) \$2.1 million for systems upgrades; and, 4) \$2.3 million for terminal services work in process, plus ongoing activities associated with Weeks Island decommissioning, Royalty In-Kind program receipts, and start of FY 2000 operations with three to four weeks of initial program activity. All of these balances should be retained and are required to perform the tasks for which they were originally appropriated.

Appropriation Number 89X0219, Naval Petroleum and Oil Shale Reserves - The uncosted balance exceeds the appropriation threshold by a net amount of \$19.7 million. It is primarily the result of a number of items including: 1) both NPOSR field offices terminated Management and Operating (M&O) contractors when the divestment of (Elk Hills) NPR-1, occurred. The remaining uncosted balances will be reduced over time as closeout issues are resolved and the contracts are finally closed-out; and 2) the contract utilized for the operation of NPR-3 and NOSR-3 is in contract closeout. The uncosted balance will be used to fund contingent liabilities pending legal actions. All carryover funds will be required to fund operations through FY 2001 in the absence of new appropriations.

Unobligated Balance Analysis

Because the majority of the Department's appropriations are "No-Year" funds, balances must be reviewed to ensure that any remaining unobligated funds are appropriate to fund on-going Departmental activities for which they were originally appropriated, to offset future budget requests, or to be utilized in other aspects of the Congressional budget process. Chart 4 of the appendix shows the Department's unobligated balances by appropriation. The analysis below provides explanations of the major drivers for 80 percent of the Department's unobligated dollars.

EXPLANATION OF SIGNIFICANT BALANCES:

Defense Environmental Management Privatization - (\$397.1M Unobligated, 78% TOA) - The major driver for this unobligated balance is the requirement for up-front funding for projects under the Privatization Initiative. The Privatization Initiative is designed to shift risk and responsibility for financing construction of major cleanup facilities to the private sector. Typically, the government sets aside budget authority to cover contracted obligations and to provide an incentive for private sector investment, but does not pay the contractor until specified goals are met and services are delivered. If the government terminates the contract for convenience, funds budgeted would be used to liquidate the government's termination liability. The nature of these contracts produces higher than average unobligated balances as funds are held

until the contractor constructs the required waste treatment facility and begins processing waste. These balances are reviewed each year to ensure that the remaining unobligated balances are in line with the level of planned privatization activities and remain necessary to support the initiatives for which they were originally appropriated.

Other Defense Activities - (\$271.5M Unobligated, 12% TOA) -The major drivers for this unobligated balance include:

- 1) A \$200M emergency supplemental appropriation received late in FY 1999 as the initial funding required for U.S. assistance to Russia to begin the implementation of a U.S./Russian plutonium disposition accord. These funds will be expended over a 3-4 year period. Additionally, \$49M of the \$200M is being used as a FY 2000 offset for use of prior year balances. The FY 2001 budget requests an advance appropriation of \$49M to become available in FY 2004. The FY 2000 supplemental request also defers the use of \$40M of the Russian plutonium disposition funds until FY 2003. This would restore funding for Russian plutonium disposition to \$200M;
- 2) \$18.4 M for the construction of a Mixed Oxide Fuel fabrication facility which is pending a record of decision for site specific work;
- 3) \$5.3 M in carryover construction funds for a multi-year project initiated in FY 1997 at the Pantex Plant;
- 4) \$3.7 M for contracts between labs and Russian institutions for plutonium disposition technology testing which require long lead times; and,
- 5) the remaining \$43.6M will be used for operations and maintenance and workforce 21 initiatives in FY 2000.

All funds remain necessary to support the ongoing activities for which they were appropriated.

Defense Nuclear Waste Disposal - (\$85.0M Unobligated, 31% TOA) - These funds continue to remain in a Congressional reserve via the FY 1996 Energy and Water Development Appropriation Act which reserved the \$85.0M in the Defense Nuclear Waste disposal appropriation pending legislation for an interim storage facility.

Interior and Related Agencies Appropriations

Naval Petroleum and Oil Shale Reserves - (\$51.6M Unobligated, 97% TOA) - The unobligated balance is primarily the result of ceasing operating activities at the Elk Hills oil field in February 1998 when the sale and subsequent transfer to Occidental Petroleum was completed. No new budgetary authority is being sought for FY 2001 and the remaining unobligated balance is therefore necessary to pay for on-going programmatic activities associated with the sale.

Strategic Petroleum Reserves Petroleum Account - (\$32.7M Unobligated, 99% TOA) - The Department is required to support petroleum drawdown activities, the occurrence of which is unpredictable. However, the Department must be responsive at all times. The current unobligated balance for this appropriation provides the source of funds to finance about 55 percent of the incremental costs of a 6-month drawdown, including the cost of electricity to pump hundreds of millions of barrels of oil, 24 hour per day operations, frequent crude oil monitoring and testing, increased maintenance, and enhanced security.

The funds are also for the purpose of acquiring, transporting, and injecting crude oil into the Reserve. The initiative to take 28 million barrels of Federal royalty oil for the Reserve will require some incremental operational funds that would come from the facilities budget, but may also require transportation of the oil which might cost up to \$1 per barrel and would be paid for from the SPR Petroleum Account. The SPR Office is also evaluating bids for storage of commercial oil, and it is possible that there will be marginal costs for that initiative that would also be paid for from the SPR Petroleum Account

Clean Coal Technology - (\$411.1M Unobligated, 96% TOA) - The Clean Coal Technology (CCT) Program uses Cooperative Agreements that require at least a 50 percent cost-sharing with the private-sector participants. Advance appropriations were used to assure private-sector participants that funding would be available for the entire federal commitment under the terms of the Cooperative Agreements. The Department has two remaining Cooperative Agreements with unobligated funding commitments totaling \$228 million. Funding for Cooperative Agreements is provided in increments corresponding to predefined project milestones. Due to project schedule delays, the next funding requirements for the remaining Cooperative Agreements are scheduled for Fiscal Year 2001.

The main drivers behind the unobligated balance for the CCT Program are the delays encountered in proceeding to the design and construction phases for the two projects mentioned. In addition there are some amounts for unobligated commitments for active Cooperative Agreements, funding for future Program administration costs (program direction), and reserve funds that can be used by the Department to share in project cost growth up to 25 percent of the original federal commitment. The unobligated balance is necessary to fund these activities as there are no new appropriations available for the CCT Program.