



U.S. DEPARTMENT OF ENERGY AGENCY FINANCIAL REPORT



FISCAL YEAR 2007

— 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 2007, the Department has chosen to produce an alternative report to the consolidated PAR and to participate in the FY 2007 pilot pursuant to the Office of Management and Budget's (OMB) Circular A-136. The Department's FY 2007 pilot reporting includes the following three components and is available at the website below:

Agency Financial Report (AFR) [available November 15, 2007]

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 February 4, 2008]

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.

Highlights [available February 1, 2008]

This document will summarize the Department's financial and performance information from the AFR and APR using a forward-looking perspective.

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.

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 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 Inspector General 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 Performance and Accountability Report.

Improper Payment Information Act (IPIA) of 2002

– requires reporting on agency efforts to identify and reduce erroneous payments.

All pilot reporting components will be available at
www.cfo.doe.gov/cf1-2/2007parpilot.htm

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— Message from the Secretary —



I am pleased to present the Department of Energy's fiscal year 2007 Agency Financial Report (AFR). This report is the first of three integrated reporting components that the Department will issue through our participation in an alternative reporting pilot program with the Office of Management and Budget. The remaining two pilot report components will be issued in conjunction with the submission to Congress of the Department's fiscal year 2009 budget request in February 2008. This alternative reporting will enhance the Department's ability to present our information in a more meaningful and transparent manner for the public.

This past year was exciting for the Department because it was our first under the Department's new strategic plan. This plan provides the roadmap to address the energy, environmental and nuclear security challenges before us. I am very proud of the work we have accomplished for the American public. Each day, we are working toward our mission of "Discovering the solutions to power and secure America's future."

The Department's strategic themes – *Energy Security, Nuclear Security, Scientific Discovery and Innovation, Environmental Responsibility and Management Excellence* – serve as the basic guide for us to address the Nation's energy, environmental, and nuclear security challenges through the Department's scientific discovery and innovation initiatives.

Energy Security

The Advanced Energy Initiative aims to increase investment in clean energy sources that will help transform how we fuel our vehicles and power our homes and businesses. To that end, the Department is focused on diversifying America's energy supply, improving our energy efficiency and expanding supplies of clean energy. We are emphasizing technologies with the potential to reduce our growing reliance on oil imports and to produce clean electricity with reduced emissions. Over the past five years, the U.S. solar and wind energy industries have seen explosive growth. In fiscal year 2007, an additional 3,000 megawatts of wind and approximately 200 megawatts of solar capacity were installed in the United States. This newly installed capacity can power 850,000 households and will avert seven million tons of carbon dioxide emissions that might otherwise have been produced from traditional power sources.

Nuclear Security

With the ever present threat of terrorism, security of the nuclear weapons and materials around the world has never been more important. The Department maintains and enhances the safety, security, reliability and performance of the U.S. nuclear weapons stockpile in support of Department of Defense requirements. A significant challenge to the Department is providing a responsive nuclear weapons infrastructure that is smaller, safer, more secure and reliable, and more responsive to changing technical, geopolitical and military requirements. The Department continues to strengthen innovative programs around the world to address nonproliferation priorities and combat global nuclear terrorism. As a direct result of this effort, the Department has worked with Russia to convert more than 300 metric tons of former Soviet weapons highly enriched uranium to low-enriched uranium for use in U.S. nuclear power plants.

Scientific Discovery and Innovation

Developing revolutionary, science-driven technology is at the heart of the Department's mission. Investing in science is vital to sustaining our economic position in the world. Estimates are that half of the growth in the U.S. economy in the last 50 years had a grounding in Federal funding of scientific and technological innovation. American taxpayers have received great value for their investment in the basic research sponsored by the Department. To ensure that America remains at the forefront in an increasingly competitive world, the Department is pursuing new transformational technologies in the cutting-edge scientific fields of the 21st century – areas like nanotechnology, materials science, biotechnology and high-speed computing. President Bush's American Competitiveness Initiative commits to doubling the Federal investment in the most critical basic

research programs in the physical sciences over the next ten years. In fiscal year 2007, the Department launched three new Bioenergy Research Centers, which will address inherently interdisciplinary scientific problems requiring scientific expertise and technological capabilities that span the physical and biological sciences. Some of the activities these Centers will be focused on include genomics, microbial and plant biology, analytical chemistry, computational biology and bioinformatics, and engineering.

Environmental Responsibility

The Department is ensuring the protection of human health and the environment by cleaning up Cold War legacy waste and working to establish a national permanent nuclear waste repository at Yucca Mountain, Nevada. Like many of the Department's major programs, the environmental cleanup and the nuclear waste repository programs have undergone management and programmatic reforms, resulting in improvements in operational effectiveness and efficiency. By the end of fiscal year 2007, the Department completed cleanup at 86 of its 108 Cold War legacy waste sites, a significant achievement. However, the remaining large sites, Savannah River, Idaho National Laboratory, Portsmouth, Paducah, Oak Ridge and Hanford, present enormous challenges to the Department.

Management Excellence

By 2010, over a quarter of the Department's current workforce will be eligible to retire. Nuclear and electrical engineers, contract and program managers, and human resource specialists are critical to the continued success of the Department's programs. To help attract the brightest and most driven employees, the Department adopted a new 5-year Human Capital Management Strategic Plan. This plan, comprised of 43 programs and initiatives, will enhance productivity and accountability and assure the Department has the right people with the right skills and the right jobs to accomplish its mission.

Financial and Program Performance Data

The independent public accounting firm KPMG LLP, conducted an audit of the Department's fiscal year 2007 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 during the last three years to overcome several financial and accounting challenges and can now demonstrate the results of our promise to provide 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.

Conclusion

As this Agency Financial Report demonstrates, the Department is committed to making a positive difference in the lives of all Americans. We recognize the importance of our work to the country's economic, environmental, and national security and embrace our role in powering and securing America's future.



Samuel W. Bodman
November 14, 2007







MANAGEMENT'S DISCUSSION AND ANALYSIS

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

— History and Mission —

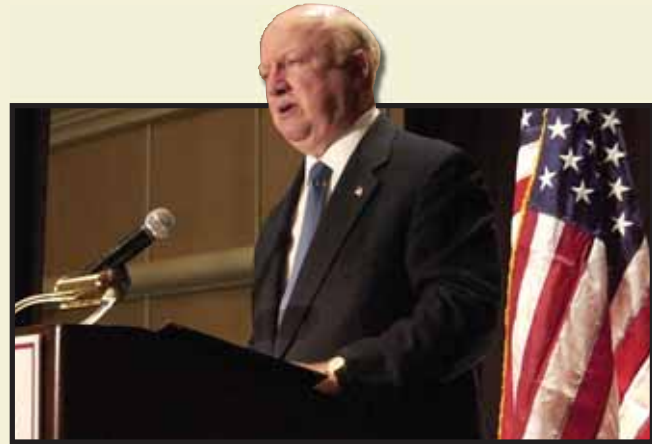
Our Mission

DISCOVERING THE
SOLUTIONS TO POWER AND
SECURE AMERICA'S FUTURE



Our Vision

A UNIFIED DEPARTMENT OF ENERGY
THAT KEEPS ITS COMMITMENTS
TO ACHIEVE RESULTS FOR AMERICA



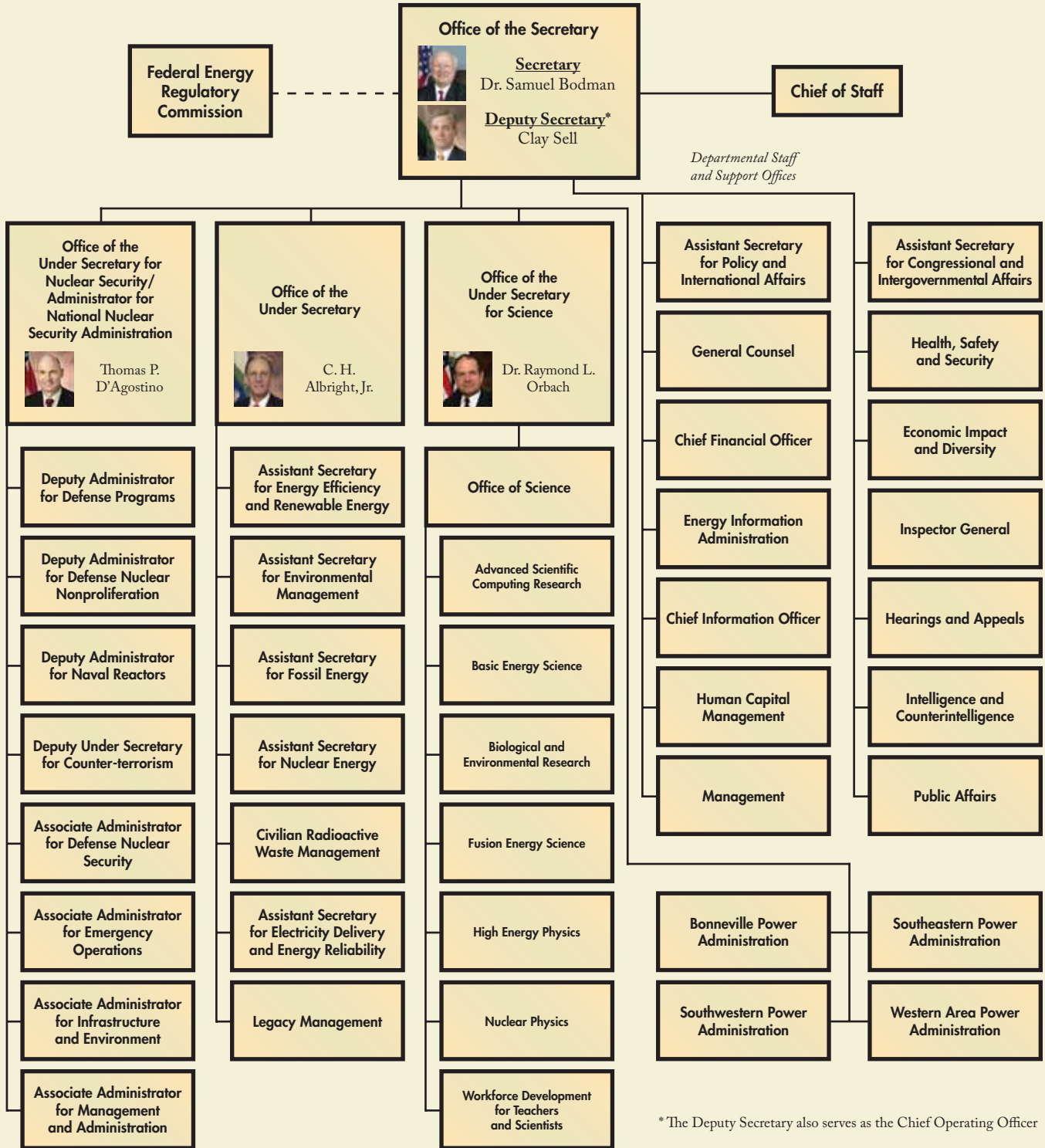
The Department has one of the richest and most diverse histories in the Federal Government, with its lineage tracing back to the Manhattan Project and the race to develop the atomic bomb during World War II. Following that war, Congress created the Atomic Energy Commission in 1946 to oversee the sprawling 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.

— Organization Structure —

Organizational Highlights

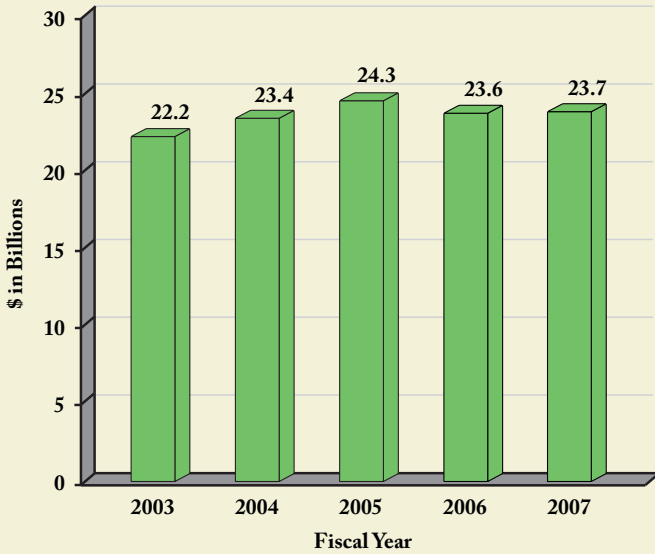


*The Deputy Secretary also serves as the Chief Operating Officer

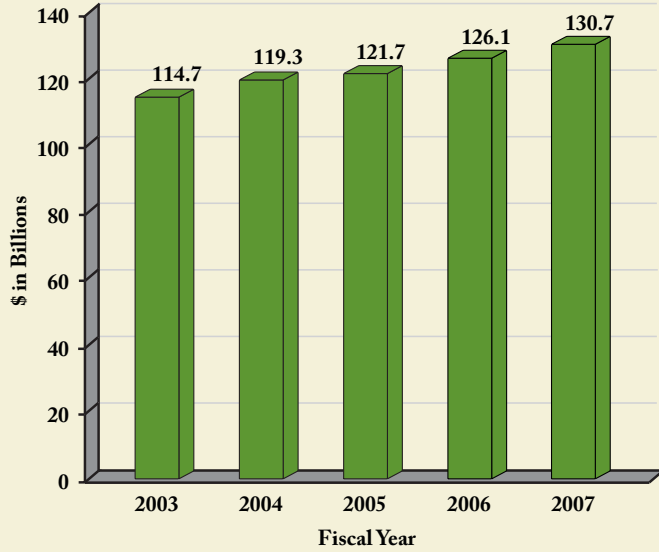
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Resources

Adjusted Appropriated Amounts*



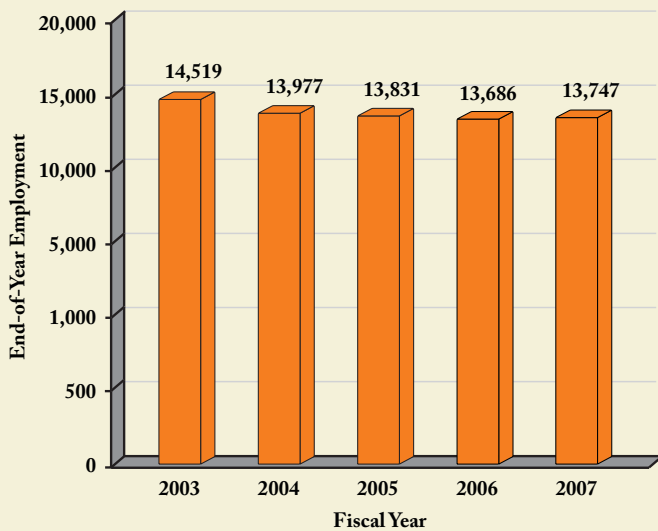
Assets



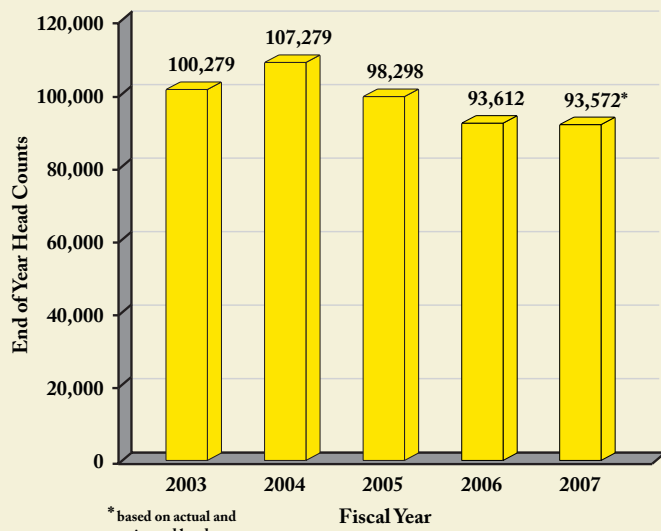
* Adjustments to the Department's operating plan include reprogrammings, transfers-in from other Federal agencies and rescissions.

Human Capital Resources

DOE Federal Employees

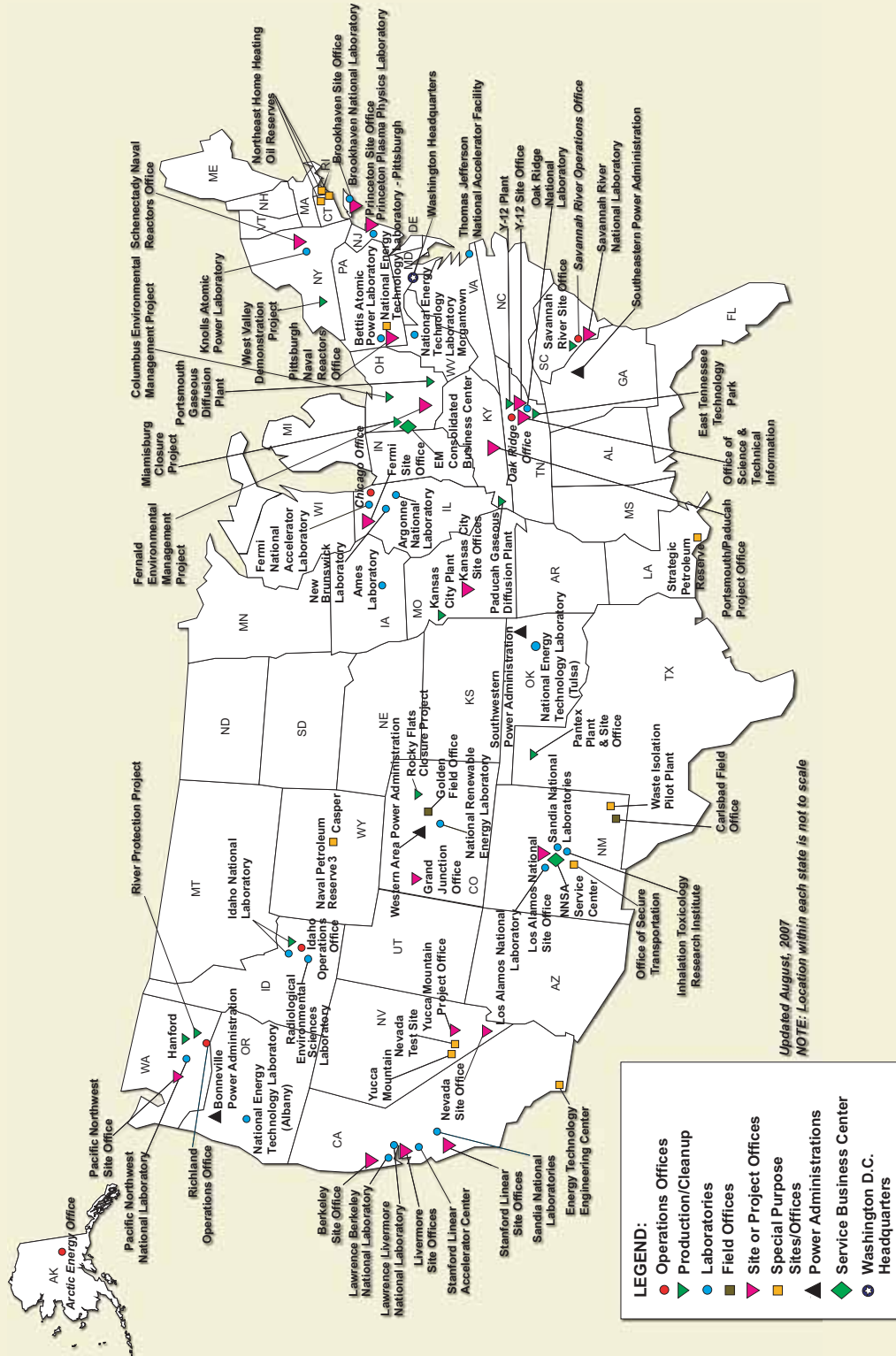


Contractor Employees



* based on actual and estimated head counts

— Major Laboratories and Field Facilities —



— Strategic Themes and Goals —



In fiscal year (FY) 2006, the Department extended its commitment to the DOE mission by updating its Strategic Plan for FY 2007 and beyond. Under the new strategic road-map, 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.

Theme	Federal Employees*	Program Costs (\$ in millions)
Theme 1: Energy Security <i>Promoting America's energy security through reliable, clean and affordable energy.</i> Strategic Goals ① Energy Diversity ③ Energy Infrastructure ② Environmental Impacts of Energy ④ Energy Productivity	6,663	\$6,552
Theme 2: Nuclear Security <i>Ensuring America's nuclear security.</i> Strategic Goals ① Nuclear Deterrent ③ Nuclear Propulsion Plants ② Weapons of Mass Destruction	2,684	\$9,200
Theme 3: Scientific Discovery and Innovation <i>Strengthening U.S. scientific discovery, economic competitiveness and improving quality of life through innovations in science and technology.</i> Strategic Goals ① Scientific Breakthroughs ③ Research Integration ② Foundations of Science	1,117	\$4,004
Theme 4: Environmental Responsibility <i>Protecting the environment by providing a responsible resolution to the environmental legacy of nuclear weapons production.</i> Strategic Goals ① Environmental Cleanup ② Managing the Legacy	1,643	\$5,918
Theme 5: Management Excellence <i>Enabling the mission through sound management.</i> Strategic Goals ① Integrated Management ③ Infrastructure ② Human Capital ④ Resources	1,640	\$690

* These Federal employee numbers do not include 1,296 at the Federal Energy Regulatory Commission.

— Performance and Accountability Report Card —

Organizational Highlights

Score	Requirement or Initiative	Supporting Indicators	
G	Government Management Reform Act – Financial Statement Audit	• Audit Opinion – Unqualified Opinion	
G	Federal Managers’ Financial Integrity Act – Internal Controls (Section II) Financial Systems (Section IV)	• No Material Weakness (Section II) • Financial Systems generally conform to (Section IV) requirements and no FISMA significant deficiencies identified.	
G	OMB Circular A-123, Appendix A	Implementation: G	Remediation: G
G	Federal Financial Management Improvement Act (FFMIA)	• Substantially comply with Federal financial management system requirements	
Y	Federal Information Security Management Act (FISMA)	• No FISMA significant deficiencies identified, however, annual report identified continued problems (http://ig.energy.gov/documents/IG-0776.pdf)	
G	Improper Payments Information Act	• <1% Erroneous Payment Rate Not Considered Significant Risk by OMB	
President’s Management Agenda Scorecard www.Results.gov		Current Status as of September 30, 2007	Progress in Implementation
Human Capital		G	R
Competitive Sourcing		R	R
Financial Performance		R	G
E-Government		Y	Y
Performance Improvement		G	Y
Real Property		G	Y
<p>Green (G): Implementation is proceeding according to plan. Yellow (Y): Some slippage or other issue(s) requiring adjustment. Red (R): Initiative in serious jeopardy absent significant management intervention.</p>			

MANAGEMENT’S DISCUSSION AND ANALYSIS

— Departmental Goals and Key Activities —

The Departmental Goals and Key Activities listed below are connected to the Department's Strategic Themes through seven of the Department's 16 Strategic Goals.

The Department's performance programs are designed to achieve well-defined outcome goals that support the strategic goals of the Department's Strategic Plan (www.energy.gov/about/strategicplan.htm). Those strategic goals are organized around the five Departmental strategic themes: Energy Security, Nuclear Security, Scientific Discovery and Innovation, Environmental Responsibility and Management Excellence.

The following performance summary section discusses each of the Departmental Goals and Key Activities and provides a performance summary.

Each discussion identifies the progress made during the year, accomplishments and challenges in working to meet each of these goals and key activities. Background information is provided in each performance summary, including useful web links to provide the reader a clear perspective of what the Department is doing and why it's important for America. In February 2008, additional detailed performance information will be available in the Department's Annual Performance Report (APR) both on the web at www.energy.gov and in the Congressional Budget submission (www.mbe.doe.gov/crog/cf30.htm) to Congress.

Theme 1

Energy Security

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

Advanced Energy Initiative (AEI)

The goal of the AEI is to achieve significant technology advancements that can, within the next decade, change the way Americans power their homes, businesses and vehicles, and over time, significantly reduce America's dependence on imported sources of energy. The Initiative includes activities in Nuclear Energy including the Global Nuclear Energy Partnership and Nuclear Power 2010, to promote the use of nuclear energy internationally and domestically; in Fossil Energy including the President's Coal Research Initiative and FutureGen, to improve and demonstrate options for near-zero atmospheric emission coal power; in Energy Efficiency and Renewable Energy including the Solar America Initiative and Biofuels Initiative to make photovoltaic and biofuels more competitive; and in Science including the ITER Fusion reactor.

Theme 2

Nuclear Security

Ensuring America's nuclear security.

Complex Transformation

The Department seeks to transform the nation's nuclear weapons stockpile by creating a supporting infrastructure more responsive to the threats of the 21st Century.

Material Security in Russia

The Department will continue to thwart nuclear terrorism through improved and increased material security in Russia and the former Soviet Union.

Improved Performance of the DOE Nuclear Weapons Complex

The Department seeks to improve the productivity and reliability of the nuclear weapons complex and reclaim the confidence of our customer at the Department of Defense (DoD).

Theme 3

Scientific Discovery and Innovation

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

American Competitiveness Initiative (ACI)

The ACI seeks to decisively strengthen American leadership in technology, innovation, and the global marketplace by doubling federal funding for basic research in the physical sciences over the next ten years.

Theme 4

Environmental Responsibility

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

Yucca Mountain

The Department is working to meet the government's obligation to accept spent nuclear fuel and build, license and operate the Yucca Mountain Repository.

Environmental Management (EM)

The Department seeks to reduce risk and cleanup of the environmental legacy of the Nation's nuclear weapons program.

Theme 5

Management Excellence

Enabling the mission through sound management.

Improve Human Capital Management

The Department will improve human capital management to build and sustain a future workforce of skilled scientists, policymakers, and executive managers to ensure that we have the appropriate personnel to successfully fulfill our mission and achieve our goals and priorities.

DOE Strategic Themes, Goals and Supporting Programs

Strategic Themes	Strategic Goals	Supporting Offices
Energy Security	<ul style="list-style-type: none"> • Energy Diversity • Environmental Impacts of Energy • Energy Infrastructure • Energy Productivity 	<ul style="list-style-type: none"> • Nuclear Energy • Fossil Energy • Energy Efficiency and Renewable Energy • Electricity Delivery and Energy Reliability
Nuclear Security	<ul style="list-style-type: none"> • Nuclear Deterrent • Weapons of Mass Destruction • Nuclear Propulsion Plants 	<ul style="list-style-type: none"> • National Nuclear Security Administration
Scientific Discovery and Innovation	<ul style="list-style-type: none"> • Scientific Breakthroughs • Foundations of Science • Research Integration 	<ul style="list-style-type: none"> • Science
Environmental Responsibility	<ul style="list-style-type: none"> • Environmental Cleanup • Managing the Legacy 	<ul style="list-style-type: none"> • Environmental Management • Legacy Management • Civilian Radioactive Waste
Management Excellence	<ul style="list-style-type: none"> • Integrated Management • Human Capital • Infrastructure • Resources 	<ul style="list-style-type: none"> • Chief Information Officer • Chief Financial Officer • Intelligence and Counterintelligence • General Counsel • Congressional and Intergovernmental Affairs • Human Capital Management • Health, Safety and Security • Economic Impact and Diversity • Inspector General • Hearing and Appeals • Management • Public Affairs • Policy and International Affairs

— Energy Security —

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

ADVANCED ENERGY INITIATIVE

The Advanced Energy Initiative (AEI) aims to set us more clearly on the path to ending our reliance on the petroleum economy and establishing greater energy security. Its intent is to enable commercial frameworks and free enterprise to accelerate the development and deployment of new energy technologies to address these energy challenges head on.

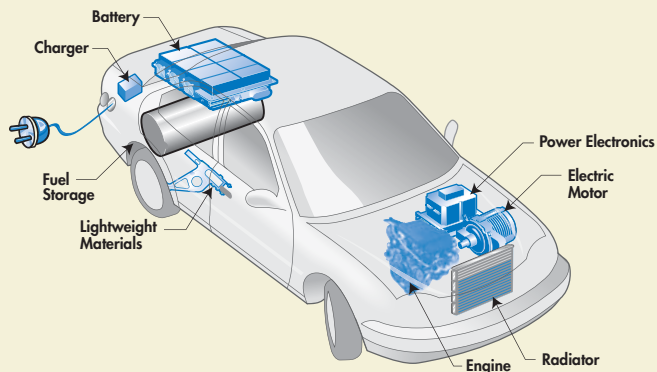
Relevance of Progress

By improving the cost and performance of domestic clean energy technologies, the Department aims to increase the attractiveness of advanced energy sources in the marketplace, which could help reduce dependence on foreign sources of energy and diversify our electricity supply.

Supporting the DOE Mission

The AEI supports the Department's Strategic Themes of:

- THEME 1** Energy Security - *Promoting America's energy security through reliable, clean, and affordable energy.*
- THEME 3** Scientific Discovery and Innovation - *Strengthening U.S. scientific discovery, economic competitiveness, and improving quality of life through innovations in science and technology.*



Hybrid Electric Vehicle (HEV)

A hybrid is any vehicle that uses two or more sources of power— in today's HEVs, the two sources are electricity (from batteries) and mechanical power (from a small internal combustion engine).

This initiative invests in technologies that increase our energy security and reduce our dependence on oil by changing the way we power our cars, homes and businesses. This initiative accelerates the research, development and deployment of clean energy technologies to diversify our Nation's energy mix.

Background

Replacing gasoline with electricity, ethanol and hydrogen could dramatically reduce future oil use and improve America's security. The Department is committed to minimizing supply disruptions that pose a threat to our economy and national security. At the same time, the Department is focused on satisfying the energy needs of America while protecting the environment. As a result, the Department has invested more than \$10 billion from 2001-2007 towards developing clean, affordable and domestically produced energy sources.

Advances in alternative vehicles and fuels offer the potential to significantly reduce oil consumption. The Department is researching advanced battery technologies to help bring down the cost and increase the driving range of highly efficient hybrid-electric vehicles. DOE-supported improvements in lithium ion batteries are increasing the attractiveness of hybrid vehicles. Models of research results achieved between 2003-2007 project that the production costs for high-powered, 25 kW batteries could be reduced 41 percent.

Biofuels have the potential to be a major contributor to the President's "Twenty in Ten" plan which includes 35 billion gallons per year of renewable and alternative fuels by 2017. Advanced technologies are needed to help reach this potential. One example includes research and development on enzymes that will produce sugars from biomass coupled with fermentative organisms that can convert these sugars efficiently to ethanol. The Department funded research and development has helped reduce the cost of producing a fermentable stream of cellulosic biomass by 40 percent from 2000-2007. These advances are needed to reduce processing costs of cellulosic ethanol to be cost-competitive in the ethanol blend market by 2012, with the ultimate goal to make ethanol cost competitive in the full fuel market in support of the President's AEI.

Research on hydrogen-powered fuel cell vehicles and technologies that produce hydrogen from non-Green House Gas (GHG) emitting domestic sources can enable significant reductions in future oil consumption. In FY 2007, the Department's researchers cut hydrogen storage volumes to one-half of what was required in 2003, improving the driving range of hydrogen fuel cell vehicles.



Wind energy can help secure America's energy supply.

The Department aims to diversify our electricity supply, in part by reducing demand for natural gas from power generation, which would help enable affordable electricity and natural gas supplies for the entire economy.

Solar and wind power have seen explosive growth over the past 5 years, but require additional support from the Department to improve the cost-effectiveness and lower the market barriers on these technologies. A DOE industry partner demonstrated the ability of a concentrating photovoltaic cell to convert 40.7 percent of the sun's energy into electricity, setting a world record. A DOE partnership has resulted in the first residential wind turbine designed for suburban environments. Manufacturing has begun for this turbine and sales are brisk. Reductions in the cost of producing utility-scale power from wind have enabled the U.S. wind energy industry to install approximately 3,000 megawatts of generating capacity nationwide in 2007. The Department's wind program has experienced challenges with increasing the number of states with 100 megawatts or more of installed wind power. In FY 2007, the country had 16 states that achieved or exceeded this level of installed wind power, but the Department was striving for at least 20 states. The challenges for many states are the uncertainties associated with the extension of the Production Tax Credit, radar policy, turbine availability and inadequate transmission capacity. The Department is addressing



Roof mounted photovoltaic can supply household energy needs.

these challenges by working with regional wind institutes to build technical expertise and local knowledge. The Department will also work closely with states to address deployment issues including siting, public perception and environmental issues. The Department expects to have 25 states with over 100 megawatts of wind power by the end of FY 2008. As the costs for advanced solar and wind technologies fall, their attractiveness in the market will increase, further diversifying and securing America's energy supply.

The Department is investing in clean coal technologies that supply low cost, near-zero atmospheric emission electricity using America's ample coal resources (<http://www.fossil.energy.gov/programs/powersystems/cleancoal>). Nuclear power also provides energy security, with plentiful uranium reserves in North America. Advanced reactors and fuel cycle technologies that can dramatically reduce the volume of spent nuclear fuel and radioactive waste requiring permanent disposal are a priority for the Department's researchers.

A recent Energy Information Administration (EIA) report showed renewable energy consumption increasing seven percent from 2005 to 2006, while total U.S. energy use declined one percent. The increase was driven by expanded use of biofuels for transportation and wind for electricity production.

Global Nuclear Energy Partnership, Part of the AEI

The expansion of nuclear power is a key component of the AEI, helping to ensure our nation's energy security. The Department is focused on encouraging industry deployment of advanced nuclear power plants, and on developing next generation nuclear technologies that are safer, more economical and more efficient than existing designs. In addition, the Department is implementing the Global Nuclear Energy Partnership (GNEP) initiative, a comprehensive nuclear energy strategy that will help enable the global expansion of nuclear energy, while satisfying requirements for a controlled, proliferation-resistant nuclear materials manage-

ment system. Specific FY 2007 programmatic activities related to nuclear energy are discussed throughout the Program Summaries section.

In September 2007, the United States joined 15 other countries in signing the Global Nuclear Energy Partnership “Statement of Principles,” which emphasizes the need for international cooperation in peaceful uses of nuclear energy. In July 2007, the Department selected four industry consortia to conduct technical and supporting studies for an initial fuel recycling center and advanced recycling reactor to support GNEP. In addition, a vigorous Research and Development (R&D) campaign at our national laboratories continued to develop GNEP technologies.

The Department’s Office of Nuclear Energy (NE) leads the implementation of GNEP, which supports the development of advanced fuel cycle technologies to enable a sustainable path forward for nuclear power (<http://www.nuclear.gov>). Nuclear power contributes to the Department’s strategic goal of supporting energy technologies that help improve the quality of the environment by reducing GHG emissions. GNEP also promotes the Department’s non-proliferation goals by working toward a closed fuel cycle, to prevent the spread of nuclear and radiological materials for use in weapons of mass destruction and in acts of terrorism.

The U.S. currently has 104 operating commercial nuclear reactors providing approximately 20 percent of our domestically produced electricity. This results in over 2,000 metric tons of spent nuclear fuel (SNF) per year. Expansion of nuclear power is a key component of the National Energy Policy (NEP).

Historically, the U.S. has used a ‘once through’ or ‘open’ fuel cycle in which nuclear fuel is used a single time in the reactor prior to disposal. The Department’s Advanced Fuel Cycle Initiative program in NE develops and demonstrates new technologies that support beneficial recycling of SNF. Successful development and deployment of these technologies would enable the U.S. to ultimately move to a ‘closed’ fuel cycle in which SNF is recycled to allow the useful components to produce additional energy.

Recycling would also significantly reduce the volume, thermal output and radiotoxicity of waste requiring permanent disposal in a geologic repository. This would reduce the amount of waste that would potentially need to be disposed of in a geologic repository.

Advanced Fuel Cycle Technologies and Infrastructure

In FY 2007, the Department continued laboratory-scale demonstrations of advanced separations technologies using actual spent fuel, developed systems analyses of advanced fuel cycles, developed information in support of advanced reactor designs, began work to qualify optimized waste forms for geological disposal and continued development of high burn-up transmutation fuels.

In addition to separations and fuels R&D, the Department selected four industry consortia to conduct technical and supporting studies for the Consolidated Fuel Treatment Center and Advanced Burner Reactor. Industry involvement is helping the program analyze the feasibility of commercial deployment and identify approaches that would accomplish GNEP goals.

The Department also continued work on the Programmatic Environmental Impact Statement (PEIS) to evaluate potential sites in the U.S. for GNEP facilities. In FY 2007, eleven grants were awarded to communities interested in hosting GNEP facilities to complete facility siting studies in conjunction with PEIS activities.

These R&D and conceptual design activities are all focused on establishing the information needed to determine a path forward for GNEP in FY 2008, as well as a recommendation on the need for a second geologic repository for SNF.



In September 2007, representatives from 16 nations signed the GNEP “Statement of Principles.”

International Engagement and Collaboration

To be sustainable, the global expansion of nuclear power must use a nuclear fuel cycle that enhances energy security, while promoting non-proliferation. The GNEP initiative proposes that nations with secure, advanced nuclear capabilities will provide fuel services — fresh fuel and recovery of used fuel — to other nations that agree to employ nuclear energy for power generation purposes only.

In September 2007, the United States and 15 other nations signed the GNEP “Statement of Principles,” which addresses the global expansion of nuclear energy in a safe and secure manner that supports clean development without GHG emissions, while reducing the risk of nuclear proliferation.

In support of the Statement of Principles, the U.S. has signed Bilateral Nuclear Energy Action Plans with Japan and Russia. These Action Plans outline GNEP cooperative research and development on advanced reactors, exportable small and medium power reactors, nuclear fuel cycle technologies, and non-proliferation, with the focus on achieving the long-term GNEP vision.

NP 2010, Part of the AEI

The Advanced Energy Initiative (AEI) includes many components including the NP 2010. The NP 2010 program is a cost-shared program with industry that is focused on reducing the technical, regulatory and institutional barriers to deployment of new nuclear power plants (<http://www.nuclear.gov>). In March 2007, the Nuclear Regulatory Commission (NRC) approved two Early Site Permit applications, paving the way for the submission of combined Construction and Operating Licenses for new U.S. nuclear power plants.

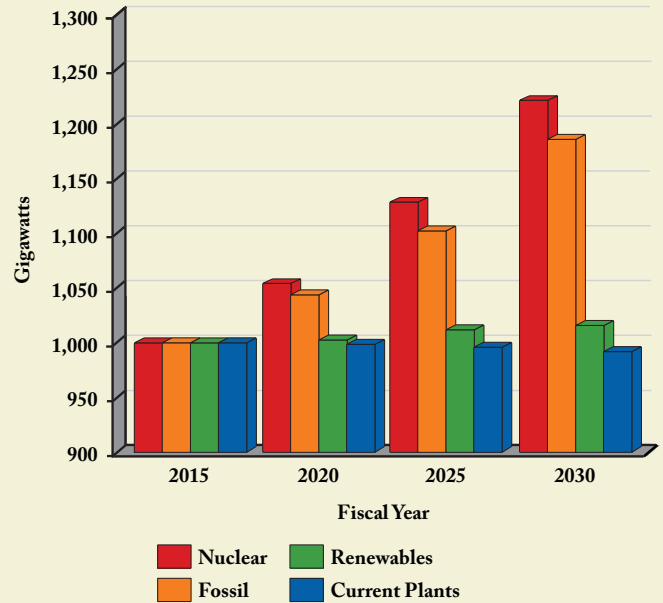
The technology focus of the NP 2010 program is on Generation III+ advanced, light-water reactor designs, which offer advancements in safety and economics over current nuclear plant designs and the nuclear plant designs certified by the NRC in the 1990s.

In FY 2002, the Department initiated cooperative projects with industry to obtain NRC approval of three sites for construction of new nuclear power plants under the NRC's Early Site Permit process. This licensing process approves sites for new nuclear plants prior to a power company's commitment to build. In FY 2003, three Early Site Permit applications were submitted by power companies to the NRC for review and approval. Having approved two of the three applications in March 2007, NRC is currently considering approval of the final Early Site Permit application.

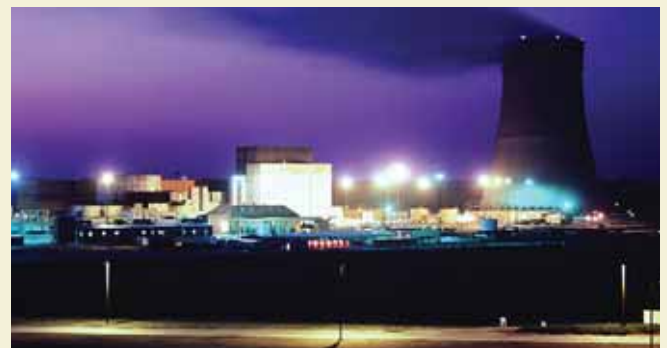
In FY 2007, NP 2010 also continued assisting industry in the preparation of combined Construction and Operating License (COL) applications. The COL is a 'one-step' licensing process by which NRC approves and issues a license to build and operate a new nuclear power plant.

As a result of the success with the Early Site Permits and COLs, ten Department consortium-partner members have notified NRC of their intent to submit COL applications for up to 26 new nuclear power units in the next few years. Additionally, four industry partners have, independent of the Department, ordered large component forgings for potential new nuclear plants, representing a significant step toward deployment.

Future Need for Additional Generating Capacity



To maintain nuclear energy's current share of domestic electricity production, deployment of new nuclear power plants must begin by 2015.



In March 2007, Entergy Nuclear received NRC approval for an early site permit for a possible new nuclear unit at the Grand Gulf site in Mississippi.

— Nuclear Security —

Ensuring America's nuclear security.

COMPLEX TRANSFORMATION

The nuclear weapons complex of the future is one that is smaller, more secure, more responsive, and more efficient than the complex is today. Complex Transformation refers to the reconfiguration of the nuclear weapons complex by the year 2030. It includes significant dismantling of retired warheads, consolidating special nuclear materials, eliminating duplicative capabilities, establishing new capabilities; such as a consolidated plutonium center, with associated improvements in its business practices. Improvements in business practices, technical processes, information management systems, and program management across the complex enhances agility, cost effectiveness, and responsiveness in all operations. The agility and flexibility promoted by these actions supports the specific stockpile requirements and maintains the essential U.S. nuclear capabilities needed for an uncertain global future.

The current complex lacks the ability to rapidly adjust to changing requirements and unpredictable threats, and without reconfiguration, budget increases would be required due to escalating costs for security functions and greater demands of maintaining an aging stockpile. "Responsive" refers to the ability of the enterprise to respond in a timely manner to technical problems in the stockpile and to emerging national security needs. Infrastructure is broadly defined to encompass people, processes, facilities, and equipment. One result of complex

transformation is illustrated in the planned footprint reduction at the Y-12 National Security Complex shown below, reducing maintenance, security, and personnel costs while enhancing current capabilities.

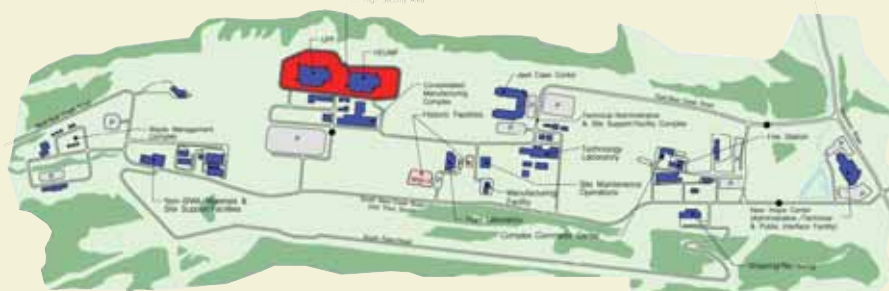
Relevance of Progress

Transforming to a modernized, cost-effective nuclear weapons complex involves major federal actions and decisions that warrants completing a National Environmental Policy Act (NEPA) process. The NEPA process requires all Federal agencies to consider the environmental impacts of proposed actions, such as the transformation of the certain facilities within the nuclear weapons complex, before selecting among alternative actions. As part of the NEPA process, during FY 2007, the Department, through its National Nuclear Security Administration (NNSA) issued in the Federal Register a Notice of Intent, http://www.nnsa.doe.gov/docs/newsreleases/2006/Complex_2030_NOI_10-19-06.pdf, to prepare an Environmental Impact Statement, which is currently entitled the "Draft Complex Transformation Supplemental Programmatic Environmental Impact Statement". The notice outlined the alternatives that the NNSA will consider in transforming the nuclear weapons complex to better meet future national security requirements.

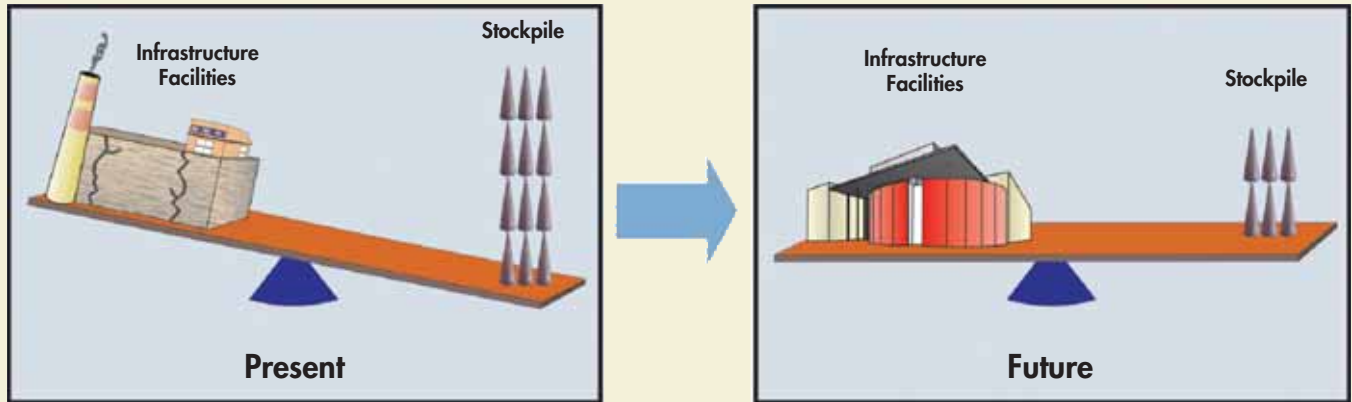
Present



Future



Special Nuclear Material Consolidation at the Y-12 Complex



Development of a credible, responsive nuclear weapons infrastructure facilitates a reduction in the size of the stockpile and greater reliance on deterrence by capability.

Supporting the DOE Mission

The Complex Transformation strategy to transform the nuclear weapons complex is a key Departmental activity and supports the Department's Strategic Theme of:

THEME 2 Nuclear Security – *Ensuring America's nuclear security.*

Under this Theme, these activities directly impact the Nuclear Deterrent Goal – Transform the Nation's nuclear weapons stockpile and supporting infrastructure to be more responsive to the threats of the 21st Century. NNSA's Office of Defense Program (<http://www.nnsa.doe.gov/defense.htm>) manages the Complex Transformation strategy and implementing actions to transform the nuclear weapons complex.

Background

The Department, through the NNSA, in partnership with the Department of Defense (DoD), is responsible for ensuring the U.S. has a safe, secure and reliable nuclear deterrent. The Administration has concluded that a nuclear deterrent relying more on capabilities and less on deployed weapons will be more credible in a future of uncertain and

evolving threats. A transformed production complex with demonstrated responsiveness will ensure that the Nation's nuclear deterrent remains credible and enable the President's vision for the smallest possible nuclear weapons stockpile consistent with national security.

The NNSA plans to achieve Complex Transformation through actions currently underway with major progress measures in the near- (0 to 5 years), mid- (5 to 15 years) and long- (15 to 25 years) term. This is no easy task. The major challenge facing the Complex Transformation is to continue to meet the DoD requirements of successful current weapon systems activities while transforming to a nuclear weapons complex of the future. Also, Complex Transformation relies on increased uniformity of business practices to create a more cohesive and responsive complex but the NNSA contractor sites each currently apply a different business practice at their respective location that may be impacted. The Complex Transformation approach builds on existing programs and management structures to transform the complex.

To learn more about the Complex Transformation strategy and progress, please go to: http://www.nnsa.doe.gov/future_of_the_nuclear_weapons_complex.htm

MATERIAL SECURITY IN RUSSIA

In June 2007, the Department's Secretary, Samuel W. Bodman and Russian Federal Atomic Energy Agency (Rosatom) Director, Sergey Kiriyenko completed the fifth Bratislava report for the Bratislava Nuclear Security Cooperation initiative between the two countries.

The plan will help sustain and maintain security upgrades at Russian nuclear material sites. These security enhancements that the U.S. installed over the last 14 years at Russian nuclear sites will be preserved by Russia under this new plan.

Relevance of Progress

The required bi-annual report to Presidents Bush and Putin details significant work completed by the United States and Russia over the past six months in the areas of emergency response, nuclear security procedures and best practices, security culture, research reactors and nuclear site security. It serves not only as a progress report, but also as a symbol of the Administration's commitment to the historic 2005 nonproliferation initiative.



A Department sponsored emergency management training course for Russian nuclear facility managers in a refurbished Moscow training center.

Supporting the DOE Mission

Securing nuclear and radiological material in Russia is a key Departmental activity that supports the Department's Strategic Theme of:

THEME 2 Nuclear Security – *Ensuring America's nuclear security.*

The National Nuclear Security Administration's (NNSA) Office of Defense Nuclear Nonproliferation (DNN) (<http://www.nnsa.doe.gov/na-20>) manages programs to secure, detect and dispose of dangerous nuclear material in Russia and around the world. Significant progress in the areas of securing civil nuclear and radiological material and weapons material has been achieved, resulting in the accomplishing of important nonproliferation goals and minimizing of materials and sensitive technologies available to terrorists. To further work towards

these nonproliferation and anti-terrorism objectives, the Department is working with Russian counterparts to equip all of Russia's border crossings with radiation detection devices and has continued its work in the elimination of weapons-usable material in Russia.

Background

During the 2005 meeting in Bratislava, U.S. President Bush and Russian President Putin committed both governments to securing nuclear weapons and materials to prevent the possibility that such weapons or materials could fall into the hands of terrorists. One of the key aspects of the Bratislava agreement two years ago was the adoption of an accelerated schedule for upgrading security at nuclear materials sites in Russia. Each country has reaffirmed its commitment to this schedule to complete upgrades work by the end of calendar year 2008. The Department's efforts have secured 75 percent of Russian nuclear weapons sites of concern, and will continue with work underway at the balance of sites to be completed in FY 2008.

To support this initiative, the Department spent \$316.3 million in FY 2007 and continue to thwart nuclear terrorism through improved and increased material security in Russia and throughout the former Soviet Union.

The Department is working to overcome challenges. As with any international cooperation effort, negotiating with international partners can slow the process of agreement, especially when the safety regulations and security cultures differ. This fact can often make progress appear haphazard, which can in turn negatively affect the flow of funding from year to year. In spite of these obstacles, the Department has made sound progress in key areas.

The Department has successfully completed the return of about 500kg of Russian-origin highly enriched uranium (HEU) and completed security upgrades in 91 of 125 sites, with the remainder in progress. Russia has agreed to preserve these security enhancements through a long-term sustainability plan. These efforts have been accelerated by the Bratislava initiative.



Vehicle portal monitors detect the illegal transport of nuclear and radioactive materials.

Before



After



Completed Materials Protection Control & Accounting (MPC&A) Security Upgrades at a Storage Facility: Before and After

The Department not only focuses on securing stored material at various sites, but also secures dangerous material during transit from site to site. In June 2007, the U.S. and Russia agreed to equip all of Russia's border crossings with radiation and detection devices by 2011, six years ahead of what was originally planned prior to the Bratislava Agreement. These efforts are building upon the 110 crossings already equipped with radiation detection devices.

In addition to securing and detecting dangerous nuclear material, the Department works to dispose of weapons-usable material in an environmentally sound manner. The Department has worked with Russia to down-blend (taking highly enriched uranium and making low enriched uranium, which can still be used as a commercial nuclear energy source but is less attractive as a weapon) more than 300 metric tons of former Soviet weapons HEU (HEU is one of the two fissile materials that can be used to make a nuclear weapon.) for use in U.S. nuclear power plants, providing ten percent of U.S. electricity.

The Department is also working with Russia to dispose of 68 metric tons of U.S. and Russian plutonium. In September 2000, the United States and Russia signed the Plutonium Management and Disposition Agreement. Under the agreement, the U.S. and Russia will each dispose of 34 metric tons of surplus weapon-grade plutonium, enough for thousands of nuclear weapons. In August 2007, the Department began construction on the Mixed Oxide (MOX) Fuel Fabrication Facility. The facility will provide the means for disposing of the surplus-weapons grade plutonium.

Finally, the Department is using its innovative research and development programs to develop technologies to enhance emergency response capabilities pivotal in fulfilling the Bratislava initiative.

The continued commitment of all parties involved in the programs aimed at fostering Russian nuclear security cooperation is of the highest priority for the Department.

IMPROVED PRODUCTION PERFORMANCE IN THE DEPARTMENT OF ENERGY NUCLEAR WEAPONS COMPLEX

The Department, through NNSA, operates the Nuclear Weapons Complex that maintains the Nation's stockpile of nuclear weapons. Increased regulatory and administrative requirements over the past two decades had sufficiently decreased production efficiency and increased costs to the point that operations were becoming prohibitively expensive. Additionally, the NNSA was being criticized as not being very responsive to the DoD and Congress. To address this issue, the Secretary of Energy and the NNSA Administrator requested that a plan be developed to improve the complex production performance. As a result, improved processes and procedures were developed that reduced barriers to operations while maintaining safety and improving communications to more quickly resolve production problems. The approach included the use of a selected group of senior federal and contractor managers to analyze the central issues.

Relevance of Progress

This activity focused on increasing production and efficiency, and maintaining safety, while maintaining or reducing costs. Success is essential to meeting National Security commitments on a reasonable timeframe, including the nuclear stockpile reductions called for by the Treaty of Moscow. It also allows selected material to be recycled to other uses, including providing fuel for nuclear energy.

Supporting the DOE Mission

This activity supports the Department's Strategic Plan. Improved performance of the Department Nuclear Weapons Complex supports the Department's Strategic Theme of:

THEME 2 Nuclear Security – *Ensuring America's nuclear security.*

Under this Theme, these activities directly impact the Nuclear Deterrent goal – Transform the Nation's nuclear weapons stockpile and supporting infrastructure to be more responsive to the threats of the 21st Century.

Background

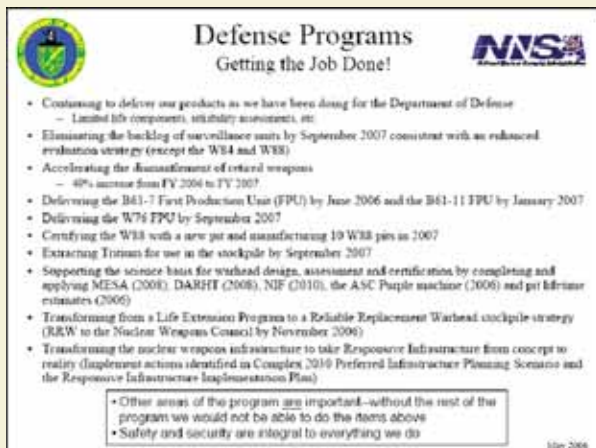
Two action plans have been developed to improve production "throughput" in the production facilities at the Pantex Plant and the Y-12 National Security Complex. The term "throughput" refers to the assembly rate of nuclear weapons from parts provided from throughout the complex or the disassembly rate and disposition of parts and materials. These actions also support the NNSA key list of goals known as the "Defense Programs Getting the Job Done" – with the first five items directly relating to production throughput.

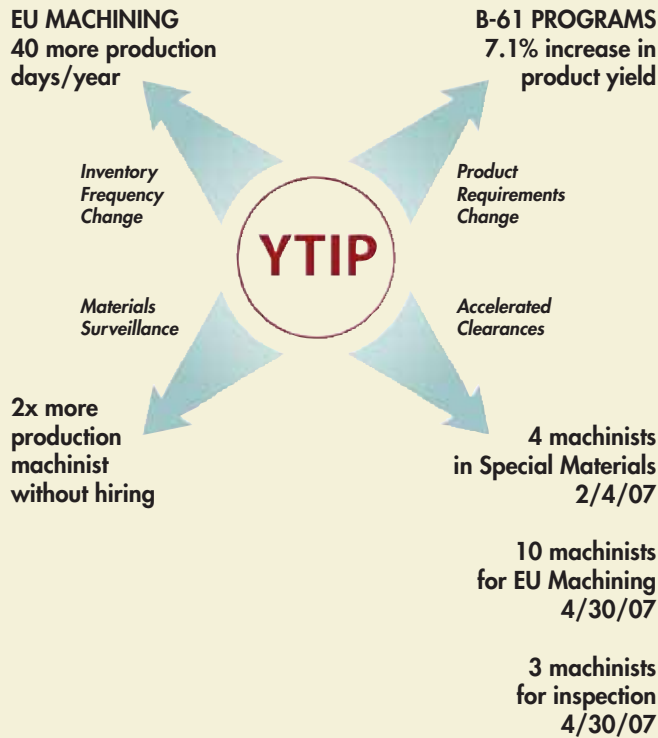
Pantex Plant Throughput Improvement Plan (PTIP)

The Pantex Plant in Texas has major responsibilities for nuclear weapons assembly and disassembly. This was the first location for an integrated attempt to address the regulatory and administrative requirements hampering efficient plant operations. Since these requirements were usually externally imposed, senior Department-NNSA management attention was necessary to review and, where possible, relieve, consolidate or otherwise mitigate barriers to productivity, while maintaining a safe operating environment. A senior NNSA Management Team convened and evaluated processes and procedures, developed a plan of improvement actions and identified a clear series of action steps, with dates to be tracked by the team. One example of an improvement was identification, analysis, and relaxation of rules related to the staging of parts material at the plant, leading to a "just in time" inventory system similar to that used in industry. This improvement was accomplished without impacting safety. Results have significantly increased the dismantlement of retired or returned nuclear weapons (146 percent above the goal for FY 2007), cost and cycle time reductions and improved production accomplishments. As of September 2007, 22 of the 23 PTIP items (95 percent) are complete on schedule and the remaining item is expected to be completed in FY 2008.

Y-12 Throughput Improvement Plan (YTIP)

The process used to implement the Pantex Plan was replicated at the Y-12 National Security Complex in Tennessee, another key production location. The Y-12 plan initially focused on 13 actions concerning nuclear weapons parts production and dismantlement of retired or returned nuclear weapons on time and within budget. The improvement actions involved security; production processes; design requirements and specifications and prioritization of work. Additional improvement actions are being developed to maintain continuous improvement and address additional areas identified. Initial results have been good. A key goal is for Y-12 to provide Pantex with at least a 90-day lead time between receipt of Y-12 material and subsequent delivery of weapons to the military. When the improvement plan was initiated, the actual lead time was only 30 days. That lead time has since been increased to 80 days.





Y-12 Initiatives

The Y-12 Throughput Improvement Plan, illustrated above, is challenging and involves integration of actions and participants from across the complex. This integration is essential because some of the primary issue areas, such as design, cannot be overcome by Y-12's efforts alone as they involve the Design Agencies at the Los Alamos, Lawrence Livermore and Sandia National Laboratories. Implementing the improvement plan has allowed Y-12 to make dramatic

improvements in productivity in certain critical areas that were constraining production throughput, doubling the throughput in key areas in the short time since improvements were initiated. For example, the most significant results came from two recently completed tasks — reducing the frequency of material inventories in some processing areas and improving the material surveillance process. These initiatives focused on maintaining or enhancing security without imposing restrictions on the safe, efficient, and cost-effective performance of work.

Other Department/NNSA Improvement Actions

In addition to Throughput Improvement Plans, other actions have been put in place to improve the complex. For example, a set of actions focusing on improving management at headquarters and the site offices has been initiated. Some of the actions include: strengthening line management and authority; reviewing delegations of critical activities; redefining relationships with external oversight organizations; reducing burden of regulations, orders, and policies; soliciting improvements on regulation process and implementing cost-benefit determination for new regulations and orders; redefining oversight model to empower contractors and reduce micromanagement; strengthening incentives for high performance and create multi-site incentives and improving strength and the competence of federal managers.

The NNSA has taken the initiative to improve the performance of the Nuclear Weapons Complex and that progress is reviewed regularly by the Deputy Secretary, who challenges the complex to ensure that safety improvement continues, that production improvements are cost-effective and that information is provided to the key nuclear weapons customer, the DoD, and a key advisory body, the Defense Science Board. Success of the activities has been briefed to the appropriate Congressional committees and to OMB staff. Additional opportunities for improvements and the accomplishments from those improvements will result in near-and long-term efficiencies in the performance of the complex.

— Scientific Discovery and Innovation —

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

AMERICAN COMPETITIVENESS INITIATIVE

In February 2006, President Bush announced the American Competitiveness Initiative (ACI). Designed to stimulate “America’s investments in science and technology...and to build on our successes and remain a leader in science and technology.” The American Competitiveness Initiative committed \$10.66 billion in FY 2007 to increase investments in research and development, strengthen education and encourage entrepreneurship. Over ten years, the Initiative commits \$50 billion to increase funding for research and \$86 billion for R&D tax incentives. Federal investment in R&D has proved critical to keeping America’s economy strong.

The Department is one of three agencies, along with the National Institute of Standards and Technology (NIST) and the National Science Foundation (NSF), identified to receive increased funding by the ACI. Within the Department, several program areas have been impacted by the ACI, including the Office of Science (<http://www.sc.doe.gov>), the Office of Energy Efficiency and Renewable Energy (<http://www.eere.energy.gov/>), the Office of Fossil Energy (<http://fossil.energy.gov/>) and the Office of Nuclear Energy (<http://www.ne.doe.gov/>). The Department’s Office of Science (SC), along with NIST and NSF, has been specifically called out to have its budget doubled between FY 2006-16. The reason for this investment is simple; the Office of Science supports “scientific studies and infrastructure for a wide range of R&D related to economically significant innovations including high-end computing and advanced networking, nanotechnology, biotechnology, energy sources and other materials science research. It is the principal supporter of world-class Federal research facilities, providing scientists with the necessary tools to advance scientific understanding for innovation and discovery.” Given this R&D focus, the following summary will concentrate on performance made by the Office of Science.

Relevance of Progress

In FY 2007, the Department made progress in multiple areas including opening facilities that support transformational science such as: nanotechnology, biofuels, fusion energy and high performance computing.

Supporting the DOE Mission

The Department has opened new facilities that support nanotechnology research and has launched an initiative to establish bioenergy research centers to focus on development of biofuels. The Department also continues to be at the forefront of fusion energy research that someday could lead to a new source of clean energy. Finally, the Department’s computing facilities continue to improve the scientific community’s ability to simulate and model experiments that would be impossible to perform in a laboratory.

The facilities created and managed by the Department, along with the R&D supported by these facilities, contribute primarily to the following Strategic Themes:

- THEME 1** Energy Security – Promoting America’s energy security through reliable, clean, and affordable energy.
- THEME 3** Scientific Discovery and Innovation – Strengthening U.S. scientific discovery, economic competitiveness, and improving quality of life through innovations in science and technology.

The Department’s national user facilities are shared with the science community worldwide and offer some technologies and instrumentation that are not available anywhere else.

Background

The Department’s national user facilities include particle and nuclear physics accelerators, synchrotron light sources, neutron scattering facilities, genome sequencing facilities, supercomputers and high-speed computer networks. In FY 2007, over 21,500 researchers from universities, other government agencies and private industry used these facilities.

The Department’s commitment to the ACI was demonstrated by the opening of new facilities in FY 2007 that support nanotechnology research and biofuels. The Department also continues to be at the forefront of U.S. support of an international project on fusion energy research that someday could lead to a new source of clean energy.

Availability of sufficient environmentally friendly energy sources to meet the needs of a rapidly growing and developing world population is one of the biggest challenges America faces today and in the coming decades. Current technologies cannot meet this challenge and incremental improvements in these technologies will not suffice. The U.S. needs transformational discoveries, leading to technologies that fundamentally change the rules of the game – and that means the U.S. needs fundamental scientific breakthroughs enabled by world leading research tools.

Nanotechnology

Just as the resolution of a digital picture determines the clarity of very small features, the resolution of scientific equipment determines the clarity with which scientists can “see” very small objects such as viruses or even atoms.

Nanotechnology involves imaging, measuring, modeling, and manipulating matter at dimensions of roughly 1 to 100 nanometers (a nanometer is 1×10^{-9} meters). In terms of atomic dimensions, it is 3 to 300 atoms in length. All the elementary steps of energy conversion (charge transfer, molecular rearrangement and chemical reactions) take place on the nanoscale. Thus, the development of new nanoscale materials, as well as the methods to characterize, manipulate and assemble them, creates an entirely new paradigm for developing new and revolutionary energy technologies. The improvements in the ability to see small objects and observe processes are crucial to building the world-class nanofabrication and nanomanufacturing capabilities America needs.

The Basic Energy Science Nanoscale Science Research Centers are located near major scientific facilities



Four Nanoscale Science Research Centers (NSRCs) were operational in FY 2007 at Argonne, Oak Ridge, Lawrence Berkeley and Los Alamos and Sandia National Laboratories. A fifth NSRC will become operational at Brookhaven National Laboratory in FY 2008. The NSRCs are dedicated to the synthesis, processing and fabrication of nanoscale materials. The NSRCs are collocated with existing or emerging world-class DOE facilities for X-ray, neutron or electron scattering to provide sophisticated characterization and analysis capabilities. In addition, the NSRCs will provide specialized equipment and support staff not readily available to the research community.



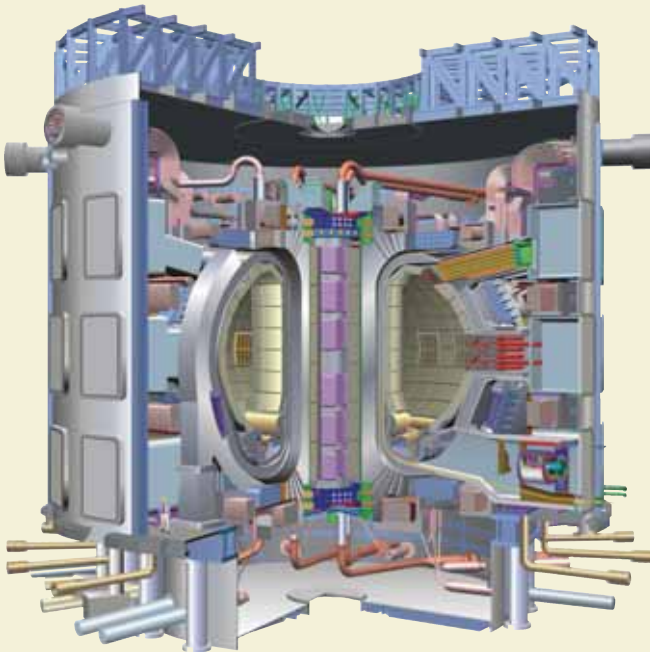
How Cellulosic Ethanol is Made

- 1- Biomass is harvested and delivered to biorefinery.
- 2- Biomass is cut into shreds and pretreated with heat and chemicals to make cellulose accessible to enzymes.
- 3- Enzymes break down cellulose chains into sugars.
- 4- Microbes ferment sugars into ethanol.
- 5- Ethanol is purified through distillation and prepared for distribution.

Biofuels

The greatest scientific challenge in bio-fuel production is the effort to produce fuels not just from plant starch, as we do with corn-based ethanol today, but also from the inedible fiber of plants or cellulose. This plant matter or biomass would come from specialized feedstock crops, including such plants as switchgrass, miscanthus, willows and hybrid poplar. At the present time, our means of converting cellulose to fuel is neither efficient nor cost effective. Plant cell walls contain a substance called lignin, which is so tightly woven from the cellulose that the enzymes currently available cannot easily penetrate to get at the cellulose and break it up into sugars, which is what is needed to produce fuel.

In FY 2007, the Department launched three new Bioenergy Research Centers (BRCs). A major focus for the BRCs will be on understanding how to reengineer biological processes to develop new, more efficient methods for converting the cellulose in plant material into ethanol or other biofuels. The three centers are: DOE BioEnergy Science Center led by DOE's Oak Ridge National Laboratory in Oak Ridge, Tennessee; DOE Great Lakes Bioenergy Research Center led by the University of Wisconsin in Madison, Wisconsin, in close collaboration with Michigan State University in East Lansing, Michigan; and DOE Joint BioEnergy Institute led by DOE's Lawrence Berkeley National Laboratory.



ITER

An experimental facility aimed at demonstrating fusion energy.

Fusion Energy

One of the most promising future energy solutions lies in fusion. Fusion is the energy that powers the sun and the stars. Fusion energy is generated when nuclei of low-mass elements, such as hydrogen and helium, join together, or fuse, giving off tremendous amounts of energy. Power generated from fusion energy produces no troublesome emissions, is safe, and has few, if any, proliferation concerns. It creates little long-lived waste and runs on fuel readily available to all nations.

Fusion has the potential to provide clean, carbon-free energy for the world's growing electricity needs on an almost limitless scale. The key challenge is sustaining and containing the 100 million degree-plus fusion reaction on earth, safely and efficiently. In cooperation with six international partners, the Department is working side-by-side with counterparts from China, the European Union, India, Japan, the Republic of Korea and the Russian Federation to build and operate an experimental facility called ITER that demonstrates the scientific and technological feasibility of fusion energy.



Super computers, such as the Office of Science's Cray XT4, expand the capability of world-class scientific research beyond the laboratory.

High Performance Computing

The supercomputer is science's newest and most powerful tool, enabling researchers to model and simulate experiments that could never be performed in a laboratory. The Department plans, develops and operates supercomputer and network facilities that are available 24 hours a day, 365 days a year to researchers working on problems relevant to DOE's scientific missions. The Department is expanding the capability of world-class scientific research through advances in mathematics, high performance computing and advanced networks and through the application of computers capable of many trillions of operations per second (terascale to petascale computers).

The advance of networking technologies allows researchers to share very large amounts of scientific data across the country and around the world. The Department's Energy Science Network (ESnet) has entered into a long-term partnership with Internet 2 to build the next generation optical network infrastructure needed for U.S. science. This networking infrastructure is critical to research in climate and particle physics and to large scientific facilities such as the DOE neutron sources and computing facilities.

The Office of Science established two Leadership Computing Facilities (LCF), each with a multiple set of computer architectures, which will enable the most efficient solution critical problems from biology to physics and chemistry.

Computational science is increasingly important to making progress at the frontiers of almost every scientific discipline and to the most challenging feats of engineering. Leadership in scientific computing has become a cornerstone of the Department's strategy to ensure the security of the nation and success in its science and energy missions.

— Environmental Responsibility —

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

YUCCA MOUNTAIN

In March 2007, the Department submitted legislation to Congress to enhance the nation's ability to manage and dispose of commercial spent nuclear fuel and Defense high-level radioactive waste. The Department also worked on its license application to the Nuclear Regulatory Commission for authorization to construct the repository.

Relevance of Progress

These actions support the Department's best achievable schedule for opening the Yucca Mountain repository in 2017.

Supporting the DOE Mission

The Yucca Mountain Project is a key Departmental activity that supports the Department's Strategic Themes of

- THEME 1** Energy Security – *Promoting America's energy security through reliable, clean, and affordable energy.*
- THEME 4** Environmental Responsibility - *Protecting the environment by providing a responsible resolution to the environmental legacy of nuclear weapons production.*

The Department's Office of Civilian Radioactive Waste Management (<http://www.ocrwm.doe.gov>) manages the project. This project will create the nation's only designated high-level nuclear waste repository. A geologic repository increases credibility and public confidence in nuclear energy, allowing it to continue to be an important component of the country's array of clean energy options.

Background

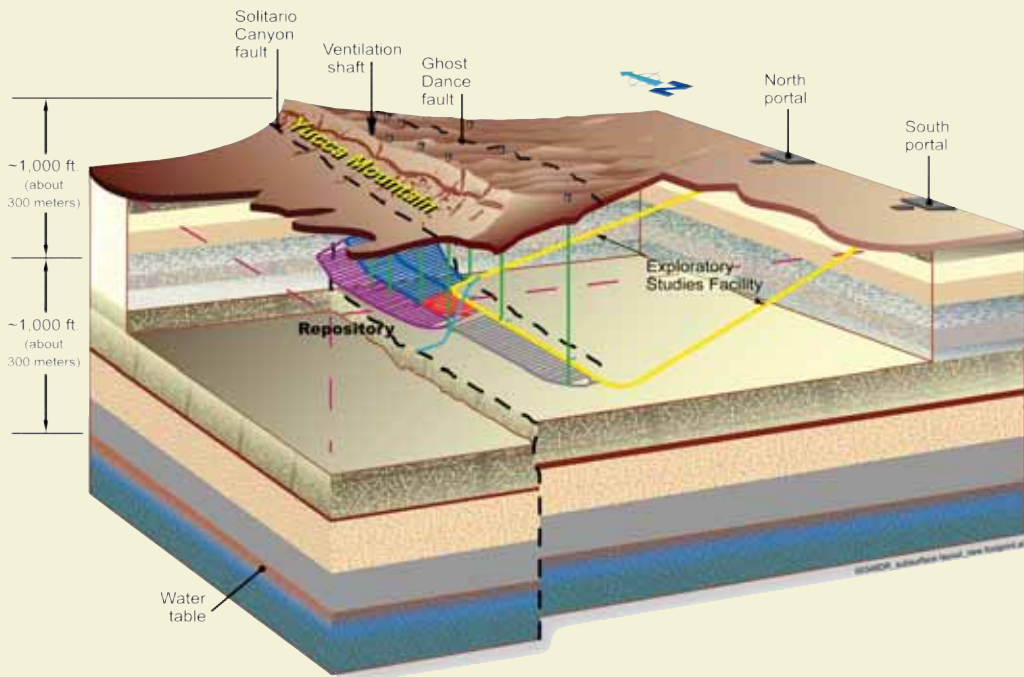
The *Nuclear Waste Policy Act* of 1982 mandates that the Department has responsibility for the ownership and consolidation of waste into a national repository.

One of the missions of the Department is to manage and dispose of this high-level radioactive waste and spent nuclear fuel in a manner that protects health, safety and the environment; enhances national and energy security and merits public confidence.

More than 50,000 metric tons of spent nuclear fuel is located at more than 100 above-ground sites in 39 states and every year, reactors in the United States produce an estimated 2,000 metric tons of additional spent fuel.



Aerial view of crest of Yucca Mountain.



Cutaway image of Yucca Mountain, the rock layers and the planned network of repository tunnels.

Nuclear energy continues to be a significant part of a diverse energy mix that fuels our nation's economy. Approximately 20 percent of U.S. electricity is produced from 104 nuclear reactors. To ensure the continued safe use of reliable and emission-free nuclear energy, the U.S. has searched for a safe and secure place to deposit the spent nuclear fuel. Yucca Mountain, an area in the western U.S., outside of Las Vegas, Nevada, was thoroughly studied and determined to be a suitable site. Yucca Mountain was approved by the President and Congress as the site for the nation's first permanent spent nuclear fuel and high-level radioactive waste geologic repository in FY 2002. Since that time, the Department has been working with the NRC and interested stakeholders to license and open the repository to begin receiving nuclear waste. The Department spent approximately \$445 million on Yucca Mountain activities in FY 2007. In addition to submitting proposed legislation to Congress, the Department worked on drafting the repository's license application to be submitted by June 2008 and preparing for certification of its documentary material for the NRC's Licensing Support Network. In FY 2007,

the Department also worked towards completing draft supplemental environmental impact statements for the Yucca Mountain repository and rail transportation.

The Department has two immediate challenges in order to realize its planned 2017 best opening date, submitting a high quality license application to the NRC as planned, and obtaining adequate funding from Congress for construction. In addition, the program's earned value management system (EVMS), which is necessary for effective and efficient program management, has not been certified as compliant with industry standards. To address these performance issues the Department is dedicating current resources to preparing a high-quality license application and supporting the Administration's effort to pass funding reform and conducting contingency planning if increased and consistent funding is not provided. Additionally, the Department is pursuing certification of the EVMS by the Defense Contract Management Agency or an equivalent entity.

ENVIRONMENTAL MANAGEMENT

In FY 2007, the Department continued progress toward its commitment to clean up the nation's contaminated nuclear sites. Four sites were officially cleaned up in FY 2007, Ashtabula, Columbus, and Fernald sites in Ohio and the Lawrence Berkeley National Laboratory in California.

Relevance of Progress

By completing cleanup at these sites, the Department is making significant progress toward completing cleanup of 100 of its 108 contaminated nuclear weapons manufacturing and testing sites by 2025. Cleanup at the Miamisburg Site in Ohio was planned for completion in FY 2007 but has been changed to FY 2008 due to a Congressionally directed scope increase. This schedule change should not impact the Department's ability to meet the goal as cleanup is still expected to be completed at the three sites planned for FY 2008 (Lawrence Livermore National Laboratory – Site 300 and Inhalation Toxicology Laboratory in California and the Pantex Plant in Texas).

Supporting the DOE Mission

The Department's Environmental Management (EM) program (<http://www.em.doe.gov>) is a key Departmental activity that supports the Department's Strategic Theme of:

THEME 4 *Environmental Responsibility - Protecting the environment by providing a responsible resolution to the environmental legacy of nuclear weapons production.*

The Department is responsible for the risk reduction and cleanup of the environmental legacy of the Nation's nuclear weapons program, one of the largest, most diverse, and technically complex environmental programs in the world. The Department has made significant progress in the last four years in shifting away from risk management to embracing a mission completion philosophy based on cleanup and risk reduction. Through focused project management, the Department is succeeding in the remediation of sites and the reduction of risks to future generations of Americans.

Background

The Department has responsibility for cleaning up a total of 108 sites involved with past research, development, production and testing of nuclear weapons. Taken together, these sites encompass an area of over two million acres – equal to the size of Rhode Island and Delaware combined. Fifty years of weapons production and research generated millions of gallons of liquid radioactive waste, millions of cubic meters of solid radioactive wastes, thousands of tons of spent nuclear fuel and special nuclear material, along with huge quantities of contaminated soil and water.

Unlike many problems posed by industrial operations, the Department's sites pose unique radiation hazards, unprecedented volumes of contaminated water and soil, and a vast number of contaminated structures ranging from reactors to chemical plants for extracting nuclear materials to evaporation ponds. In many cases, the ability to deal with these



At the Fernald Environmental Management Project in Ohio, DOE will manage the long-term protection of the 1,050 acre site as an undeveloped nature and wildlife reserve through monitoring and sampling of the 180 wells and groundwater.

waste challenges was unknown and required the engineering of new approaches or the invention of new innovative technologies to treat and dispose of the waste.

At the end of FY 2007, the Department completed cleanup at 86 of its 108 sites. Prior to FY 2006, however, the completed sites were small and the least difficult to clean up. The FY 2006-2007 completions of Rocky Flats, Lawrence Livermore National Laboratory, Kansas City Plant, Lawrence Berkeley National Laboratory and the three Ohio sites are some of EM's most significant achievements. The remaining large sites – Savannah River, Idaho National Laboratory, Portsmouth, Paducah, Oak Ridge and Hanford – present enormous challenges to the Department. With such long-term completion dates, the estimates for cost and schedule are highly uncertain and subject to change.

The Department also faces the ongoing challenge of increased work scope resulting from the discovery of greater than anticipated contamination at existing cleanup sites, as well as changes in assumptions regarding the cleanup of existing work scope.

The Department utilized approximately \$6.1 billion on environmental cleanup activities in FY 2007. In addition to completing cleanup on the four sites in FY 2007, the Department also marked the completion of its first shipment of remote-handled transuranic waste to the Waste Isolation Pilot Plant in Carlsbad, New Mexico. Other shipments of transuranic waste from Idaho, Savannah River, Los Alamos National Laboratory and Hanford continued to make progress towards accelerating cleanup and reducing risk.

The environmental cleanup program is focused on reducing risk, honoring commitments and producing results worthy of the investment of the American people. The Department is committed to ensuring strong management of this complex cleanup work to secure safe and efficient progress that protects the public, the DOE workers and the environment.



First remote-handled transuranic waste shipment to the Waste Isolation Pilot Plant.

— Management Excellence —

Enabling the mission through sound management.

IMPROVE HUMAN CAPITAL MANAGEMENT

The Department strives to ensure that Human Capital Management programs and policies facilitate the creation of a Department-wide performance culture and attract, motivate and retain a highly skilled and diverse workforce capable of meeting the challenges of the 21st Century. The Department's efforts have made positive strides towards improving the workforce planning processes, identifying critical skill sets, analyzing skill gaps, hiring new talent to fill vacancies more efficiently and implementing new talent and performance management systems.

Relevance of Progress

The people who make up the Department's workforce are our most important resource for accomplishing programmatic goals and objectives.

Supporting the DOE Mission

Improving human capital management supports the Department's Strategic Theme of:

THEME 5 Management Excellence - *Enabling the mission through sound management.*

The Office of Human Capital Management (HC) develops and implements strategies that provide leadership and direction for well thought-out investment in our people. These strategies are linked to the missions and goals of the organization, resulting in improved performance and an exciting, challenging and productive workplace environment.



The Department is working to ensure that it is a great place to work. The Department values a diverse workforce, has a performance-oriented culture, is able to put the right people with the right skills in the right jobs and employs effective leadership principles. Through this type of human capital management, the Department can ensure that employees have the resources available to do the job and hold individuals and organizations accountable for performance.

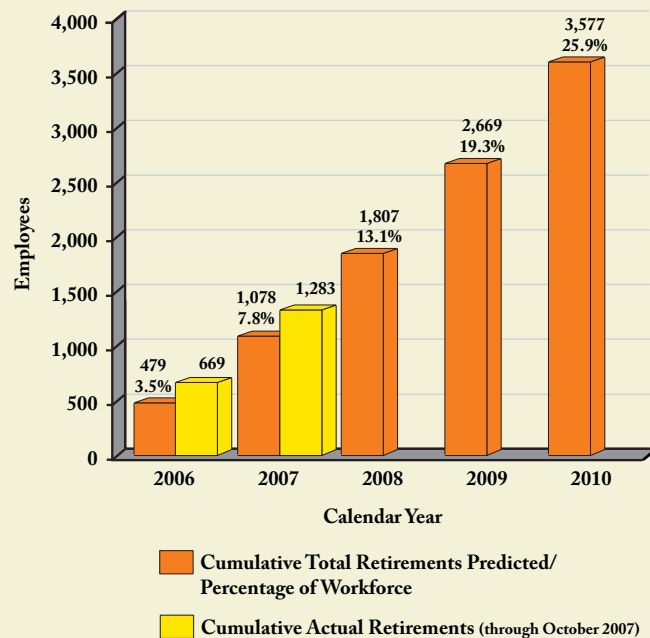
Background

The Department faces a number of challenges in its management of human capital. How do you attract the brightest engineers, physicists, project managers and nuclear scientists to work for DOE? How do you ensure that employees working on cutting edge R&D want to stay with DOE to see new discoveries come to light? At an even more basic level, how do you increase American interest in energy research, conservation and science?

The Department requires a highly technical and specialized workforce to accomplish its scientific and technological missions. There is increasing competition for individuals with the knowledge, skills and competencies that the Department needs. As a result, recruitment and retention is more difficult and the Department needs new corporate strategies in this area.

The Department's Federal workforce, consisting of about 13,500 DOE employees, is aging and presenting a significant retirement challenge that threatens to rob the organization of critical skills. The average employee age is over 49 years and a significant number (26 percent) will be eligible to retire in the next three years. Twenty-seven percent of the Department's scientists and engineers will be retirement-eligible in 2008. In 2006, retirements exceeded historical trends and attrition increased by two percent over 2005. A continuation of this trend can deprive the organization of the skills needed to perform its mission.

Retirements



In addition to recruitment, retention and workforce planning issues, additional challenges include increasing diversity within the workforce; improving the efficiency and effectiveness of hiring practices; addressing employee development and training needs; and creating a Department-wide performance culture to improve accountability at the individual and organizational level.

The Department has undertaken a number of initiatives to address these issues and improve human capital management. These initiatives are captured in a new 5-year Human Capital Management Strategic Plan. The plan establishes a systematic Department-wide approach to human capital management that aligns to the agency mission, vision and goals.

The Department is continuing to enhance its recruitment efforts. In FY 2007, the Department participated in over 25 recruitment activities hosted by minority educational institutions and professional organizations and was a major supporter of the Hispanic Youth Symposiums. The Department is continuing to work in partnership with other Federal agencies on proposed legislation to increase hiring flexibilities. In addition, the Department is working to develop new corporate recruitment and outreach strategies and a corporate intern program. The Department's FY 2007 results to date are positive and have reduced the under representation of minorities in the workforce by over 14 percent. The new intern program is beginning to create a pipeline of new talent into the agency with over 40 new interns hired in FY 2007 and by integrating the efforts of many existing intern programs. Targeted recruitment will continue to fill mission critical occupations.

The Department has recognized the challenge of hiring a highly skilled and diverse applicant pool as efficiently as possible. Internal and external reviews of the hiring processes indicated improvements within the context of applicable regulations and Merit System Principles. In FY 2006, the Department improved its vacancy fill rate to 85 percent (from 76 percent in FY 2005 and 50 percent in FY 2004).

The Department's human capital goal to implement a comprehensive enterprise talent management system is moving forward. The organization has identified mission critical occupations and completed a systematic assessment of the skill gaps in these areas to identify developmental and training options designed to close these gaps.

MISSION CRITICAL OCCUPATIONS

- **Electrical Engineers**
- **Nuclear Engineers**
- **Contract Managers**
- **Project Directors**
- **Human Resource Specialists**

The expanding opportunities at the Department are as exciting and challenging as ever before. The Department is working to meet these challenges head on with programs and policies for a talented and engaged workforce that is given the resources to do its jobs and be held accountable for the results.

— President's Management Agenda —



The President's charge to Federal agencies is to make sure all our green and yellow accomplishments convert to greater government effectiveness for FY 2007, FY 2008 and beyond.

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 six 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 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 on six PMA initiatives: five government-wide areas and one agency-specific area. The Department and the OMB consider progress made over the previous year and create

a plan for the upcoming year's PMA-related activities. The plan is used by the Department to guide further management reforms and by the OMB as the baseline for assessing the Department's quarterly performance. Further information on OMB's management of the PMA may be found at <http://www.ExpectMore.gov> and <http://www.Results.gov>

FY 2007 saw continuing accomplishments in some of the six PMA areas. Key achievements include:

Initiative and Current Status as of September 30, 2007	Progress in Implementation
Human Capital	G
Competitive Sourcing	R
Financial Performance	R
E-Government	Y
Performance Improvement	G
Real Property	G

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

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

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

— Program Assessment Rating Tool —

The Program Assessment Rating Tool (PART) was developed by the OMB in 2002 as a key component for implementing the President's Management Agenda (PMA), particularly the Budget and Performance Integration initiative. PART grew out of the Administration's desire to assess and improve program performance so that the Federal Government can achieve better results. It 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 funding and management decisions aimed at making the program 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 2002-2007, the Department has evaluated 54 of its current programs. Of these assessed programs, 76 percent are rated as "Moderately Effective" or "Effective." The following chart shows DOE's average results by strategic theme:

	Average Score	Average Rating
Theme 1 Energy Security	69	Adequate
Theme 2 Nuclear Security	84	Moderately Effective
Theme 3 Scientific Discovery and Innovation	86	Effective
Theme 4 Environmental Responsibility	66	Adequate
DOE-Wide Results	76	Moderately Effective

More information on PART scores and OMB's findings are available at www.ExpectMore.gov.

— Improper Payments Information Act —

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 *Defense Authorization Act* (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.

While the Department does not have any programs that meet the OMB criteria for significant risk, improper payments are monitored on an annual basis to ensure our error rates remain at minimal levels. The Department's information on improper payments is located in the Other Accompanying Information section.

— Analysis of Financial Statements —

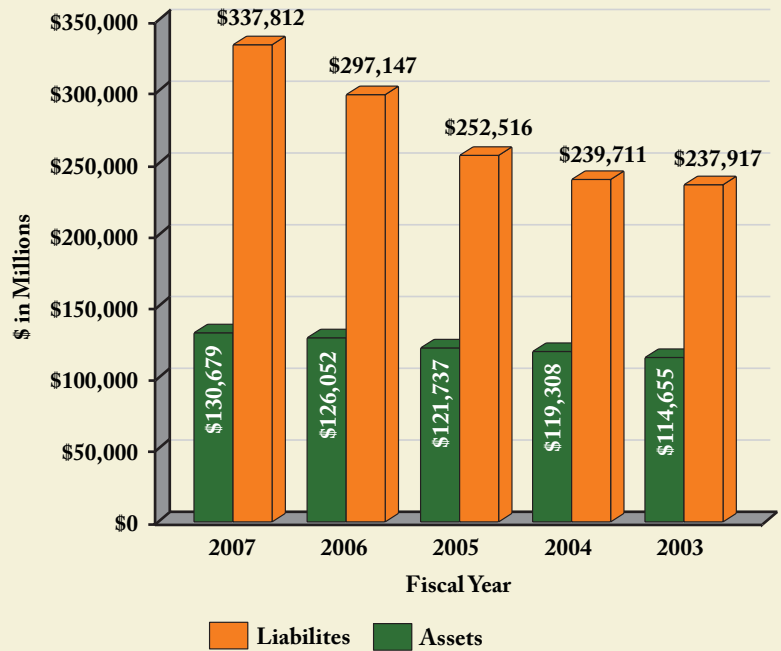
The Department's financial statements are included in the Financial Results section of this report. Preparing these statements is part of the Department's goal to improve financial management and provide accurate and reliable information that is useful for assessing performance and allocating resources.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

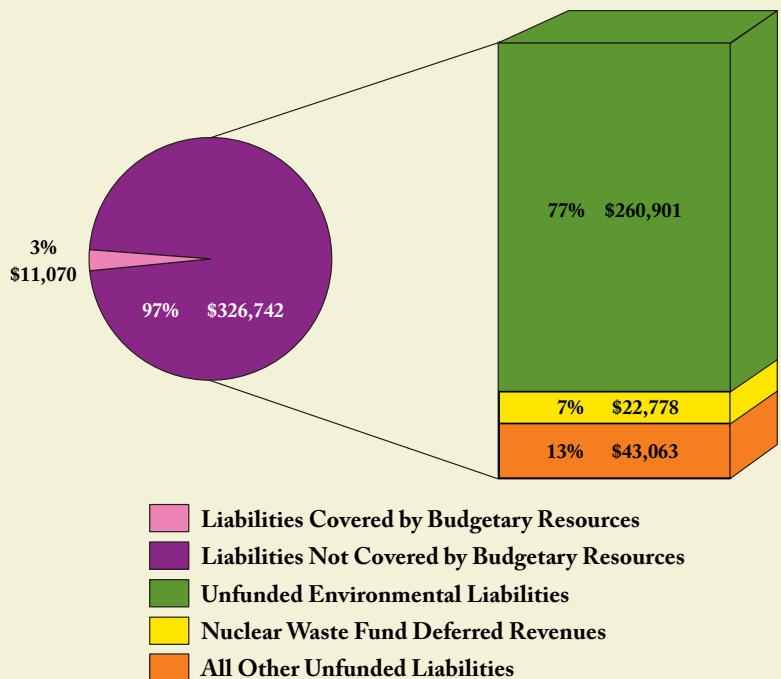
Balance Sheet. The Department has significant unfunded liabilities that will require future appropriations to fund. The most significant of these represent ongoing efforts to cleanup environmental contamination resulting from past operations of the nuclear weapons complex. The FY 2007 environmental liability estimate totaled \$264 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 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.

Changes to the environmental baseline estimates during FY 2007 and FY 2006 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work; revisions in acquisition strategies, technical approach or scope; regulatory changes; cleanup activities performed; additional scope and transfers out of the environmental baseline estimates; and additions for facilities transferred from the active and surplus category.

Total Assets and Total Liabilities (\$ in millions)



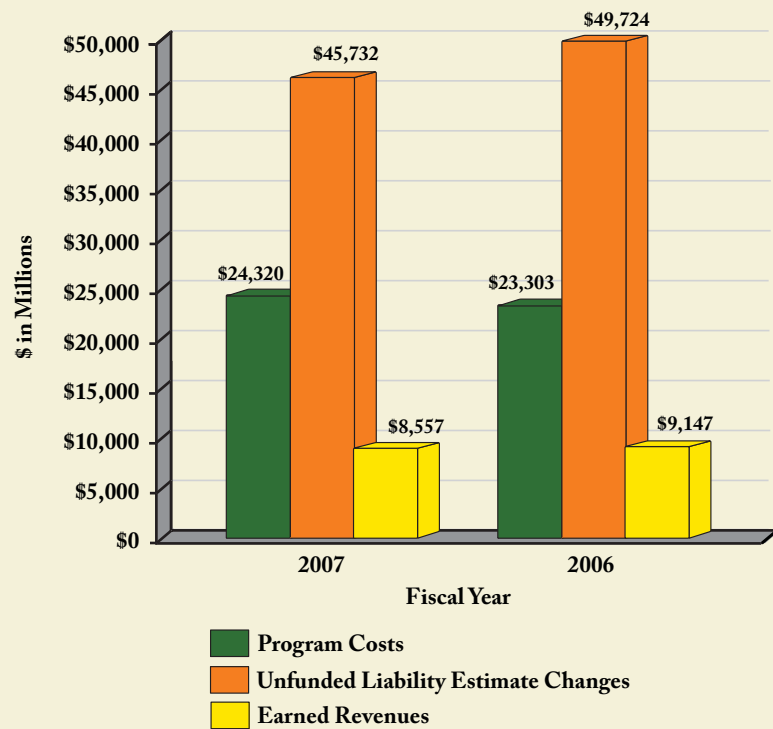
Breakdown of FY 2007 Liabilities (\$ in millions)



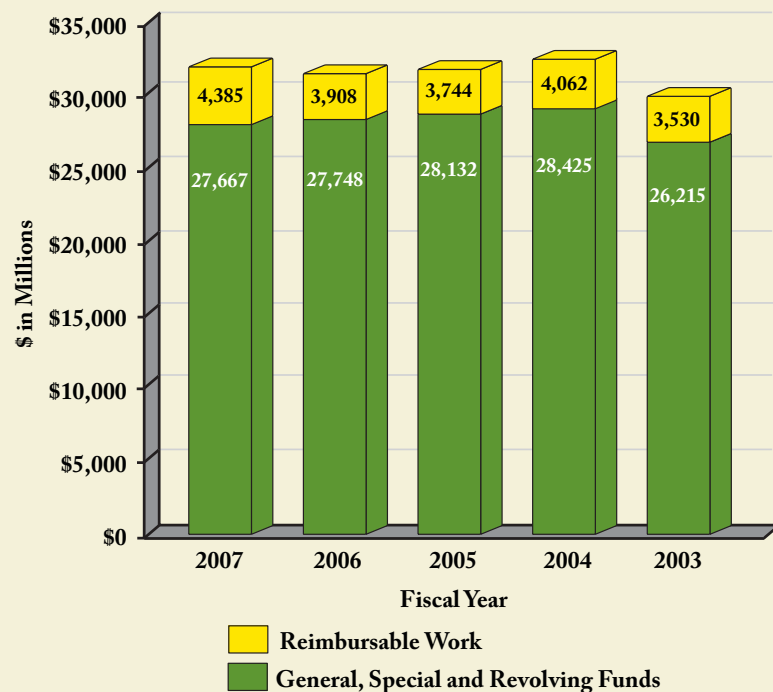
Net Cost of Operations. The major elements of net cost (see chart above) include program costs, unfunded liability estimate changes and earned revenues. Unfunded liability estimate changes result from inflation adjustments; improved and updated estimates; revisions in acquisition strategies, technical 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 the cost of multiple years operations, they are not included as current year program costs, but rather reported as "Costs Not Assigned" on the Consolidated Statements of Net Cost. Program costs also exclude current-year outlays for environmental cleanup work as those costs were accrued in prior years.

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. 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. 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.

Major Elements of Net Cost (\$ in millions)



Obligations Incurred (\$ in millions)



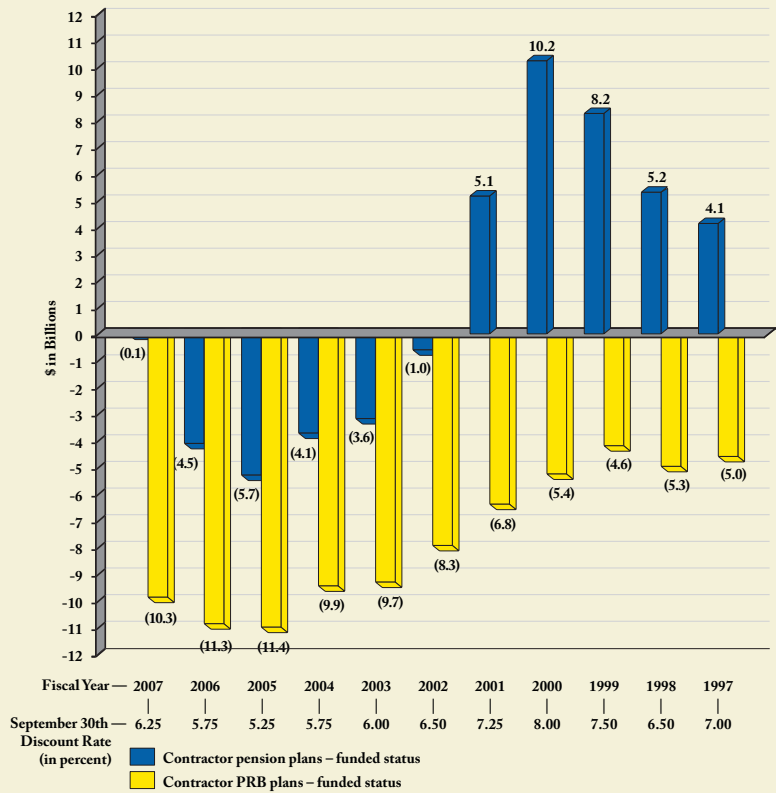
Pension/Postretirement Benefit Obligations Trend

Analysis. A 50 basis point increase in the discount rate (to its highest level in five years) used to estimate contractor employee pension plan obligations was one of the primary reasons for an improvement in the funded status from an under funding of almost \$4.5 billion in FY 2006 to an under funding of less than \$0.1 billion in FY 2007 for these plans. The discount rate increase improved the funded status by \$2.2 billion. In addition, the value of pension plan assets increased by \$2.4 billion in excess of the amount expected based on the contractors' long-term rate of return assumption. These two large improvements in the funded status were offset partially by the cost of additional benefits accruing and other losses during the year.

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 \$0.9 billion. In addition, the funded status improved by \$0.1 billion due to other experience gains during the year versus the actuarial assumptions, partially offset by the 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 SFAS No. 158 in FY 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 above chart shows the funded status for contractor employee pension and PRB plans and the year-end discount rate from FY 1997 to FY 2007.

Pension/Postretirement Benefit Obligations Trend Analysis (\$ in billions)



— 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. 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 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, 2007, 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 2007 limited scope 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, 2007, were working effectively and no material weaknesses were identified in the design or operation of the specific controls over financial reporting evaluated. However, the Department cannot provide complete assurance on the overall financial reporting control system until its baseline assessment is completed in FY 2008 in accordance with the plan approved by OMB.

Samuel W. Bodman

Samuel W. Bodman
November 14, 2007



Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires that agencies establish internal control 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 sur-

rounding 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 2007 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 under these requirements by the end of FY 2008. In accordance with this plan, the Department completed the assessment of all high, medium and low-risk activities at our contractor locations and all high and medium-risk activities at our Federal sites. The remaining low-risk activities will be assessed in FY 2008, completing the baseline assessment of all key processes and controls.

The Department's evaluation for FY 2007 did not identify any material weaknesses as of, or subsequent to, June 30, 2007. In addition, actions taken during FY 2007 have sufficiently resolved the material weakness identified in the Department's FY 2006 Performance and Accountability Report related to controls over undelivered orders.

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 often times require long-term strategies for ensuring stable operations and represent the most daunting Leadership Challenges the Department faces in accomplishing its mission.

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 Financial Results section of the AFR. Similarly, in FY 2003 the GAO identified six major management challenges and program risks to be addressed by the Department.

The Department, after considering the areas identified by the IG, GAO and all other critical activities within the agency, has identified ten 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 and address 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 no longer considers them to be leadership challenges, due to the progress the Department previously made in those areas.

IG Challenge Areas	GAO Challenge Areas	DOE Leadership Challenges
Contract Management S	Resolve problems in contract management that place the agency at high risk for fraud, waste and abuse S	Contract Administration S 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 Nuclear Waste Disposal D
Stockpile Stewardship D	Improve management of the Nation's nuclear weapons stockpile D	Stockpile Stewardship D
Project Management D		Project Management D
Cyber Security S		Cyber Security S
Human Capital Management S		Human Capital Management S
	Enhance leadership in meeting the Nation's energy needs D	
		Safety & Health S
	Revitalize infrastructure S	

IG Watch List

Worker and Community Safety **S**

Infrastructure Modernization **D**

D Mission Direct **S** Mission Support

Contract Administration

DESCRIPTION: Improvements are needed in the oversight of contractors managing and operating the Department's facilities. Specific oversight problems have been identified at environmental cleanup sites and laboratories conducting national security and scientific activities. Adequate oversight is needed to ensure that contractor operations are effective and efficient and that contractors have the appropriate workforce size and skill mix.

KEY STRATEGIES: In FY 2007, the Department's SC program continued implementation of its new restructured organization that places clear line management accountability for the laboratory contracts at the Site Office. SC also utilized its new contract approach to compete the Argonne, Ames and Fermi laboratory contracts. In addition, SC has completed its revision of new performance measures and has been conducting both technical and business reviews with each of their laboratory contracts.

To increase focus on contract management and oversight, the Department restructured EM to include a Deputy Assistant Secretary for Acquisition and Project Management. In addition, in response to direction from the House and Senate Energy and Water Appropriations Subcommittees, the National Academy of Public Administration (NAPA) commenced a review of EM's organization and management, with special emphasis on EM's contracting procedures and oversight. In FY 2007, EM began development of contract execution and procurement processes that implement NAPA recommendations and are cognizant of the recognized best practices in the Government and industry contracting community. Also during FY 2007, EM created a business process that allows procurements to be treated as part of an ongoing system that integrates acquisition planning and project management, leading to more effective management of contracts. In addition, EM is building a centralized acquisition planning structure and establishing a single EM Head of Contracting Activity that will improve EM's capability to process major procurement actions and ensure timely contract awards and efficient procurement operations.

Site Manager reporting in NNSA has been realigned to the Deputy Administrator for Defense Programs to enhance management accountability and provide consistent programmatic, management and administrative guidance to all areas, including contract administration. Additionally, NNSA has implemented independent reviews of contractors' Purchasing and Property systems. This allows managers to evaluate progress in various topical areas of contract administration. Most importantly for this area is NNSA's movement to integrate their Federal oversight and assurance functions with contractor assurance systems, which allows NNSA to manage risks and ensure that contractors take accountability for their actions and operations.

TIMING: Processes and organizational changes were implemented in FY 2007. Assessment of the effectiveness of those changes will be conducted in FY 2009 and beyond.

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 to share lessons learned from contract awards.

KEY STRATEGIES: To improve the timeliness in awarding contracts, several actions are underway. EM, which has the majority of complex procurement actions, staffed a new organization to plan and implement its procurements. The Office of Management developed a monthly report for senior leaders on the status of major procurements. Also, regular meetings between senior program, management and procurement leaders were implemented to discuss at-risk procurements.

The Department also continuously identifies and shares lessons-learned with DOE staff. Recent ongoing source evaluation board training conducted in the field provided procurement and technical staff with current policy, the latest guidance and lessons-learned from analysis of past DOE competitive procurements. Additionally, the Department benchmarked other Federal agencies regarding the ways that they share lessons learned among their respective staffs. Lastly, the Department analyzed mechanisms to identify, accumulate and disseminate source-selection lessons learned and best practices.

The Department's Chief Acquisition Officer, and the Office of Procurement and Assistance Management, conducted a systemic review of the process used Department-wide to award major procurements. The process was analyzed through an inspection of acquisition documentation and interviews with a variety of stakeholders. The team also benchmarked the business clearance processes of other agencies and analyzed and process-mapped the DOE process. The goals of the review were to identify and eliminate unnecessary, inefficient and redundant steps, improve timeliness of contract awards and better share lessons learned.

TIMING: The study was completed in FY 2007. The draft report, including recommendations is under review. Implementation of the recommendations, once approved by management, is anticipated for later in FY 2008.

Security

DESCRIPTION: Unprecedented security challenges have evolved since the events of September 11, 2001. 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 and infrastructure. These have made it necessary for the Department to reassess and strengthen its security postures.

KEY STRATEGIES: The Department has taken a number of aggressive steps over the past several years to improve security at all its facilities. In May 2004, the former Secretary of Energy announced a set of sweeping new initiatives to improve security across the Department's nationwide network of laboratories and defense facilities, particularly those housing weapons-grade nuclear materials. The Department's continued completion of these initiatives will ensure the Department has a clear strategic security plan outlining the Department's future security course, conducts ongoing threat analyses to establish the framework for continually improving security protective measures and enhances the physical security of our facilities. Actions have focused on implementing the necessary improvements to meet the current Design Basis Threat Policy to include revising vulnerability assessments; evaluating, testing and deploying security technologies; implementing the elite protective force model; consolidating materials; and improving material storage facilities.

Through an integrated approach, the Department is working to coordinate site mission, operations, security technologies and the elite protective force to provide more robust security protection measures at a lower overall cost. The Security Technologies Demonstration conducted at the Idaho National Laboratory in July 2006 showed that the use of technologies, combined with updated protective force tactics, can improve protective force survivability and serve as force multipliers. These methods are now being applied throughout the Department to build an efficient security program that is also flexible to meet both today's threat and tomorrow's challenges.

To address recommendations resulting from the Task Force Review of the Personnel Security Program, completed in February 2007, specific actions are being implemented to strengthen personnel security policies; drug testing requirements; training and certification; reviews of certain clearance cases; and quality control. Additionally, to strengthen the management of the program, a new Office of Departmental Personnel Security, reporting to the Chief Health, Safety and Security Officer was established.

NNSA continued the implementation of processes, procedures and technologies to fully implement the Enhanced Design Basis Threat. Resource and planning documents were developed for the Diskless Workstation Conversion Secretarial initiative. In addition, NNSA continued work with various programmatic and administrative elements to meet portions of Homeland Security Presidential Directive-12 access controls requirements. NNSA also continued to address specific security operations and personnel issues identified by the IG and GAO.

TIMING: Although strategies for minimizing risk are in place, long-term correction is expected due to the continuing nature of security threats.

Environmental Cleanup

DESCRIPTION: EM's mission is to clean up the environmental legacy of nuclear weapons production and nuclear energy research. In the past, programmatic requirements, such as contractual obligations and negotiated compliance agreements as well as unilateral compliance orders and directives have not always been consistent with realistic program funding profiles. This disconnect has continually challenged EM's ability to establish a credible and executable basis to continue cleanup progress and advance risk reduction across the complex. In addition, EM is often put in a position where it is difficult to manage regulator and stakeholder expectations.

KEY STRATEGIES: EM is undertaking an out-year planning initiative that will revisit life-cycle cost profiles to ensure a more optimum allocation of out-year resources at each site. A major component of this effort will be the determination of the magnitude of the Department's unfunded liability primarily the decontamination and decommissioning of hundreds of surplus facilities from other DOE mission programs (i.e., NNSA, SC, and NE). In addition, EM will be able to determine when a site has sufficient capability to accommodate existing EM cleanup scope and new cleanup scope from other Departmental programs. As a result, EM and the Department will have a process by which these unfunded liabilities can be accounted for and transitioned orderly into the EM cleanup program.

TIMING: As of December 2007, all near-term baselines will be validated. Project performance in relation to schedules and costs will continue to be evaluated on a regular basis. Out-year planning exercises will be conducted on an annual basis.

Nuclear Waste Disposal

DESCRIPTION: Construction of a repository for the disposal of spent nuclear fuel and high-level radioactive waste, authorized under the Nuclear Waste Policy Act, at Yucca Mountain, Nevada, has been delayed because of external factors and program adjustments. Funding shortfalls, and the scientific and technical challenges encountered in this first-of-a-kind endeavor to develop a disposal system that must potentially endure a compliance period of a million years, have complicated the steady progress necessary to achieve previously published milestones. Finalizing the Environmental Protection Agency radiation protection standards and addressing the licensing requirements of the Nuclear Regulatory Commission (NRC) to submit and defend a license application are the keys to achieving the new milestones published in July 2006.

KEY STRATEGIES: The introduction of the Nuclear Fuel Management and Disposal Act, in April 2006, seeks to provide stability, clarity and predictability to the Yucca Mountain Project. The proposed legislation addresses many of the uncertainties that are currently beyond the control of the Department and have the potential to significantly delay the opening date for the repository. The most important factor is the enactment of a provision that will facilitate Congressional funding needed to implement the Project.

The Program adopted a primarily canister-based approach for handling commercial spent nuclear fuel. The revised approach enabled deployment of necessary surface and sub-surface facilities in a manner that could accommodate future funding and income streams and enhances repository operations and performance.

In January 2006, the Department designated Sandia National Laboratories the lead laboratory to coordinate and organize all scientific work on the Project. Sandia National Laboratories will also review the existing infiltration model and prepare a new model to be used as part of the technical basis for the license application.

The Program is implementing management controls in accordance with DOE Order 413.3, Program and Project Management for the Acquisition of Capital Assets, and performance metrics required under the Department's performance and accountability report system and Office of Management and Budget reporting requirements to ensure it achieves its revised milestones. Additionally, the Program is proceeding to certify its earned value management system, which will be in place prior to critical decision-2, Approve Performance Baseline.

Key strategies that remain include: submittal of a license application to the NRC by June 30, 2008; construction authorization from the NRC by 2011; and receipt of a license amendment from the NRC to receive and possess nuclear material by 2017.

TIMING: Strategies are in place for minimizing risk; however, implementation of the key strategies is a long-term initiative.

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 that underground nuclear testing does not need 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: 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 and all sites have developed an Enhanced Surveillance Campaign Project Management Improvement Plan. During FY 2005, the Enhanced Surveillance Campaign Risk Management Plan was issued. The Life Extension Programs and sub-elements are now subject to the NNSA's Planning, Programming, Budgeting and Evaluation processes and the Department's project management processes. Resource loaded plans that contain cost, scope and milestones were implemented for the Enhanced Test Readiness Program during FY 2005.

In FY 2006, NNSA announced the details of the Nuclear Weapons Complex 2030, a comprehensive plan to enhance the Department's 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 guide and oversee Complex 2030, NNSA established the Office of Transformation under its Deputy Administrator for Defense Programs. Other major activities initiated to implement Complex 2030 include a Reliable Replacement Warhead, the acceleration of warhead dismantlement to enhance test readiness and the move toward consolidating special nuclear material to fewer sites.

TIMING: The Stockpile Stewardship Program was established to ensure the Nation's nuclear weapons stockpile is safe and reliable without underground testing. The nature of the program makes Stockpile Stewardship a significant management challenge. For this fiscal year and throughout the next several years, the direction of the Stockpile Stewardship Program will be shaped, in part, by the planning underway in support of the transformation of the nuclear weapons complex. Efficient management of contractors, human capital, projects, and security will ensure success of the program overall but will not remove it from being a management challenge.

Project Management

DESCRIPTION: The Department needs to improve the discipline and structure for approving and controlling program and baseline changes to projects as well as the Department wide approach for certifying Federal Project Directors at predetermined skill levels to ensure competent management oversight of resources. In addition, the Department needs stronger policies and controls to ensure that ongoing projects are re-evaluated frequently in light of changing missions.

KEY STRATEGIES: EM has applied project management principles to all cleanup projects having a total estimated cost greater than \$20 million and is continuing its review of resource-loaded cost and schedule baselines for 79 active projects of which 69 are in the execution phase. The baselines describe in detail the activities, schedule and resources required to complete the EM cleanup mission at each site or to construct a major facility at a site. Each site has undergone an independent review that will certify the scope, cost and schedule for each project. Project performance, schedules, and costs continue to be reviewed on a regular basis. Independent project reviews are being completed on 100% of those projects in the execution phase, and corrective actions are being addressed. EM is working to have this independent baseline review effort completed by December 2007. In April 2007, EM completed Phase I of its self-assessment of project management capabilities at nineteen EM selected sites including, Headquarters and the EM Consolidated Business Center. The Phase II site assessments are currently being conducted and are planned to be completed by December 2007. The National Academy of Public Administration (NAPA) is conducting a review of EM's project management capability. During FY 2007, EM began implementation of recommendations identified by the NAPA. Recommendations being implemented include modifying the EM Integrated Planning, Accountability and Budgeting System to include EVMS data and developing an internal cost-estimating capacity.

SC renewed its Facilities for the Future of Science Plan in FY 2007, to ensure its portfolio of major scientific projects are appropriately prioritized and progressing to deliver the transformational science needed to achieve DOE's missions. SC continues to conduct its independent project peer reviews, recognized as a "Best Practice" by the Office of Science and Technology Policy. SC senior managers proactively implement a Watch List procedure that requires a monthly in-depth assessment of progress in resolving critical project issues in poorly performing or high significance projects. SC rigorously implements the DOE corporate project management system and holds its line managers accountable for achieving project technical, cost, schedule, and management objectives.

NNSA continues its efforts in improving its project management performance. NNSA has fully implemented the new project management procedures and policies that were jointly developed by all of the Departmental elements and continues training and certifying Project Managers. NNSA is also integrating project management criteria into various aspects of its program elements, such as the warhead life extension activities.

The Office of Management (MA) issued DOE Order 413.3A, Program and Project Management for the Acquisition of Capital Assets, to provide project management guidance to the Department, including the NNSA, with the focus on delivering projects on schedule, within budget and fully capable of meeting mission performance. To enhance oversight of project management, MA also prepares a monthly project status report for all projects and a summary report that identifies all poorly performing projects for the Deputy Secretary, Under Secretary and the Administrator, NNSA. To improve the implementation of EVMS of the Department's contractors, MA has implemented a program to certify contractors' EVMS and in FY 2007 certified six major contractors' EVMS. In addition, MA conducted a Root Cause Analysis Conference to discuss the root causes of Departmental deficiencies in contract administration and project management. The conference was attended by DOE senior-level personnel, as well as GAO and OMB. Corrective actions will be developed by the Department to mitigate any identified project deficiencies.

TIMING: Because of the overall long-term nature of the Department's programs and projects, the Department must work within a disciplined project management and control system to ensure projects are completed on-time and within budget. To that end, the Department plans to implement additional corrective actions to improve project management acumen in FY 2008. These additional corrective actions will be derived from a FY 2008 root cause analysis of past and present project management deficiencies.

Cyber Security

DESCRIPTION: In FY 2006, the Secretary and Deputy Secretary established an initiative to develop a comprehensive DOE cyber security program, following concerns about cyber security raised by the IG, the Office of Health, Safety and Security (HSS) and the Congress, as well as the increased overall cyber threat environment then facing the Department.

KEY STRATEGIES: A Cyber Security Executive Steering Committee was created to oversee this effort, consisting of the Under Secretaries and others and chaired by the Chief Information Officer (CIO). This resulted in creation of a DOE Cyber Security Revitalization Plan, signed by the Deputy Secretary in March 2006. The Plan established the basis for resolving management, operational, and technical cyber security weaknesses within DOE. This Department-wide effort followed an earlier 2005 cyber security improvement effort that had resulted in a set of proposed actions to improve cyber security across the DOE complex. These actions were incorporated into the Revitalization Plan. Also, in recognition of the importance of cyber security to the Department, an unprecedented DOE Senior Leadership Cyber Summit was held, involving the Deputy Secretary, the Under Secretary, other senior DOE officials, and participants from the National Laboratories. Other major milestones to address Cyber Security issues include:

- Development of DOE Order 205.1A, *Department of Energy Cyber Security Management*, signed by the Deputy Secretary in December 2006, which established a new, federated governance structure for DOE cyber security management in which the Under Secretaries provide direction to their organizations based on their assessment or risk to each organization's systems and data.
- Development of 20 Office of the CIO Cyber Security Guidelines and 18 Technical and Management Requirements documents that provide guidance for the Under Secretaries.
- Issuance of DOE Order 205.1-4, *National Security Systems Manual*.
- Initiation of an effort to improve risk-based Department-wide certification and accreditation processes for systems, including support through site assistance visits to the field.
- Enhancement of defense in depth of DOE systems and networks, including network segmentation and replacement of older, vulnerable system software.
- Creation of a DOE-wide cyber forensics team that focuses on a continuing basis on the most serious cyber threats and attacks that DOE faces.
- Creation of guidance and a reporting process to provide special protection for sensitive unclassified information, including personally identifiable information.
- Initiation of an NNSA reprogramming of FY 2006 funds to address some of the more immediate cyber security issues.

TIMING: Work is underway to improve cyber threat assessment, initiate needed cyber research and development, to identify the most important DOE information assets that need special protection, to strengthen the Department's cyber defenses, to enhance cyber security training, improve information technology system inventory tracking, and to improve corrective action tracking. Long-term corrective action is expected due to the evolving nature of security threats.

Human Capital Management

DESCRIPTION: The Department's workforce is aging and getting smaller. Since 1995, the Department has experienced over a 30 percent reduction in the size of its workforce and the average employee stands at over 49 years. Twenty-six percent of the workforce will be eligible to retire in the next three years. Twenty-seven percent of DOE's scientists and engineers will be retirement-eligible in 2008. The decline in staffing levels and potential future attrition has left the Department with a significant challenge: reinvesting in its human capital to ensure that the right people with the right skills, necessary to successfully meet its missions, are available.

KEY STRATEGIES: The Department's focus on this issue is evidenced by the addition of Management Excellence to its Strategic Plan; and the revision of DOE's Human Capital Management Strategic Plan. In FY 2007, the Department continued to strategically manage its Federal workforce with newly implemented workforce planning techniques throughout the Agency. DOE business elements used this model to analyze, forecast, and plan for future resource requirements. The planned investment in new automated workforce planning and simulation tools will further enhance these efforts in assisting business elements in the development of consistent workforce plans across DOE.

New recruitment and outreach strategies and a new Corporate Recruitment Program are beginning to create a pipeline of fresh talent into the Department. Human Capital offices are improving efficiency of the hiring processes and the Department is continuing to work in partnership with other Federal agencies on proposed legislation to increase recruitment and hiring flexibilities. Additionally, the Department is implementing a comprehensive enterprise talent management system to ensure a competent workforce through a more integrated approach to employee development. The organization identified mission critical occupations; implemented a new performance management system designed to ensure alignment, results-based measurement, and quantitative and qualitative analysis of production.

NNSA continues to build a vibrant human capital management program tailored to NNSA's unique mission needs. The Future Leaders Intern Program appears to be successful. 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; NNSA's organizational change process; 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, which is a first within the Department.

Most importantly, NNSA is partnered with the OPM in an unprecedented pilot personnel demonstration project, which will commence during 2008, that will be designed to rebuild DOE's basic Civil Service employment system. The effect of the sophisticated changes would be to 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.

TIMING: The strategic management of human capital requires ongoing analyses and planning. The Department will continue to conduct strategic human capital analyses to ensure a workforce that is fully capable of meeting its responsibilities and to further efforts at being an employer of choice in the Federal government.

Safety and Health

DESCRIPTION: Ensuring the safety and health of the public and the Department's workers is one of the 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. Currently, the Department continues to address emerging safety issues identified within the past year.

KEY STRATEGIES: Significant actions have been taken to mitigate safety and health concerns. On October 1, 2006, the HSS was created to provide a more integrated approach to these functions. Over the past year, the new office has enhanced the effectiveness and efficiency of health, safety and environmental protection programs across the complex by providing line managers and their sites with more effective and consistent policy, assistance, training, enforcement and independent oversight. Significant actions for 2007 include: implementation of 10 CFR 851, Worker Health and Safety rule; establishing an integrated enforcement program for nuclear safety, worker safety and health, and security; enhancing Integrated Safety Management (ISM); increasing communications, interface and feedback on issues related to health, safety and the environment; and integrating safety and security training throughout the Department. Also in FY 2007, the Office of Independent Oversight, within HSS, continued its mission to evaluate the effectiveness of institutional safety and health processes and the implementation of the core functions of ISM.

SC has set performance goals for FY 2007 for improving worker safety based on benchmarks with comparable industries, which are reviewed quarterly. SC has established performance measures based on best-in-class performance by other research and development industries. These goals are institutionalized and incorporated into lab appraisal plans.

In FY 2007, the Office of Nuclear Energy initiated its implementation of DOE Order 226.1, *Implementation of Department of Energy Oversight Policy*. This effort includes development of an Oversight Proficiency Assurance Program to assure appropriate knowledge, skills, and abilities for safety oversight and delegation of safety authorities. It also includes an Oversight Standard Operating Procedure that requires an integrated annual oversight schedule in FY 2007 and beyond.

EM continued its project based approach to monitoring and managing safety performance through the use of the EM EVMS normalization model, during FY 2007. This model uses the Department's safety occurrence reporting system and aligns these occurrences with the contractor's size and performance through their EVMS. This process aligns EM's commitment to manage safety through project performance and offers the ability to normalize safety performance data by site, prime contractor and corporate contractor. EM also published an ISM system description to provide a clear understanding of how headquarters implements its safety-related functions and oversees integrated safety at its field elements. In FY 2007, EM continued to improve the process for approving and implementing Documented Safety Analyses and Technical Safety Requirements for nuclear facilities.

NNSA's Environmental Safety & Health Advisor and the Chief of Defense Nuclear Safety continued their respective efforts with the weapons complex in addressing Defense Nuclear Facilities Safety Board and other DoD safety concerns. The Deputy Administrator for Defense Programs assumed reporting authority for NNSA's site managers in order to strengthen and provide consistent guidance in safety and other management areas.

TIMING: Efforts to ensure a strong safety and health program and to evaluate the effectiveness of this program are a long-term initiative.





FINANCIAL RESULTS

— Message from the Chief Financial Officer —



I am very proud of the extraordinary efforts of the financial management community over the last two years and am extremely pleased to report on the Department's success in regaining its clean audit opinion this year. Congratulations to everyone who contributed to this great accomplishment.

The Secretary, Deputy Secretary and the entire senior leadership team recognize the value of accurate and timely financial information for decision making and are committed to ensuring that our annual financial statements fully pass audit scrutiny. That commitment, together with the immense amount of work performed by both the headquarters and field Federal and contractor financial community, resulted in the improved controls over financial reporting that underpin the auditor's unqualified "clean" audit opinion on our fiscal year 2007 financial statements.

The Department's fiscal year 2007 financial statements were reviewed by independent auditors and received a clean opinion. This is the best possible opinion and an upgrade from the qualified balance sheet only opinion issued in fiscal year 2006. No material weaknesses in internal controls were identified and the auditors concluded that the Department had corrected the material weakness identified last year regarding controls over the reporting of undelivered orders. 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.

I am committed to ensuring the Department has the organization, systems and resources to sustain the Department's clean opinion in future years and to continue to improve on our financial management performance. Our new core financial system standardizes key business and financial processes used throughout the agency. Combined with its companion data warehouse, we are delivering to program offices the most up-to-date financial and programmatic information to facilitate better decision making. As the CFO, my highest priority, *Our People*, is to ensure that we invest in the right skills mix, resources, and training and development opportunities to further strengthen our financial management and analysis capabilities. And, my next priority, *Our Customers*, is to work closely with program offices, the Administration, and Congress to achieve the results expected by the American people. I believe this report demonstrates that we are on the right track.

In previous years, the Department produced a Performance and Accountability Report which consolidated multiple statutory reporting requirements, including the reporting of performance results, audited financial statements and the status of internal controls. This year, the Department is participating in a pilot program for Federal agencies to experiment with alternative approaches to performance and accountability reporting. This Agency Financial Report presents financial and performance results in a more flexible and transparent format.

Lastly, another of my priorities, *Our Commitments*, is representative of our effort to provide the highest quality products for Departmental and stakeholder use. I look forward to and welcome feedback from the readers of this report as we continue to look for opportunities to improve the way we communicate the results of the Department's performance. Thank you.

A handwritten signature in black ink, appearing to read "S. Isakowitz".

Steve Isakowitz
November 14, 2007



— Consolidated and Combined Financial Statements —

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

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

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

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

The **Consolidated Statements of Net Cost** 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.

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

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

The **Consolidated Statements of 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, 2007 and 2006

(\$ in millions)

	FY 2007	FY 2006
ASSETS: ^(Note 2)		
Intragovernmental Assets:		
Fund Balance with Treasury ^(Note 3)	\$ 18,359	\$ 17,189
Investments, Net ^(Note 4)	25,681	23,767
Accounts Receivable, Net ^(Note 5)	575	615
Regulatory Assets ^(Note 6)	5,456	5,476
Other Assets	8	1
Total Intragovernmental Assets	<u>\$ 50,079</u>	<u>\$ 47,048</u>
Investments, Net ^(Note 4)	202	210
Accounts Receivable, Net ^(Note 5)	3,939	4,020
Inventories, Net: ^(Note 7)		
Strategic Petroleum and Northeast Home Heating Oil Reserve	19,415	19,172
Nuclear Materials	21,040	21,199
Other Inventory	470	456
General Property, Plant, and Equipment, Net ^(Note 8)	24,866	24,122
Regulatory Assets ^(Note 6)	5,636	5,961
Other Non-Intragovernmental Assets ^(Note 9)	5,032	3,864
Total Assets	<u>\$ 130,679</u>	<u>\$ 126,052</u>
LIABILITIES: ^(Note 10)		
Intragovernmental Liabilities:		
Accounts Payable	\$ 66	\$ 82
Debt ^(Note 11)	11,481	10,780
Deferred Revenues and Other Credits ^(Note 12)	36	52
Other Liabilities ^(Note 13)	271	257
Total Intragovernmental Liabilities	<u>\$ 11,854</u>	<u>\$ 11,171</u>
Accounts Payable	3,793	3,817
Debt Held by the Public ^(Note 11)	6,427	6,436
Deferred Revenues and Other Credits ^(Note 12)	25,145	23,507
Environmental Cleanup and Disposal Liabilities ^(Note 14)	263,603	230,321
Pension and Other Actuarial Liabilities ^(Note 15)	12,433	12,059
Obligations Under Capital Leases ^(Note 16)	214	172
Other Non-Intragovernmental Liabilities ^(Note 13)	3,272	2,828
Contingencies and Commitments ^(Notes 12 and 17)	11,071	6,836
Total Liabilities	<u>\$ 337,812</u>	<u>\$ 297,147</u>
NET POSITION:		
Unexpended Appropriations		
Unexpended Appropriations - Earmarked Funds ^(Note 18)	\$ 17	\$ 47
Unexpended Appropriations - Other Funds	10,665	9,864
Cumulative Results of Operations		
Cumulative Results of Operations - Earmarked Funds ^(Note 18)	(5,524)	(1,345)
Cumulative Results of Operations - Other Funds	(212,291)	(179,661)
Total Net Position	<u>\$ (207,133)</u>	<u>\$ (171,095)</u>
Total Liabilities and Net Position	<u>\$ 130,679</u>	<u>\$ 126,052</u>

The accompanying notes are an integral part of these statements

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

For Years Ended September 30, 2007 and 2006

(\$ in millions)

STRATEGIC THEMES:

Energy Security:

Energy Diversity

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Energy Diversity

Environmental Impacts of Energy

Program Costs

Less: Earned Revenues (Note 19)

Net Costs of Environmental Impacts of Energy

Energy Infrastructure

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Energy Infrastructure

Energy Productivity Program Costs

Net Cost of Energy Security

Nuclear Security:

Nuclear Deterrent Program Costs

Weapons of Mass Destruction Program Costs

Nuclear Propulsion Plants

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Nuclear Propulsion Plants

Net Cost of Nuclear Security

Scientific Discovery and Innovation:

Net Cost of Scientific Discovery and Innovation

Environmental Responsibility:

Environmental Cleanup

Program Costs

Less: Earned Revenues (Note 19)

Net Costs of Environmental Cleanup

Managing the Legacy Program Costs

Net Cost of Environmental Responsibility

Net Cost of Strategic Themes

OTHER PROGRAMS:

Reimbursable Programs:

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Reimbursable Programs

Other Programs: (Note 20)

Program Costs

Less: Earned Revenues (Note 19)

Net Cost of Other Programs

Costs Applied to Reduction of Legacy Environmental Liabilities (Notes 14 and 21)

Costs Not Assigned (Note 22)

Net Cost of Operations (Note 23)

	FY 2007	FY 2006 (Unaudited)
	\$ 1,085	\$ 1,415
	(6)	(616)
	<u>1,079</u>	<u>799</u>
	1,041	989
	(60)	(95)
	<u>981</u>	<u>894</u>
	3,930	3,951
	(4,146)	(4,313)
	<u>(216)</u>	<u>(362)</u>
	496	470
	<u>2,340</u>	<u>1,801</u>
	6,851	6,671
	<u>1,539</u>	<u>1,377</u>
	810	783
	(19)	(11)
	<u>791</u>	<u>772</u>
	<u>9,181</u>	<u>8,820</u>
	4,004	3,734
	5,861	6,007
	(493)	(509)
	<u>5,368</u>	<u>5,498</u>
	57	62
	<u>5,425</u>	<u>5,560</u>
	<u>20,950</u>	<u>19,915</u>
	3,529	3,398
	(3,521)	(3,385)
	<u>8</u>	<u>13</u>
	690	653
	(312)	(218)
	<u>378</u>	<u>435</u>
	(5,573)	(6,207)
	<u>45,732</u>	<u>49,724</u>
	<u>\$ 61,495</u>	<u>\$ 63,880</u>

The accompanying notes are an integral part of these statements

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

For Years Ended September 30, 2007 and 2006

(\$ in millions)

CUMULATIVE RESULTS OF OPERATIONS:

	FY 2007			
	Earmarked Funds ^(Note 18)	All Other Funds	Eliminations	Consolidated
Beginning Balances	\$ (1,345)	\$ (179,661)	\$ -	\$ (181,006)
Change in Accounting Principle ^(Note 24)	333	622	-	955
Beginning Balances, as Adjusted	\$ (1,012)	\$ (179,039)	\$ -	\$ (180,051)
Budgetary Financing Sources:				
Appropriations Used	\$ 36	\$ 22,502	\$ -	\$ 22,538
Nonexchange Revenue	72	2	-	74
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	343	163	(472)	34
Total Financing Sources	\$ (373)	\$ 24,576	\$ (472)	\$ 23,731
Net Cost of Operations	(4,139)	(57,828)	472	(61,495)
Net Change	\$ (4,512)	\$ (33,252)	\$ -	\$ (37,764)
Total Cumulative Results of Operations	\$ (5,524)	\$ (212,291)	\$ -	\$ (217,815)

UNEXPENDED APPROPRIATIONS:

Beginning Balances	\$ 47	\$ 9,864	\$ -	\$ 9,911
Budgetary Financing Sources:				
Appropriations Received ^(Note 25)	\$ 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	\$ (5,507)	\$ (201,626)	\$ -	\$ (207,133)

CUMULATIVE RESULTS OF OPERATIONS:

	FY 2006 (Unaudited)			
Beginning Balances	\$ 3,264	\$ (143,021)	\$ -	\$ (139,757)
Budgetary Financing Sources:				
Appropriations Used	\$ 14	\$ 22,706	\$ -	\$ 22,720
Nonexchange Revenue	60	2	-	62
Donations and Forfeitures of Cash	-	13	-	13
Transfers - In/(Out) Without Reimbursement	(216)	-	-	(216)
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	1	-	-	1
Transfers - In/(Out) Without Reimbursement ^(Note 23)	(611)	(15)	-	(626)
Imputed Financing from Costs Absorbed by Others ^(Note 23)	2	621	-	623
Other	502	11	(459)	54
Total Financing Sources	\$ (248)	\$ 23,338	\$ (459)	\$ 22,631
Net Cost of Operations	(4,361)	(59,978)	459	(63,880)
Net Change	\$ (4,609)	\$ (36,640)	\$ -	\$ (41,249)
Total Cumulative Results of Operations	\$ (1,345)	\$ (179,661)	\$ -	\$ (181,006)

UNEXPENDED APPROPRIATIONS:

Beginning Balances	\$ 10	\$ 8,968	\$ -	\$ 8,978
Budgetary Financing Sources:				
Appropriations Received ^(Note 25)	\$ 52	\$ 23,847	\$ -	\$ 23,899
Appropriations Transferred - In/(Out)	-	17	-	17
Other Adjustments	(1)	(262)	-	(263)
Appropriations Used	(14)	(22,706)	-	(22,720)
Total Budgetary Financing Sources	\$ 37	\$ 896	\$ -	\$ 933
Total Unexpended Appropriations	\$ 47	\$ 9,864	\$ -	\$ 9,911
Net Position	\$ (1,298)	\$ (169,797)	\$ -	\$ (171,095)

The accompanying notes are an integral part of these statements

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

For Years Ended September 30, 2007 and 2006

(\$ in millions)

BUDGETARY RESOURCES:

Unobligated balance, Brought Forward, October 1 ^(Note 25)
Recoveries of Prior Year Unpaid Obligations
Budget Authority:
 Appropriations ^(Note 25)
 Borrowing Authority
 Contract Authority
Spending Authority from Offsetting Collections:
 Earned:
 Collected
 Change in Receivables from Federal Sources
 Change in Unfilled Customer Orders:
 Advances Received
 Without Advance from Federal Sources
 Subtotal
Nonexpenditure Transfers, Net, Anticipated and Actual
Temporarily not Available Pursuant to Public Law
Permanently Not Available
Total Budgetary Resources ^(Note 25)

STATUS OF BUDGETARY RESOURCES:

Obligations Incurred:
 Direct
 Exempt from Apportionment
 Reimbursable
 Total Obligations Incurred ^(Notes 23 and 25)
Unobligated Balance:
 Apportioned
 Exempt from Apportionment
Unobligated Balance Not Available ^(Notes 3 and 25)
Total Status of Budgetary Resources

CHANGE IN OBLIGATED BALANCE:

Obligated Balance, Net:
 Unpaid Obligations, Brought Forward, October 1 ^(Note 25)
 Less: Uncollected Customer Payments from
 Federal Sources, Brought Forward, October 1
 Total Unpaid Obligated Balance, Net, October 1
Obligations Incurred ^(Note 25)
Less: Gross Outlays

Less: Recoveries of Prior Year Unpaid Obligations, Actual
Change in Uncollected Customer Payments from Federal Sources

Obligated Balance, Net, End of Period:
 Unpaid Obligations ^(Notes 3 and 25)
 Less: Uncollected Customer Payments from Federal Sources ^(Note 3)
 Total, Unpaid Obligated Balance, Net, End of Period

NET OUTLAYS:

Gross Outlays
Less: Offsetting collections
Less: Distributed Offsetting Receipts ^(Notes 23 and 25)
Net Outlays ^(Note 25)

	FY 2007	FY 2006 (Unaudited)
	\$ 4,159	\$ 4,244
	52	47
	\$ 24,616	\$ 25,374
	315	270
	692	871
	7,755	7,727
	(22)	16
	9	30
	124	(603)
	\$ 33,489	\$ 33,685
	117	(52)
	(257)	(266)
	(1,428)	(1,838)
	<u>\$ 36,132</u>	<u>\$ 35,820</u>
	\$ 24,770	\$ 24,701
	2,897	3,047
	4,385	3,908
	<u>\$ 32,052</u>	<u>\$ 31,656</u>
	2,495	2,552
	50	32
	1,535	1,580
	<u>\$ 36,132</u>	<u>\$ 35,820</u>
	\$ 18,196	\$ 17,229
	(4,100)	(4,687)
	<u>\$ 14,096</u>	<u>\$ 12,542</u>
	32,052	31,656
	(30,748)	(30,642)
	(52)	(47)
	(102)	587
	<u>\$ 15,246</u>	<u>\$ 14,096</u>
	\$ 19,447	\$ 18,196
	(4,201)	(4,100)
	<u>\$ 15,246</u>	<u>\$ 14,096</u>
	\$ 30,748	\$ 30,642
	(7,764)	(7,757)
	(2,926)	(3,264)
	<u>\$ 20,058</u>	<u>\$ 19,621</u>

The accompanying notes are an integral part of these statements

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

For Years Ended September 30, 2007 and 2006

(\$ in millions)

SOURCES OF COLLECTIONS:

Cash Collections: ^(Note 26)

Interest
 Federal Energy Regulatory Commission
 Power Marketing Administration Custodial Revenue
 Total Cash Collections
 Accrual Adjustment
 Total Custodial Revenue

DISPOSITION OF REVENUE:

Transferred to Others:

 Department of the Treasury
 Army Corps of Engineers
 Bureau of Reclamation
 Others
 Decrease/(Increase) in Amounts to be Transferred
 Net Custodial Activity

	FY 2007	FY 2006 (Unaudited)
	\$ 13	\$ 17
	82	44
	532	545
	\$ 627	\$ 606
	(5)	13
	\$ 622	\$ 619
	(290)	(200)
	(31)	3
	(305)	(333)
	(7)	(5)
	11	(84)
	\$ -	\$ -

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 DOE field organizations. The Department indemnifies these contractors against financial responsibility from nuclear accidents under the provisions of the Price-Anderson Act.

These contractors have unique contractual relationships with the Department. In most cases, their charts of accounts and accounting system are integrated with the Department's accounting system through a home office-branch office type of arrangement. Additionally, the Department is responsible for funding certain defined benefit pension plans, as well as postretirement benefits such as medical care and life insurance, for the employees of these contractors. As a

result, the Department's financial statements reflect not only the costs incurred by these contractors, but also include certain contractor assets (e.g., employee advances and prepaid pension costs) and liabilities (e.g., accounts payable, accrued expenses including payroll and benefits, and pension and other actuarial liabilities) that would not be reflected in the financial statements of other Federal agencies that do not have these unique contractual relationships.

C. Basis of Accounting

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

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

D. Fund Balance with Treasury

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

E. Investments, Net

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

F. Accounts Receivable, Net

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

G. Inventory, Net

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

H. General Property, Plant, and Equipment, Net

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. The Department's property, plant, and equipment capitalization threshold is \$50,000 except for the power marketing administrations (PMAs) 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.

I. Liabilities

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

J. Earmarked Funds

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).

K. Accrued Annual, Sick, and Other Leave

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

L. Retirement Plans

Federal Employees

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

Most of the Department's major contractors maintain a defined benefit pension plan under which they promise to pay employees specific benefits, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of employer contributions to the pension plans. Amounts are calculated for employers to contribute to their pension plan to ensure the plan assets are sufficient or provide for accrued benefits of contractor employees. The level of contributions is dependent on plan provisions and actuarial assumptions about the future, such as interest rates, employee turnover and mortality, age of retirement, and compensation

increases. The Department's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly post-retirement health care benefits which are generally funded on a pay-as-you-go basis. Since the Department is ultimately responsible for the allowable costs of funding the pension and PRB plans, it reports assets and liabilities for these plans (see Note 15).

M. Net Cost of Operations

Program costs are summarized in the Consolidated Statements of Net Cost by the 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 – Foster 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 United States.
- Managing the Legacy – Manage the Department's post-closure environmental responsibilities and ensure the future protection of human health and the environment.

N. Revenues and Other Financing Sources

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

Exchange and Non-Exchange Revenues

In accordance with Federal Government accounting standards, the Department classifies revenues as either exchange (earned) or non-exchange. Exchange revenues are those that derive from transactions in which both the Government and the other party receive value (see Note 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 the Office of Personnel Management, and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. When costs that are directly attributable to the Department's operations are paid by other agencies, the Department recognizes these amounts on the Consolidated Statements of Net Cost. In addition, these amounts are recognized as imputed financing sources on the Consolidated Statements of Changes in Net Position (see 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 26).

O. Use of Estimates

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

P. Comparative Data

Certain FY 2006 amounts have been reclassified to conform to the FY 2007 presentation.

2. Non-Entity Assets (in millions)

	FY 2007	FY 2006
Intragovernmental		
Naval Petroleum Reserve Deposit Fund ^(Note 13)	\$ 323	\$ 323
Investments - Petroleum Pricing Violation Escrow Fund ^(Notes 4 and 13)	47	72
Subtotal	\$ 370	\$ 395
Investments - Petroleum Pricing Violation Escrow Fund ^(Notes 4 and 13)	202	210
Inventories - Department of Defense stockpile oil ^(Notes 7 and 13)	123	123
Other	-	18
Total non-entity assets	\$ 695	\$ 746
Total entity assets	129,984	125,306
Total assets	\$ 130,679	\$ 126,052

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

Naval Petroleum Reserve Deposit Fund

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

Petroleum Pricing Violation Escrow Fund

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

3. Fund Balance with Treasury (in millions)

	FY 2007				
	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	\$ 2,158	\$ 168	\$ 219	\$ -	\$ 2,545
Unavailable (Note 25)	15	1,476	44	-	1,535
Obligated balance not yet disbursed					
Unpaid obligations (Note 25)	16,302	2,460	685	-	19,447
Uncollected customer payments from Federal sources	(3,851)	(322)	(28)	-	(4,201)
Deposit fund and other 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 FY 2007 fund balance with Treasury	\$ 14,881	\$ 1,612	\$ 1,506	\$ 360	\$ 18,359

	FY 2006				
	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	\$ 2,367	\$ 95	\$ 122	\$ -	\$ 2,584
Unavailable (Note 25)	39	1,441	100	-	1,580
Obligated balance not yet disbursed					
Unpaid obligations (Note 25)	15,115	2,452	628	1	18,196
Uncollected customer payments from Federal sources	(3,697)	(386)	(17)	-	(4,100)
Deposit fund liabilities	-	-	-	377	377
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	257	(871)	-	-	(614)
Unavailable receipt accounts	-	-	881	-	881
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(183)	-	(183)
Uranium Enrichment D&D Fund	-	-	(110)	-	(110)
Pajarito Plateau Homesteaders Compensation Fund	-	-	(8)	-	(8)
U.S. Enrichment Corporation revolving fund	-	(1,414)	-	-	(1,414)
Total FY 2006 fund balance with Treasury	\$ 14,081	\$ 1,317	\$ 1,413	\$ 378	\$ 17,189

4. Investments, Net (in millions)

Face	FY 2007				
	Unamortized Premium (Discount)	Investments Net	Unrealized Market Gains (Losses)	Market Value	
Intragovernmental Non-Marketable					
Nuclear Waste Fund	\$ 39,434	\$ (19,971)	\$ 19,463	\$ 1,179	\$ 20,642
D&D Fund	4,623	50	4,673	20	4,693
U.S. Enrichment Corporation	1,502	(4)	1,498	-	1,498
Petroleum Pricing Violation Escrow Fund	47	-	47	-	47
Subtotal	\$ 45,606	\$ (19,925)	\$ 25,681	\$ 1,199	\$ 26,880
Petroleum Pricing Violation Escrow Fund	202	-	202	-	202
Total FY 2007 investments	\$ 45,808	\$ (19,925)	\$ 25,883	\$ 1,199	\$ 27,082

Face	FY 2006				
	Unamortized Premium (Discount)	Investments Net	Unrealized Market Gains (Losses)	Market Value	
Intragovernmental Non-Marketable					
Nuclear Waste Fund	\$ 36,481	\$ (18,529)	\$ 17,952	\$ 1,393	\$ 19,345
D&D Fund	4,228	82	4,310	(68)	4,242
U.S. Enrichment Corporation	1,426	(1)	1,425	-	1,425
Petroleum Pricing Violation Escrow Fund	72	-	72	-	72
Pajarito Plateau Homesteaders Compensation Fund	8	-	8	-	8
Subtotal	\$ 42,215	\$ (18,448)	\$ 23,767	\$ 1,325	\$ 25,092
Petroleum Pricing Violation Escrow Fund	210	-	210	-	210
Total FY 2006 investments	\$ 42,425	\$ (18,448)	\$ 23,977	\$ 1,325	\$ 25,302

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, 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 Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

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

5. Accounts Receivable, Net (in millions)

	FY 2007			FY 2006		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Intragovernmental	\$ 575	\$ -	\$ 575	\$ 615	\$ -	\$ 615
Nuclear Waste Fund	3,308	-	3,308	3,153	-	3,153
Uranium Enrichment D&D Fund	-	-	-	181	-	181
Power marketing administrations	519	(41)	478	559	(42)	517
Petroleum Pricing Violation Escrow Fund	2	-	2	2	-	2
Credit programs	49	-	49	51	(26)	25
Other	145	(43)	102	181	(39)	142
Subtotal	\$ 4,023	\$ (84)	\$ 3,939	\$ 4,127	\$ (107)	\$ 4,020
Total accounts receivable	\$ 4,598	\$ (84)	\$ 4,514	\$ 4,742	\$ (107)	\$ 4,635

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

Non-intragovernmental receivables primarily represent amounts due for NWF 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 2007	FY 2006
Intragovernmental		
Refinanced and additional appropriated capital	\$ 5,456	\$ 5,476
Non-operating regulatory assets	3,887	3,928
Investor owned utilities exchange benefits	885	1,207
Conservation and fish and wildlife projects	377	401
Other regulatory assets	487	425
Subtotal	\$ 5,636	\$ 5,961
Total regulatory assets	\$ 11,092	\$ 11,437

The Department's power marketing administrations (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*. 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 BPA's 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 Revisions 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 intra-governmental 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 \$91 million as of September 30, 2007, and \$120 million as of September 30, 2006 (unaudited). The Consolidated Balance Sheets include a regulatory asset and an offsetting related debt (see Note 11).

Non-Operating Regulatory Assets

BPA has acquired all or part of the potential generating capability of 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).

Investor Owned Utilities (IOU) Exchange Benefits

The IOU Exchange Benefits reflect costs that will be recovered through rates. As provided for in the Northwest Power Act, beginning in 1982 BPA entered into residential exchange contracts with most of its electric utility customers. These contracts resulted in payments to the utilities if a utility's average system cost exceeded BPA's priority firm rate on the "exchanged" power. These payments were required to be passed through to the utilities' qualified residential and small-farm customers.

BPA entered into certain agreements, as amended, with the Northwest IOUs to settle BPA's statutory obligation to provide benefits under the Residential Exchange Program for specified periods that began October 1, 2001. Although the amended agreements settled disputes with the IOUs concerning the levels of exchange benefits, in May 2007 based on lawsuits presented to the Ninth Circuit Court

of Appeals, the Court ruled these agreements were inconsistent with the requirements established in the Northwest Power Act. In addition, in a related lawsuit the Court ruled that BPA did not allocate the cost of the amended agreements appropriately and remanded rates to BPA. As a result of the Court ruling, in May 2007 BPA suspended IOU payments under these agreements of approximately \$28 million per month.

The Residential Exchange Program continues to be a requirement of the Northwest Power Act. Efforts are underway to develop a within-region solution to issues and to restore appropriate benefits under the Program. BPA expects any proposed solution to require initiation of a formal rate setting process sometime in fiscal year 2008. Until the uncertainty about the level of the future BPA obligations under the Residential Exchange Program is reduced, the financial statements will continue to reflect the obligations at levels associated with the settlement agreements.

Conservation and Fish and Wildlife Projects

Conservation measures consist of the costs of capitalized conservation measures and are amortized over periods from 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, 2007, and September 30, 2006, the Reserve contained crude oil with a historical cost of \$19,340

million and \$19,095 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 FY 1993 Defense Appropriations Act authorized the Department to acquire, transport, store, and prepare for ultimate drawdown of crude oil for DoD. The crude oil purchased with DoD funding is commingled with the Department's stock and is valued at its historical cost of \$123 million at September 30, 2007, and September 30, 2006 (see Notes 2 and 13).

Northeast Home Heating Oil Reserve

The Northeast Home Heating Oil Reserve was established in FY 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 \$75 million as of September 30, 2007, and \$77 million as of September 30, 2006.

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 of uranium (MTU) as hexafluoride as of the end of FY 2007. 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 FY 2005 and FY 2006; (3) 906 MTU sold by the Department in FY 2006 (see Notes 4 and 19); and (4) 200 MTU sold in FY 2007 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 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 uranium hexafluoride 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, 2007. Approximately 361 MTU of U.S. origin uranium was provided to TVA in return for a similar quantity of Russian origin uranium provided by TVA to the Department.

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% 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 2007			FY 2006		
	Acquisition Costs	Accumulated Depreciation	Net Book Value	Acquisition Costs	Accumulated Depreciation	Net Book Value
Land and land rights	\$ 1,612	\$ (767)	\$ 845	\$ 1,564	\$ (753)	\$ 811
Structures and facilities	35,545	(23,050)	12,495	33,665	(22,312)	11,353
Internal use software	457	(237)	220	471	(203)	268
Equipment	16,151	(10,682)	5,469	15,796	(10,563)	5,233
Natural resources	65	(16)	49	65	(16)	49
Construction work in process	5,788	-	5,788	6,408	-	6,408
Total property, plant, and equipment	\$ 59,618	\$ (34,752)	\$ 24,866	\$ 57,969	\$ (33,847)	\$ 24,122

9. Other Non-Intragovernmental Assets (in millions)

	FY 2007	FY 2006
Purchased generating capability	2,465	2,435
Prepaid pension plan costs ^(Note 15)	1,918	868
Oil due from others	119	83
Prepayments and advances	95	63
Other	\$ 435	\$ 415
Total other non-intragovernmental assets	\$ 5,032	\$ 3,864

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. 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 off-

shore 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. The value of the exchange and premium barrels due was \$119 million as of September 30, 2007.

Due to Hurricane Katrina, the SPR contracted with six oil companies to loan SPR oil in exchange for the return of contracted plus premium barrels related to the exchange. In June 2006, the SPR delivered 750,000 barrels of oil from the reserve in exchange for 772,400 barrels to be returned back to the reserve by October 2006. As of September 30, 2007 all of the oil has been returned.

10. Liabilities Not Covered By Budgetary Resources (in millions)

	FY 2007	FY 2006
Intragovernmental		
Debt ^(Note 11)	\$ 11,481	\$ 10,780
Other	17	17
Total intragovernmental	\$ 11,498	\$ 10,797
Debt ^(Note 11)	6,427	6,436
Nuclear Waste Fund deferred revenues ^(Note 12)	22,778	21,116
Environmental liabilities ^(Note 14)	260,901	228,301
Pension and other actuarial liabilities ^(Note 15)	12,433	12,059
Other liabilities		
Environment, safety and health compliance activities ^(Note 13)	1,190	861
Accrued annual leave for Federal employees	123	121
Other	321	187
Contingencies and commitments ^(Note 17)	11,071	6,836
Total liabilities not covered by budgetary resources	\$ 326,742	\$ 286,714
Total liabilities covered by budgetary resources	11,070	10,433
Total liabilities	\$ 337,812	\$ 297,147

11. Debt (in millions)

	FY 2007			FY 2006		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Intragovernmental ^(Note 10)						
Borrowing from Treasury	\$ 2,482	\$ (241)	\$ 2,241	\$ 2,777	\$ (295)	\$ 2,482
Appropriated capital	3,202	226	3,428	2,972	230	3,202
Refinanced and additional appropriations	3,170	781	3,951	2,219	951	3,170
Capitalization adjustment	1,926	(65)	1,861	1,990	(64)	1,926
Subtotal	\$ 10,780	\$ 701	\$ 11,481	\$ 9,958	\$ 822	\$ 10,780
Non-Federal projects ^(Note 10)	6,436	(9)	6,427	6,405	31	6,436
Total debt	\$ 17,216	\$ 692	\$ 17,908	\$ 16,363	\$ 853	\$ 17,216

Borrowing from Treasury

To finance its capital programs, BPA is authorized by Congress to issue to Treasury up to \$4,450 million of interestbearing 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, 2007, and September 30, 2006, of the total \$2,241 million and \$2,482 million of outstanding debt respectively, \$755 million and \$765 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, 2007, and September 30, 2006, were 5.44 percent and 5.08 percent, respectively. The fair value of BPA's long-term debt, based on discounting future cash flows using rates offered by Treasury as of September 30, 2007, and September 30, 2006, for similar maturities, exceeds carrying value by approximately \$153 million and \$132 million respectively.

Appropriated Capital

Appropriated capital owed represents the balance of appropriations provided to the Department's power marketing administrations 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 power marketing administrations, 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 Department of Defense, U.S. Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. The Department's power marketing administrations, except BPA, are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities (see Note 26). 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 and 6.7 percent as of September 30, 2007, and September 30, 2006. The remaining periods of repayment on the FY 2007 balances for refinanced appropriations and on additional appropriations are 39 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. The Department recorded an \$828 million increase to correct the refinanced and additional appropriations

liability in FY 2007 for cumulative transfers of direct funding provided to the Corps of Engineers from FY 1995 through FY 2003.

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 29 years remain. The weighted average interest rate was 6.7 percent as of September 30, 2007, and September 30, 2006.

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 nonoperating 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 \$303 million and \$349 million, as of September 30, 2007, and September 30, 2006, respectively. The valuations are based on discounted future cash flows using interest rates for similar debt which could have been issued at September 30, 2007, and September 30, 2006, respectively. The weighted average interest rate was 5.3 percent on the major portion of outstanding non-Federal projects debt as of September 30, 2007.

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
2008	\$ 480	\$ 20	\$ 11	\$ 65	\$ 294
2009	440	21	10	65	282
2010	365	13	4	65	288
2011	135	38	21	65	285
2012	40	26	25	65	443
2013+	781	3,310	3,880	1,536	4,835
Total	\$ 2,241	\$ 3,428	\$ 3,951	\$ 1,861	\$ 6,427

12. Deferred Revenues and Other Credits (in millions)

	FY 2007	FY 2006
Intragovernmental	\$ 36	\$ 52
Nuclear Waste Fund ^(Note 10)	\$ 22,778	\$ 21,116
Power marketing administrations	2,097	2,109
Reimbursable work advances	245	240
Other	25	42
Subtotal	\$ 25,145	\$ 23,507
Total deferred revenues and other credits	\$ 25,181	\$ 23,559

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 a liability for IOU Residential Exchange Benefits (discussed below), 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 Northwest aluminum companies and one paper mill through fiscal year 2011. Other primary components include regulatory liabilities that reduce future rates, amounts paid to BPA from participants under various alternating current intertie capacity agreements generator funds held as security for network upgrades that will be returned as credits against future transmission service, and fiber optic leasing fees that reflect unearned revenue related to the leasing of the fiber optic cable.

As provided in the Northwest Power Act, beginning in 1982 BPA entered into 20-year Residential Purchase and Sale Agreements (RPSA) with eligible regional utility customers. The RPSAs implemented the Residential Exchange Program. BPA signed Residential Exchange Settlement Agreements with the region's six investor-owned utilities, 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 later signed additional agreements and amendments related to the settlement agreements with the IOU customers. The later agreements and amendments (referred to herein as the Supplemental Agreements) provided for minimum and cap amounts for the IOUs' monetary benefits for fiscal years 2007 through 2011, provided that BPA had no obligation to provide power to the IOUs in such period, and also provided for the elimination or deferral of certain payments during that period.

The IOU Residential Exchange benefits liability is in question because of a recent ruling by the United States Court of Appeals for the Ninth Circuit Court (Ninth Circuit Court). The ruling invalidated the Residential Exchange Settlement Agreements and directed BPA to set power rates consistent with applicable law and the Court's opinion.

Prior to the Court's ruling, BPA had set its power rates for the three fiscal years beginning with FY 2007 on the basis of financial assumptions derived from the terms of the foregoing agreements and amendments. While the ruling raises questions regarding the amount of payments that BPA will make to the IOUs, if any, BPA believes that the amount recorded will ultimately be incurred, whether by payment to the IOUs and/or by some form of return to other ratepayers. In view of the order of remand, BPA's FY 2007 obligations with respect to the Residential Exchange Program will not be determined until BPA completes rate proceedings that will occur during FY 2008.

As of September 30, 2007, BPA had recorded a \$1,068 million liability including \$168 million for the suspended settlement payments for the last half of fiscal year 2007; \$600 million for IOU exchange benefits for fiscal years 2008 through 2009 (recorded at the cap amount of \$300 million per year); \$200 million for IOU exchange benefits for fiscal years 2010 and 2011 (recorded at the annual floor of \$100 million, until the amount can be reasonably estimated, which is expected to occur after BPA proposes power rates for the fiscal year 2010 - 2011 rate period); and \$100 million for certain risk contingency payments and certain deferred payment obligations to IOUs, in each case as BPA agreed under certain of the Supplemental Agreements. The final amount of such aggregate liability could differ substantially from the amount of benefit payments that BPA currently recognizes for fiscal year 2007 and will not be known until the definitive level of benefits is determined through the rate setting process. The amounts to be collected through future rates are included in corresponding non-intragovernmental regulatory assets of \$885 million (see Note 6).

BPA remains obligated to offer Residential Purchase and Sales Agreement contracts to eligible utilities. Given the uncertainties associated with this matter, it is not clear whether any financial settlements of prior payments will occur or whether such settlements will result in a direct liability to BPA. No changes have been made to the recorded liability.

13. Other Liabilities (in millions)

	FY 2007	FY 2006
Intragovernmental		
Oil held for Department of Defense ^(Notes 2 and 7)	\$ 123	\$ 123
Other	148	134
Total other intragovernmental liabilities	\$ 271	\$ 257
Environment, safety and health compliance activities ^(Notes 10 and 23)	\$ 1,190	\$ 861
Accrued payroll, benefits and withholding taxes	983	942
Petroleum Pricing Violation Escrow Fund ^(Note 2)	249	282
Naval Petroleum Reserve Deposit Fund ^(Note 2)	323	323
Asset retirement obligations	176	169
Other	351	251
Subtotal	\$ 3,272	\$ 2,828
Total other liabilities	\$ 3,543	\$ 3,085

Environment, Safety and Health Compliance Activities

The Department's environment, safety, and health liability represents those activities necessary to bring facilities and operations into compliance with existing environmental safety and health (ES&H) laws and regulations (e.g., Occupational Safety and Health Act; Clean Air Act; Safe Drinking Water Act). Types of activities included in the estimate relate to the following: upgrading site-wide fire and radiological safety; 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, 2007, 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; (3) costs of work performed during the year, and (4) addition of contingency to the overall ES&H liability in FY 2007.

Accrued Payroll and Benefits

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

Asset Retirement Obligations

Bonneville Power Administration (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.

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 2007	FY 2006
Environmental Management Program	\$ 188,665	\$ 159,167
Legacy environmental liabilities - other	29,428	28,095
Total legacy environmental liabilities	\$ 218,093	\$ 187,262
Active and surplus facilities	29,156	27,587
High-level waste and spent nuclear fuel disposition	16,354	15,472
Total environmental cleanup and disposal liabilities	\$ 263,603	\$ 230,321
Amount funded by current appropriations	(2,702)	(2,020)
Total unfunded environmental cleanup and disposal liabilities	\$ 260,901	\$ 228,301
<i>Changes in environmental cleanup and disposal liabilities</i>		
Total environmental cleanup and disposal liabilities, beginning balance	\$ 230,321	\$ 189,710
Changes to environmental cleanup and disposal liability estimates		
Legacy environmental liabilities	37,101	45,249
Active and surplus facilities	1,617	1,662
High-level waste and spent nuclear fuel disposition	1,240	802
Total changes in estimates ^(Notes 22 and 23)	\$ 39,958	\$ 47,713
Costs applied to reduction of legacy environmental liabilities ^(Note 21)	(5,573)	(6,207)
Capital expenditures related to remediation activities	(1,103)	(895)
Total environmental cleanup and disposal liabilities	\$ 263,603	\$ 230,321

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 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, 2007, and September 30, 2006, are stated in FY 2007 dollars and FY 2006 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 FY 2007 EM life-cycle cost estimate reflects a strategic vision to complete this cleanup mission. This strategy provides for a site-by-site projection of the work required to complete all EM projects, while complying with regulatory agreements, statutes, and regulations. Each project baseline estimate includes detailed projections of the technical scope, schedule, and 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 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 2007, progress towards improving efficiency and management of the program continued. Field offices have prepared technical baselines that describe in detail the activities, schedule, and resources required to complete the EM cleanup mission at the respective sites. In addition, EM has implemented an earned value management reporting system to ascertain whether cleanup progress remains on schedule and within budget. Achievement of cleanup goals is largely contingent upon receipt of funding, yet to be approved by Congress, during FY 2008 and succeeding years. In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the EM baseline estimates:

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

Changes to the EM baseline estimates during FY 2007 and FY 2006 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope 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.

Legacy Environmental Liabilities – Other

These liabilities are comprised of the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites after the EM program activities have been completed. The costs for these post-closure activities are estimated for a period of 75 years after the balance sheet date, i.e. through 2082 in FY 2007 and through 2081 in FY 2006. While some post-cleanup monitoring and other long-term stewardship activities past 2082 are included in the liability, there are others the Department expects to continue beyond 2082 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 surplus plutonium liability was increased in FY 2007 due to an updated disposition cost estimate that includes a provision for additional plutonium declared surplus to Departmental needs.

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

Active and Surplus Facilities

This liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in the EM baseline estimates to those active and surplus facilities with similar characteristics. Site-specific estimates are used when available. Cost estimates for active and surplus facilities are updated each year to reflect current year constant dollars; the transfer of cleanup and management responsibilities for these facilities by other programs to EM, as discussed above; changes in facility size or contamination assessments; and estimated cleanup costs for newly contaminated facilities. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in the liability amounted to \$760 million at September 30, 2007, and \$505 million at September 30, 2006.

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.

High-Level Waste and Spent Nuclear Fuel Disposition

The Nuclear Waste Policy Act of 1982 (NWPAA) 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 2007 and FY 2006 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.

15. Pension and Other Actuarial Liabilities (in millions)

	FY 2007	FY 2006
Contractor pension plans	\$ 1,976	\$ 2,234
Contractor postretirement benefits other than pensions	10,329	9,707
Contractor disability and life insurance plans	23	21
Federal Employees' Compensation Act	105	97
Total pension and other actuarial liabilities	\$ 12,433	\$ 12,059

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

The Department implemented in FY 2007 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. A \$620 million beginning balance adjustment to the FY 2007 cumulative results of operations was recorded for the cumulative effects of this change in accounting principle (see Note 24). Included in this adjustment to cumulative

results of operations as of September 30, 2007, is the recognition of the remaining net asset at transition of \$377 million, net prior service cost of \$293 million, and net gain of \$452 million. Prior to the adoption of SFAS No. 158, amounts recognized in cumulative results of operations as of September 30, 2006, include the additional minimum liability of \$979 million.

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 costs. As of September 30, 2007, the Department has pension assets of \$1,907 million and pension liabilities of \$1,976 million after implementing SFAS No. 158. If SFAS No. 158 had not been applied, the Department would have had prepaid pension costs of \$741 million and accrued pension costs of \$1,555 million, both after minimum liability adjustment. The impact of SFAS No. 158 was a decrease in the net pension liability of \$745 million. The Department has a continuing obligation to reimburse costs for a variety of contractor-sponsored pension plans (40 qualified and 6 nonqualified). In this regard, benefit formulas consist of final average pay (31 plans), career average pay (8 plans), dollar per month of service (6 plans), and one defined contribution plan with future contributions for retired employees. Seventeen of the plans cover nonunion employees only; 9 cover union employees only; and 20 cover both union and nonunion employees.

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

Plan assets generally include cash and equivalents, stocks, corporate bonds, government bonds, real estate, venture capital, international investments, and insurance contracts. There are three plans that have securities of the employer or related parties included in the plan assets. The total amount invested in such securities is \$2.1 million.

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

The following specific assumptions and methods were used to determine the net periodic pension cost. The weighted average discount rate was 5.75 percent for FY 2007 and 5.25 percent for FY 2006; the average long-term rate of return on assets was 7.85 percent in FY 2007 and 7.84 percent in FY 2006; and the average rate of compensation increase was 4.5 percent in both FY 2007 and in FY 2006. 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, 2007 and 2006 were 6.25 percent and 5.75 percent, respectively.

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

The estimated 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 will be included in net periodic benefit cost in the next fiscal year are (\$126) million, \$107 million, and (\$24) million, respectively. No assets are expected to be returned to the employers during the next fiscal year.

The Department recorded the decrease of \$895 million and \$568 million in the minimum liability adjustment as a component of costs not assigned (see Note 22) in FY 2007 and FY 2006, 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 costs. SFAS No. 106 requires that the cost of PRB be accrued during the years that the employees render service. As of September 30, 2007, the Department has PRB assets of \$11 million and PRB liabilities of \$10,329 million after implementing SFAS No. 158. If SFAS No. 158 had not been applied, the Department would have had prepaid PRB costs of \$8 million and accrued PRB costs of \$10,201 million. The impact of SFAS No. 158 was an increase in the net PRB liability of \$125 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). Thirty-nine of the contractors sponsor a point of service plan, a PPO, an HMO, or similar plan. Twenty-two of these also have a traditional indemnity or similar plan. Two additional contractors have only a traditional indemnity or similar plan.

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

The following specific assumptions and methods, 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 9.0 percent in 2007 down to 5.0 percent in 2015 and later. The medical trend rates for a traditional indemnity plan, or similar plan, grade from 10.0 percent in 2007 down to 5.0 percent in 2015 and later. The dental trend rates at all ages grade down from 6.75 percent in 2007 to 5.0 percent in 2014 and later.

The weighted average discount rates of 5.75 percent for FY 2007 and 5.25 percent for FY 2006, and the average longterm rate of return on assets of 7.00 percent in both FY 2007 and in FY 2006 were used to determine the net periodic postretirement benefit cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligation as of September 30, 2007 and 2006 were 6.25 percent and 5.75 percent, respectively.

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

The estimated amortization of the net prior service cost/(credit) and the net (gain)/loss for the PRB plans that will be included in net periodic benefit cost in the next fiscal year are (\$81) million, and \$20 million, respectively. The net transition (asset)/obligation has already been fully amortized. No assets are expected to be returned to the employers during the next fiscal year.

	(in millions)			
	Pension Benefits		Other Postretirement Benefits	
	FY 2007	FY 2006	FY 2007	FY 2006
<i>Reconciliation of funded status</i>				
Accumulated benefit obligation	\$ 24,027	\$ 24,923		
Effect of future compensation increases	3,486	3,684		
Benefit obligation	\$ 27,513	\$ 28,607	\$ 10,480	\$ 11,500
Plan assets	27,444	24,108	162	164
Funded status	\$ (69)	\$ (4,499)	\$ (10,318)	\$ (11,336)
Net (asset)/obligation at transition	(377)	(503)		
Net prior service cost/(credit)	654	748	(361)	(408)
Net (gain)/loss	(938)	3,860	486	2,044
Prepaid/(accrued) benefit cost before minimum liability	\$ (730)	\$ (394)	\$ (10,193)	\$ (9,700)
Minimum liability adjustment	(84)	(979)	-	-
Prepaid/(accrued) benefit cost after minimum liability	\$ (814)	\$ (1,373)	\$ (10,193)	\$ (9,700)
Adjustment for SFAS No. 158 ^(Note 24)	745	-	(125)	-
Net amount recognized in the balance sheet	\$ (69)	\$ (1,373)	\$ (10,318)	\$ (9,700)
<i>Amounts recognized in the balance sheet</i>				
Total prepaid asset	\$ 1,907	\$ 861	\$ 11	\$ 7
Total (accrued) liability	(1,976)	(2,234)	(10,329)	(9,707)
Net amount recognized in the balance sheet	\$ (69)	\$ (1,373)	\$ (10,318)	\$ (9,700)
<i>Components of net periodic costs</i>				
Service costs	\$ 823	\$ 927	\$ 244	\$ 292
Interest costs	1,622	1,559	613	618
Expected return on plan assets	(1,825)	(1,722)	(11)	(11)
Net amortization	130	391	(21)	102
(Gain)/loss due to curtailments, settlements or special termination benefits	6	58	(1)	(4)
Total net periodic costs	\$ 756	\$ 1,213	\$ 824	\$ 997
<i>Contributions and benefit payments</i>				
Employer contributions	\$ 387	\$ 530	\$ 334	\$ 328
Participant contributions	3	3	79	71
Benefit payments	1,311	1,181	426*	403*

* Includes \$13 million paid from plan assets for 2007 and \$6 million paid from plan assets for 2006.

	(in millions)	
	Pension Benefits	Other Post-retirement Benefits
<i>Expected contributions for fiscal year ending 9/30/2008</i>		
Employer contributions	\$ 387	\$ 380
Participant contributions	4	87
<i>Estimated future benefit payments</i>		
Fiscal year 2008	\$ 1,287	\$ 502
Fiscal year 2009	1,355	552
Fiscal year 2010	1,433	604
Fiscal year 2011	1,524	659
Fiscal year 2012	1,623	712
Fiscal year 2013 to 2017	9,700	4,330

The following chart shows the average target allocation for the 39 pension benefit plans and six other postretirement benefit plans with assets.

The average actual fiscal year 2007 and 2006 allocations of assets are also shown.

Pension Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2007	Percent of Plan Assets at September 30, 2006
Cash and equivalents	2.1%	3.3%	2.6%
Government bonds	10.8%	7.2%	9.8%
Corporate bonds	21.8%	21.2%	16.7%
Domestic equities	42.5%	41.2%	40.4%
International equities	12.6%	13.5%	12.4%
Real estate	0.9%	1.3%	0.8%
Insurance contracts (general accounts)	7.9%	10.1%	13.1%
Insurance contracts (separate accounts)	0.0%	0.1%	2.6%
Employer securities	0.2%	0.0%	0.0%
Other	1.2%	2.1%	1.6%
Total	100.0%	100.0%	100.0%

Other Postretirement Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2007	Percent of Plan Assets at September 30, 2006
Cash and equivalents	0.0%	0.5%	0.8%
Government bonds	0.0%	7.2%	7.4%
Corporate bonds	5.2%	8.4%	8.2%
Domestic equities	7.3%	10.6%	9.2%
International equities	7.5%	6.6%	5.4%
Real estate	0.0%	0.0%	2.3%
Insurance contracts (general accounts)	60.0%	50.0%	50.0%
Insurance contracts (separate accounts)	0.0%	0.0%	0.0%
Employer securities	0.0%	0.0%	0.0%
Other	20.0%	16.7%	16.7%
Total	100.0%	100.0%	100.0%

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

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

16. Obligations Under Capital Leases (in millions)

	FY 2007
Summary of assets under capital lease:	
Power line equipment	\$ 134
Buildings and improvements	42
ADP equipment	165
Other equipment	12
Total capital lease assets	353
Less accumulated depreciation	(115)
Net assets under capital leases	238

Fiscal Year	Power Line Equipment	Other	Total
2008	\$ 16	\$ 8	\$ 24
2009	13	7	20
2010	13	7	20
2011	12	3	15
2012	11	-	11
2013+	347	1	348
Total future lease payments	\$ 412	\$ 26	\$ 438
Less: imputed interest	(220)	(2)	(222)
Less: executory costs	(2)	-	(2)
Net capital lease liability	\$ 190	\$ 24	\$ 214

17. Contingencies and Commitments (in millions)

	FY 2007	FY 2006
Spent nuclear fuel litigation	\$ 10,966	\$ 6,717
Other	105	119
Total contingencies and commitments ^(Note 10)	\$ 11,071	\$ 6,836

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the Federal Government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where the loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the Government. 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, seven suits have been settled involving utilities that collectively produce about 25 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 \$256 million through

September 30, 2007, to the settling utilities for delay damages they have incurred through September 30, 2006. 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 FY 2006; and a final judgment awarding no damages affirmed by the appellate court. Through September 30, 2007, the Judgment Fund had made total payments of \$291 million.

Fifty-six 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.

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 \$10,966 million for SNF litigation is reported net of amounts paid by 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, which will be appealed when a judgment is entered on the verdict. In the Hanford litigation, ten of twelve "bellwether" plaintiffs' claims were resolved in favor of the defendants, and relatively small judgments were entered in favor of two "bellwether" plaintiffs. Both plaintiffs and defendants appealed the disposition of the "bellwether" claims; the Ninth Circuit affirmed some of the judgments and reversed and remanded others for further proceedings; and both plaintiffs and defendants have filed petitions for rehearing and suggestions for rehearing en banc. Pending completion of the appellate process, proceedings on the remaining Hanford plaintiff's claims have been suspended. Additionally, some cases have been dismissed by trial courts based on legal rulings and appealed to the courts of appeal, and the final resolution of these issues has not been determined.

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

- *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, 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 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. 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 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 plaintiff's writ of certiorari is ruled on in the U.S. Supreme Court in the *BPA v. FERC* case. The motion is currently pending and no date for a hearing has been established. 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 State of Idaho is challenging the interpretation of a Settlement Agreement reached in 1995 concerning the shipment of transuranic waste from Idaho National Laboratory. The Government asserts that the Agreement requires only stored waste to be shipped off-site by 2018, but the State asserts that this requirement also applies to buried transuranic waste. In March of 2003, the Idaho District Court found in favor of the State. In November of 2004, the 9th Circuit Court of Appeals reversed and remanded the case back to the Idaho District Court for fact finding. On May 25, 2006, after a trial, the District Court issued its judgment that the buried transuranic waste falls under the 1995 agreement. The Government has taken an appeal to the Ninth Circuit, which has been fully briefed and is awaiting oral argument. The cost of excavating all buried transuranic waste would be significant. If the courts ultimately find that the Department is required by the 1995 Settlement Agreement to excavate all buried transuranic waste for shipment off-site and the Department fails to do so, under the terms of the settlement agreement, the Department would not be able to continue to send Departmental spent nuclear fuel to Idaho National Laboratory. The potential cost impact of this litigation to Departmental programs cannot be estimated at this time.

- *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 United States filed for a preliminary injunction prior to Washington State Initiative 297, the Cleanup Priority Act, becoming effective in December 2004. The District Court granted an injunction that prevented implementation of the initiative in all respects, except it enjoined the Department from importing offsite waste to Hanford. The State sought certification of five questions of interpretation to the Washington State Supreme Court. The State Court issued its opinion in July 2005, and the case returned to the United States District Court. The United States District Court issued its decision in favor of the United States and held the Act unconstitutional on June 12, 2006. The Judge reached his decision on several grounds. The State of Washington filed its appeal with the United States Court of Appeals for the 9th Circuit Court on July 12, 2006. The appeal has been fully briefed and an oral argument is scheduled for December 3, 2007. Potential losses to the Department’s programs complex-wide cannot be estimated at this time.
- *Commitments* – The Department has a variety of commitments to provide partial funding for technology development projects managed by private industry. The annual funding commitment varies by year and is contingent on Congressional appropriations and other factors.

- *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 the additional costs of the obligations. The sales commitments are arrangements to sell expected generation for future dates and the purchase commitments are to purchase power at future dates when the PMAs forecast a resource shortage.

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

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

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

Fiscal Year	(in millions)		
	Purchase Power and Transmission	Sales Commitments	Irrigation Assistance
2008	\$ 112	\$ 2,549	\$ 3
2009	102	2,557	7
2010	68	2,594	-
2011	68	2,588	-
2012	44	620	1
2013+	62	10,274	678
Total	\$ 456	\$ 21,182	\$ 689

18. Earmarked Funds (in millions)

	Nuclear Waste					
	Fund	D&D Fund	USEC	PMA's	Other	Total
Balance Sheet as of September 30, 2007						
Assets						
Fund Balance with Treasury	\$ 3	\$ 1	\$ -	\$ 2,010	\$ 1,022	\$ 3,036
Investments	19,463	4,673	1,498	-	-	25,634
Accounts Receivable	3,364	53	17	506	-	3,940
Inventory	-	-	-	86	78	164
General Property Plant and Equipment	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	-	14,733	-	-	-	14,733
Pensions and Other Actuarial Liabilities	11	128	-	62	-	201
Obligations Under 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)	(10,218)	1,515	2,084	1,097	(5,524)
Total Liabilities and Net Position	\$22,839	\$ 4,727	\$ 1,515	\$ 23,085	\$ 1,120	\$ 53,286
Statement of Net Costs for Year Ended September 30, 2007						
Program Costs	\$ 181	\$ 20	\$ -	\$ 4,051	\$ 95	\$ 4,347
Less Earned Revenues	(230)	(205)	-	(4,443)	(21)	(4,899)
Net Program Costs	\$ (49)	\$ (185)	\$ -	\$ (392)	\$ 74	\$ (552)
Costs Not Assigned	(3)	4,694	-	-	-	4,691
Net Cost of Operations	\$ (52)	\$ 4,509	\$ -	\$ (392)	\$ 74	\$ 4,139
Statement of Changes in Net Position for Year Ended September 30, 2007						
Beginning Balance - Cumulative Results of Operations	\$ (5)	\$ (6,025)	\$ 1,444	\$ 2,208	\$ 1,033	\$ (1,345)
Adjustments - Change in Accounting Principles	(2)	-	-	335	-	333
Beginning Balance, as adjusted	\$ (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	(4,509)	-	392	(74)	(4,139)
Ending Balance - Cumulative Results of Operations	\$ (2)	\$ (10,218)	\$ 1,515	\$ 2,084	\$ 1,097	\$ (5,524)
Beginning Balance - Unexpended Appropriations	\$ -	\$ -	\$ (1)	\$ -	\$ 48	\$ 47
Appropriations Received	-	-	-	-	5	5
Other Adjustments	-	-	1	-	-	1
Appropriations Used	-	8	-	-	(44)	(36)
Ending Balance - Unexpended Appropriations	\$ -	\$ 8	\$ -	\$ -	\$ 9	\$ 17

	Nuclear Waste Fund	D&D Fund	USEC	PMA's	Other	Total
Balance Sheet as of September 30, 2006						
Assets						
Fund Balance with Treasury	\$ 11	\$ 27	\$ -	\$ 1,583	\$ 1,062	\$ 2,683
Investments	17,952	4,310	1,425	-	8	23,695
Accounts Receivable	3,214	239	19	544	1	4,017
Inventory	-	-	-	84	2	86
General Property Plant and Equipment	12	-	-	5,952	20	5,984
Regulatory Assets	-	-	-	11,437	-	11,437
Other Assets	1	-	-	2,850	-	2,851
Total Assets	\$21,190	\$ 4,576	\$ 1,444	\$ 22,450	\$ 1,093	\$ 50,753
Liabilities and Net Position						
Accounts Payable	\$ 43	\$ 36	\$ -	325	\$ 4	\$ 408
Debt	-	-	-	17,216	-	17,216
Deferred Revenues and Other Credits	21,122	-	-	2,119	4	23,245
Environmental Cleanup and Disposal Liabilities	-	10,552	-	-	-	10,552
Pensions and Other Actuarial Liabilities	10	-	-	53	-	63
Obligations Under Capital Leases	-	-	-	138	-	138
Other Liabilities	20	13	-	362	5	400
Contingencies and Commitments	-	-	-	29	-	29
Unexpended Appropriations	-	-	-	-	47	47
Cumulative Results of Operations	(5)	(6,025)	1,444	2,208	1,033	(1,345)
Total Liabilities and Net Position	\$21,190	\$ 4,576	\$ 1,444	\$ 22,450	\$ 1,093	\$ 50,753

**Statement of Net Costs
for the Year Ended September 30, 2006 (unaudited)**

Program Costs	\$ 153	\$ 1,946	\$ -	\$ 4,013	\$ 50	\$ 6,162
Less Earned Revenues	(220)	(166)	-	(4,582)	(756)	(5,724)
Net Program Costs	\$ (67)	\$ 1,780	\$ -	\$ (569)	\$ (706)	\$ 438
Costs Not Assigned	3	3,926	(6)	-	-	3,923
Net Cost of Operations	\$ (64)	\$ 5,706	\$ (6)	\$ (569)	\$ (706)	\$ 4,361

**Statement of Changes in Net Position for the Year
Ended September 30, 2006 (unaudited)**

Beginning Balance - Cumulative Results of Operations	\$ (63)	\$ (766)	\$ 1,378	\$ 1,805	\$ 910	\$ 3,264
Appropriations Used	-	-	-	-	14	14
Non Exchange Revenue	-	-	60	-	-	60
Donations and Forfeitures of Cash	-	-	-	1	-	1
Transfers - In/(Out) Without Reimbursement	(49)	-	-	(167)	(611)	(827)
Imputed Financing	2	-	-	-	-	2
Other	41	447	-	-	14	502
Net Cost of Operations	64	(5,706)	6	569	706	(4,361)
Ending Balance - Cumulative Results of Operations	\$ (5)	\$ (6,025)	\$ 1,444	\$ 2,208	\$ 1,033	\$ (1,345)
Beginning Balance - Unexpended Appropriations	\$ -	\$ -	\$ -	\$ -	\$ 10	\$ 10
Appropriations Received	-	-	-	-	52	52
Other Adjustments	-	-	-	-	(1)	(1)
Appropriations Used	-	-	-	-	(14)	(14)
Ending Balance - Unexpended Appropriations	\$ -	\$ -	\$ -	\$ -	\$ 47	\$ 47

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

19. Earned Revenues (in millions)

	FY 2007				FY 2006 (Unaudited)			
	Intra-governmental	Public	Deferred Revenue Adjustment	Total	Intra-governmental	Public	Deferred Revenue Adjustment	Total
Energy diversity	\$ -	\$ (6)	\$ -	\$ (6)	\$ -	\$ (616)	\$ -	\$ (616)
Environmental impacts of energy								
Great Plains Gasification Plant	\$ -	\$ (43)	\$ -	\$ (43)	\$ -	\$ (79)	\$ -	\$ (79)
Isotope sales	(1)	(15)	-	(16)	(1)	(12)	-	(13)
Other	-	(1)	-	(1)	-	(3)	-	(3)
Total environmental impacts of energy	\$ (1)	\$ (59)	\$ -	\$ (60)	\$ (1)	\$ (94)	\$ -	\$ (95)
Energy infrastructure	\$ (67)	\$ (4,079)	\$ -	\$ (4,146)	\$ (65)	\$ (4,248)	\$ -	\$ (4,313)
Nuclear propulsion plants	\$ (19)	\$ -	\$ -	\$ (19)	\$ (11)	\$ -	\$ -	\$ (11)
Environmental cleanup								
Nuclear Waste Fund	\$ (1,024)	\$ (867)	\$ 1,647	\$ (244)	\$ (977)	\$ (838)	\$ 1,595	\$ (220)
Decommissioning Fund	(185)	(21)	-	(206)	(164)	-	-	(164)
Uranium sales	-	(43)	-	(43)	-	(125)	-	(125)
Total environmental cleanup	\$ (1,209)	\$ (931)	\$ 1,647	\$ (493)	\$ (1,141)	\$ (963)	\$ 1,595	\$ (509)
Reimbursable programs	\$ (2,933)	\$ (588)	\$ -	\$ (3,521)	\$ (2,852)	\$ (533)	\$ -	\$ (3,385)
Other programs								
Federal Energy Regulatory Commission (Note 20)	\$ -	\$ (240)	\$ -	\$ (240)	\$ -	\$ (234)	\$ -	\$ (234)
Other (Note 20)	(1)	(71)	-	(72)	6	10	-	16
Total other programs	\$ (1)	\$ (311)	\$ -	\$ (312)	\$ 6	\$ (224)	\$ -	\$ (218)
Total earned revenues	\$ (4,230)	\$ (5,974)	\$ 1,647	\$ (8,557)	\$ (4,064)	\$ (6,678)	\$ 1,595	\$ (9,147)

Energy Diversity

The FY 2006 revenues primarily resulted from the sale of oil from the SPR. Due to the disruption of crude oil supplies resulting from Hurricane Katrina in August 2005, the President ordered a drawdown of the SPR in September 2005. Oil sale proceeds from this drawdown totaled \$615 million in FY 2006 (unaudited) (see Note 23).

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 FY 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 power marketing administrations market electricity generated primarily by Federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations, interest on the capital investment repayment, borrowings from Treasury, operation and maintenance costs as well as other payment obligations. Revenues collected by the Southeastern, Southwestern, and Western Area Power Administrations on behalf of other agencies are reported as custodial activity (see Note 26).

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 \$758 million and \$753 million were assessed as of September 30, 2007, and September 30, 2006 (unaudited), respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled \$1,133 million and \$1,062 million as of September 30, 2007, and September 30, 2006 (unaudited), respectively. Adjustments are made annually to defer the recognition of revenues until earned (i.e., when costs are incurred) for the Civilian Radioactive Waste Management program.

Decontamination and Decommissioning Fund

These revenues primarily result from assessed fees to domestic utilities to pay for the costs for decontamination and decommissioning the Depart-

ment's gaseous diffusion facilities used for uranium enrichment services. Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Revenue recognized includes known adjustments for transfers between utilities and other reconciliation adjustments. Increases in current and future assessments due to changes in the Consumer Price Index are recognized in each fiscal year as such changes occur. Accumulated funds in excess of those needed to pay current program costs are invested in Treasury securities. Interest earned on these investments totaled \$183 million and \$165 million for September 30, 2007, and September 30, 2006 (unaudited), respectively.

Uranium Sales

The Department sold 200 metric tons and 906 metric tons (unaudited) of Russian origin uranium in FY 2007 and FY 2006, respectively. The Russian origin uranium was originally purchased by the United States Executive Agent under the Russian HEU Agreement in 1995 and 1996. Subsequently, pursuant to the USEC Privatization Act, the uranium was transferred to the Department with the authorization for the Department to sell said uranium. All of the revenue will be used to fund the cleaning of technetium-99 contaminated uranium (see Note 7).

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 \$3,018 million and \$2,935 million as of September 30, 2007, and September 30, 2006 (unaudited), 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 2007	FY 2006 (Unaudited)
Federal Energy Regulatory Commission		
Program costs - public	\$ 240	\$ 234
Less earned revenues (Note 19)	(240)	(234)
	\$ -	\$ -
Inspector General		
Environment, safety and health	43	46
Other defense activities	124	124
Other programs - public	193	210
Program costs	\$ 90	\$ 36
Less earned revenues (Note 19)	(72)	19
	18	55
Total net cost for other programs	\$ 378	\$ 435

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 2007	FY 2006 (Unaudited)
Spent nuclear fuel contingency (Note 17)		
Current year Judgement Fund payments	\$ 103	\$ 107
Change in estimates (Note 23)	4,249	1,718
Current year spent nuclear fuel contingency costs	\$ 4,352	\$ 1,825
Change in environmental liability estimates (Notes 14 and 23)	39,958	47,713
Changes in contractor pension and PRB estimates (Note 23)	(404)	368
Change in unfunded safety and health liabilities (Notes 13 and 23)	329	(303)
Change in occupational illness program -		
Subtitle B	1,310	402
Subtitle E	213	(10)
Uranium enrichment services pricing litigation	-	28
Other	(26)	(299)
Total costs not assigned	\$ 45,732	\$ 49,724

Compensation Program for Occupational Illnesses

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

The National Defense Authorization Act of 2005 amended the EEOICPA to include Subtitle E, Contractor Employee Compensation. This amendment replaces Subtitle D of the EEOICPA, which provided

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

As of September 30, 2005, the law makes payments under these programs the responsibility of the 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 imputed costs and imputed financing source.

23. Reconciliation of Net Cost of Operations to Budget (in millions)

	FY 2007	FY 2006 (Unaudited)	
Resources Used to Finance Activities			
Obligations Incurred	\$ 32,052	\$ 31,656	
Less spending authority from offsetting collections and recoveries	(7,918)	(7,217)	
Less offsetting receipts	(2,926)	(3,264)	
Net obligations	\$ 21,208		\$ 21,175
Imputed financing from costs absorbed by others			
Change in occupational illnesses liability ^(Note 22)	\$ 1,523	\$ 392	
OPM imputed costs	91	88	
Payment made from Treasury's Judgement Fund	132	143	
Total imputed costs absorbed by others	1,746		623
Transfers-in/(out) without reimbursement			
Transfer of SPRO sales receipts to Treasury ^(Note 19)	\$ -	\$ (615)	
Transfer of Great Plains Gasification Plant revenue sharing receipts to Treasury ^(Note 19)	(43)	(79)	
All other transfers, net	235	68	
Total transfers in/(out), net	192		(626)
Nuclear Waste Fund offsetting receipts, deferred	2,017		2,345
Other	34		55
Total resources used to finance activities	\$ 25,197		\$ 23,572
Resources Used to Finance Activities Not Part of Net Cost of Operations			
Change in budgetary resources obligated for orders but not yet provided	\$ (995)	\$ (1,235)	
Resources that finance the acquisition of assets	(3,404)	(3,103)	
Resources that fund expenses recognized in prior periods	(5,623)	(6,421)	
Other resources and adjustments	92	(423)	
Total resources used to finance items not part of Net Cost of Operations	\$ (9,930)		\$ (11,182)
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)	\$ (404)	\$ 368	
Current year pension and PRB service costs ^(Note 15)	1,067	1,219	
Current year pension and PRB employer contributions ^(Note 15)	(721)	(858)	
Total pension and PRB plans	\$ (58)	\$ 729	
Change in environmental liability estimates ^(Note 22)	39,958	47,713	
Change in Spent nuclear fuel contingency ^(Note 22)	4,249	1,825	
Change in unfunded safety and health liabilities ^(Notes 13 and 22)	329	(303)	
Change in other unfunded liabilities	286	10	
Depreciation of property, plant and equipment	1,474	1,376	
Amortization of premiums and discounts on Treasury investments	(721)	(649)	
Other amortization	155	193	
Other	556	596	
Total net cost of items that do not require or generate resources in current period	\$ 46,228		\$ 51,490
Net Cost of Operations	\$ 61,495		\$ 63,880

In accordance with Revised OMB Circular No. A-136, Financial Reporting Requirements, dated June 29, 2007, the Statement of Financing is presented as a footnote disclosure and is no longer a basic financial statement, as had been presented in prior years. The

information provided in the FY 2006 Statement of Financing is also presented in this footnote, to provide comparative disclosures, as required. The reconciliation of net cost of operations to budget for FY 2007 and FY 2006 is presented above.

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 Statement 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.

24. Changes in Accounting Principles (in millions)

	FY 2007		
	Earmarked	All Other Funds	Total
Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans	\$ (2)	\$ 622	\$ 620
Transfer of budget authority	335		335
Total changes in accounting principle	\$ 333	\$ 622	\$ 955

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

The Department implemented in FY 2007 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. A \$620 million beginning balance adjustment to the FY 2007 cumulative results of operations was recorded for the cumulative effects of this change in accounting principle.

Transfer of Budget Authority

A U.S. Army Corps of Engineers (Corps) transfer allocation account was established in 1995 to fund additions, improvements,

and replacements of Corps hydroelectric projects in the Pacific Northwest funded by the Bonneville Power Administration (BPA). Allocation transfers are legal delegations by one department (the Parent) of its authority to obligate budget authority and outlay funds to another department (the Child). A separate allocation fund account was created in the U.S. Treasury as a subset of the BPA parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the Corps are charged to this allocation account as they execute the delegated activity on behalf of BPA.

As a result of implementing new OMB financial statement guidance for parent/child allocation transfers, all financial activity of the Corps related to the allocation transfers is reported in the Department's financial statements beginning in FY 2007. A \$335 million beginning balance adjustment to the FY 2007 cumulative results of operations was recorded for the cumulative effects of this change in accounting principle.

25. Combined Statements of Budgetary Resources (in millions)

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

Adjustments to Beginning Balances of Budgetary Resources:

	FY 2007	FY 2006 (Unaudited)
Beginning Unobligated Balance		
Prior year unobligated balance, net – end of period		
Available, apportioned	\$ 2,552	\$ 2,588
Exempt from apportionment	32	24
Not available	1,580	1,629
Total – prior year unobligated balance	\$ 4,164	\$ 4,241
Adjustment for Strategic Petroleum Account	(5)	-
Other adjustments for Isotopes	-	3
Current year unobligated balance, start of period	\$ 4,159	\$ 4,244

	FY 2007	FY 2006 (Unaudited)
Beginning Unpaid Balance		
Prior year unpaid balance, net – end of period	\$ 18,196	\$ 17,232
Other adjustments for Isotopes	-	(3)
Current year unpaid balance, start of period	\$ 18,196	\$ 17,229

Unobligated Balances Not Available:

	FY 2007	FY 2006 (Unaudited)
United States Enrichment Corporation Fund	\$ 1,473	\$ 1,414
Uranium sales and remediation	43	100
Reimbursable work/collections in excess of amount anticipated	3	27
Prior year deobligations in excess of apportioned amount	6	19
Expired appropriations and other amounts not apportioned	10	20
Total unobligated balances not available ^(Note 3)	\$ 1,535	\$ 1,580

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

Details of Unpaid Obligations:

	FY 2007	FY 2006 (Unaudited)
Undelivered orders	\$ 12,473	\$ 11,339
Accounts payable	6,974	6,857
Total unpaid obligations ^(Note 3)	\$ 19,447	\$ 18,196

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

	FY 2007	FY 2006 (Unaudited)
Appropriations received on the Combined Statements of Budgetary Resources	\$ 24,616	\$ 25,374
Less:		
Special and trust fund appropriated receipts	(991)	(1,119)
Appropriated capital owed	(72)	(99)
Appropriations made available from previous year	(257)	(257)
Appropriations received on the Statement of Changes in Net Position	\$ 23,296	\$ 23,899

Reconciliation to the Budget:

	FY 2006 (Unaudited)			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources as published	\$ 35,820	\$ 31,656	\$ (3,264)	\$ 19,621
OMB adjustments made to exclude:				
U.S. Enrichment Corporation	(1,414)	-	-	31
Expired accounts	(9)	-	-	-
Other	(5)	-	(7)	(3)
Budget of the United States Government	\$ 34,392	\$ 31,656	\$ (3,271)	\$ 19,649

The FY 2006 (unaudited) *Combined Statements of Budgetary Resources* are reconciled to the President's Budget that was published in February 2007. The President's Budget containing actual FY 2007 balances is expected to be published and available on the OMB web site, www.whitehouse.gov/omb, in February 2008. 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.

26. Custodial Activities (in millions)

	FY 2007	FY 2006 (Unaudited)
Cash collections		
Power marketing administrations	\$ 532	\$ 545
Petroleum Pricing Violation Escrow Fund	13	17
Federal Energy Regulatory Commission	82	44
Total cash collections for custodial activities	\$ 627	\$ 606

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, U.S. Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. These revenues are reported as custodial activities of the Department.

Petroleum Pricing Violation Escrow Fund

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

during the 1970s and early 1980s. The Department also distributes funds to the U.S. Treasury and to the States, Possessions, and Territories of the United States.

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 U.S. Army Corps of Engineers 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) Department of Interior's 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.

— Consolidating Schedules —

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

As of September 30, 2007 and 2006
(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
ASSETS:				
Intragovernmental Assets:				
Fund Balance with Treasury	\$ 48	\$ 2,010	\$ 16,301	\$ -
Investments, Net	-	-	25,681	-
Accounts Receivable, Net	-	28	784	(237)
Regulatory Assets	-	5,456	-	-
Other Assets	-	-	41	(33)
Total Intragovernmental Assets	\$ 48	\$ 7,494	\$ 42,807	\$ (270)
Investments, Net	-	-	202	-
Accounts Receivable, Net	5	478	3,456	-
Inventory, Net:				
Strategic Petroleum and Northeast Home Heating Oil Reserve	-	-	19,415	-
Nuclear Materials	-	-	21,040	-
Other Inventory	-	86	384	-
General Property, Plant, and Equipment, Net	8	6,471	18,387	-
Regulatory Assets	-	5,636	-	-
Other Non-Intragovernmental Assets	-	2,920	2,112	-
Total Assets	\$ 61	\$ 23,085	\$ 107,803	\$ (270)
LIABILITIES:				
Intragovernmental Liabilities:				
Accounts Payable	\$ 4	\$ (5)	\$ 251	\$ (184)
Debt	-	11,481	-	-
Deferred Revenues and Other Credits	-	-	70	(34)
Other Liabilities	6	55	215	(5)
Total Intragovernmental Liabilities	\$ 10	\$ 11,531	\$ 536	\$ (223)
Accounts Payable	10	333	3,497	(47)
Debt Held by the Public	-	6,427	-	-
Deferred Revenues and Other Credits	-	2,097	23,048	-
Environmental Cleanup and Disposal Liabilities	-	-	263,603	-
Pension and Other Actuarial Liabilities	-	62	12,371	-
Obligations Under Capital Leases	-	188	26	-
Other Non-Intragovernmental Liabilities	35	321	2,916	-
Contingencies and Commitments	-	42	11,029	-
Total Liabilities	\$ 55	\$ 21,001	\$ 317,026	\$ (270)
NET POSITION:				
Unexpended Appropriations				
Unexpended Appropriations- Earmarked Funds	\$ -	\$ -	\$ 17	\$ -
Unexpended Appropriations- Other Funds	4	-	10,661	-
Cumulative Results of Operations				
Cumulative Results of Operations - Earmarked Funds	-	2,084	(7,608)	-
Cumulative Results of Operations - Other Funds	2	-	(212,293)	-
Total Net Position	\$ 6	\$ 2,084	\$ (209,223)	\$ -
Total Liabilities and Net Position	\$ 61	\$ 23,085	\$ 107,803	\$ (270)

See independent auditors' report

U.S. DEPARTMENT OF ENERGY
AGENCY FINANCIAL REPORT

FISCAL YEAR
2007

Consolidated and Combined
Financial Statements

FY 2006						
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated	
\$ 18,359	\$ 62	\$ 1,583	\$ 15,544	\$ -	\$ 17,189	
25,681	-	-	23,767	-	23,767	
575	3	26	743	(157)	615	
5,456	-	5,476	-	-	5,476	
8	-	1	19	(19)	1	
\$ 50,079	\$ 65	\$ 7,086	\$ 40,073	\$ (176)	\$ 47,048	
202	-	-	210	-	210	
3,939	23	518	3,479	-	4,020	
19,415	-	-	19,172	-	19,172	
21,040	-	-	21,199	-	21,199	
470	-	84	372	-	456	
24,866	10	5,952	18,160	-	24,122	
5,636	-	5,961	-	-	5,961	
5,032	-	2,849	1,015	-	3,864	
\$ 130,679	\$ 98	\$ 22,450	\$ 103,680	\$ (176)	\$ 126,052	
\$ 66	\$ 3	\$ 6	\$ 230	\$ (157)	\$ 82	
11,481	-	10,780	-	-	10,780	
36	-	10	61	(19)	52	
271	22	53	182	-	257	
\$ 11,854	\$ 25	\$ 10,849	\$ 473	\$ (176)	\$ 11,171	
3,793	11	319	3,487	-	3,817	
6,427	-	6,436	-	-	6,436	
25,145	-	2,109	21,398	-	23,507	
263,603	-	-	230,321	-	230,321	
12,433	-	53	12,006	-	12,059	
214	-	138	34	-	172	
3,272	49	309	2,470	-	2,828	
11,071	-	29	6,807	-	6,836	
\$ 337,812	\$ 85	\$ 20,242	\$ 276,996	\$ (176)	\$ 297,147	
\$ 17	\$ -	\$ -	\$ 47	\$ -	\$ 47	
10,665	9	-	9,855	-	9,864	
(5,524)	-	2,208	(3,553)	-	(1,345)	
(212,291)	4	-	(179,665)	-	(179,661)	
\$ (207,133)	\$ 13	\$ 2,208	\$ (173,316)	\$ -	\$ (171,095)	
\$ 130,679	\$ 98	\$ 22,450	\$ 103,680	\$ (176)	\$ 126,052	

See independent auditors' report

FINANCIAL RESULTS

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

For Years Ended September 30, 2007 and 2006
(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
STRATEGIC THEMES:				
Energy Security:				
Energy Diversity				
Program Costs	\$ -	\$ -	\$ 1,085	\$ -
Less: Earned Revenues	-	-	(6)	-
Net Cost of Energy Diversity	-	-	1,079	-
Environmental Impacts of Energy				
Program Costs	-	-	1,061	(20)
Less: Earned Revenues	-	-	(60)	-
Net Cost of Environmental Impacts of Energy	-	-	1,001	(20)
Energy Infrastructure				
Program Costs	-	3,847	138	(55)
Less: Earned Revenues	-	(4,201)	-	55
Net Cost of Energy Infrastructure	-	(354)	138	-
Energy Productivity Program Costs	-	-	496	-
Net Cost of Energy Security	-	(354)	2,714	(20)
Nuclear Security:				
Nuclear Deterrent Program Costs	-	-	6,851	-
Weapons of Mass Destruction Program Costs	-	-	1,539	-
Nuclear Propulsion Plants				
Program Costs	-	-	810	-
Less: Earned Revenues	-	-	(19)	-
Net Cost of Nuclear Propulsion Plants	-	-	791	-
Net Cost of Nuclear Security	-	-	9,181	-
Scientific Discovery and Innovation:				
Net Cost of Scientific Discovery and Innovation	-	-	4,004	-
Environmental Responsibility:				
Environmental Cleanup				
Program Costs	-	-	6,313	(452)
Less: Earned Revenues	-	-	(493)	-
Net Costs of Environmental Cleanup	-	-	5,820	(452)
Managing the Legacy Program Costs	-	-	57	-
Net Cost of Environmental Responsibility	-	-	5,877	(452)
Net Cost of Strategic Themes	-	(354)	21,776	(472)
OTHER PROGRAMS:				
Reimbursable Programs:				
Program Costs	-	204	3,325	-
Less: Earned Revenues	-	(242)	(3,279)	-
Net Cost of Reimbursable Programs	-	(38)	46	-
Other Programs:				
Program Costs	240	-	557	(107)
Less: Earned Revenues	(240)	-	(179)	107
Net Cost of Other Programs	-	-	378	-
Costs Applied to Reduction of Legacy Environmental Liabilities	-	-	(5,573)	-
Costs Not Assigned	-	-	45,732	-
Net Cost of Operations	\$ -	\$ (392)	\$ 62,359	\$ (472)

See independent auditors' report

FY 2006 (Unaudited)						
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated	
\$ 1,085	\$ -	\$ -	\$ 1,415	\$ -	\$ 1,415	
(6)	-	-	(616)	-	(616)	
1,079	-	-	799	-	799	
1,041	-	-	1,002	(13)	989	
(60)	-	-	(95)	-	(95)	
981	-	-	907	(13)	894	
3,930	-	3,854	165	(68)	3,951	
(4,146)	-	(4,381)	-	68	(4,313)	
(216)	-	(527)	165	-	(362)	
496	-	-	470	-	470	
2,340	-	(527)	2,341	(13)	1,801	
6,851	-	-	6,671	-	6,671	
1,539	-	-	1,377	-	1,377	
810	-	-	783	-	783	
(19)	-	-	(11)	-	(11)	
791	-	-	772	-	772	
9,181	-	-	8,820	-	8,820	
4,004	-	-	3,734	-	3,734	
5,861	-	-	6,453	(446)	6,007	
(493)	-	-	(509)	-	(509)	
5,368	-	-	5,944	(446)	5,498	
57	-	-	62	-	62	
5,425	-	-	6,006	(446)	5,560	
20,950	-	(527)	20,901	(459)	19,915	
3,529	-	159	3,239	-	3,398	
(3,521)	-	(201)	(3,184)	-	(3,385)	
8	-	(42)	55	-	13	
690	234	-	520	(101)	653	
(312)	(234)	-	(85)	101	(218)	
378	-	-	435	-	435	
(5,573)	-	-	(6,207)	-	(6,207)	
45,732	-	-	49,724	-	49,724	
\$ 61,495	\$ -	\$ (569)	\$ 64,908	\$ (459)	\$ 63,880	

See independent auditors' report

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

For Years Ended September 30, 2007 and 2006

(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balances	\$ 4	\$ 2,208	\$ (183,218)	\$ -
Changes in Accounting Principle (Note 24)	-	335	620	-
Beginning Balances, as Adjusted	\$ 4	\$ 2,543	\$ (182,598)	\$ -
Budgetary Financing Sources:				
Appropriations Used	\$ 5	\$ -	\$ 22,533	\$ -
Nonexchange Revenue	-	-	74	-
Donations and Forfeitures of Cash	-	-	12	-
Transfers - In/(Out) Without Reimbursement	-	(831)	(38)	-
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	-	4	-	-
Transfers-In/(Out) Without Reimbursement	(18)	(24)	234	-
Imputed Financing from Costs Absorbed by Others	11	-	1,735	-
Other	-	-	506	(472)
Total Financing Sources	\$ (2)	\$ (851)	\$ 25,056	\$ (472)
Net Cost of Operations	-	392	(62,359)	472
Net Change	\$ (2)	\$ (459)	\$ (37,303)	\$ -
Total Cumulative Results of Operations	\$ 2	\$ 2,084	\$ (219,901)	\$ -
UNEXPENDED APPROPRIATIONS:				
Beginning Balances	\$ 9	\$ -	\$ 9,902	\$ -
Budgetary Financing Sources:				
Appropriations Received	\$ -	\$ -	\$ 23,296	\$ -
Appropriations Transferred - In/(Out)	-	-	13	-
Other Adjustments	-	-	-	-
Appropriations Used	(5)	-	(22,533)	-
Total Budgetary Financing Sources	\$ (5)	\$ -	\$ 776	\$ -
Total Unexpended Appropriations	\$ 4	\$ -	\$ 10,678	\$ -
Net Position	\$ 6	\$ 2,084	\$ (209,223)	\$ -

See independent auditors' report

FY 2006 (Unaudited)					
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
\$ (181,006)	\$ 6	\$ 1,805	\$ (141,568)	\$ -	\$ (139,757)
955	-	-	-	-	-
\$ (180,051)	\$ 6	\$ 1,805	\$ (141,568)	\$ -	\$ (139,757)
\$ 22,538	\$ 4	\$ -	\$ 22,716	\$ -	\$ 22,720
74	-	-	62	-	62
12	-	-	13	-	13
(869)	-	(167)	(49)	-	(216)
4	-	1	-	-	1
192	(16)	-	(610)	-	(626)
1,746	10	-	613	-	623
34	-	-	513	(459)	54
\$ 23,731	\$ (2)	\$ (166)	\$ 23,258	\$ (459)	\$ 22,631
(61,495)	-	569	(64,908)	459	(63,880)
\$ (37,764)	\$ (2)	\$ 403	\$ (41,650)	\$ -	\$ (41,249)
\$ (217,815)	\$ 4	\$ 2,208	\$ (183,218)	\$ -	\$ (181,006)
\$ 9,911	\$ 14	\$ -	\$ 8,964	\$ -	\$ 8,978
\$ 23,296	\$ -	\$ -	\$ 23,899	\$ -	\$ 23,899
13	-	-	17	-	17
-	(1)	-	(262)	-	(263)
(22,538)	(4)	-	(22,716)	-	(22,720)
\$ 771	\$ (5)	\$ -	\$ 938	\$ -	\$ 933
\$ 10,682	\$ 9	\$ -	\$ 9,902	\$ -	\$ 9,911
\$ (207,133)	\$ 13	\$ 2,208	\$ (173,316)	\$ -	\$ (171,095)

See independent auditors' report

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

For Years Ended September 30, 2007 and 2006

(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated
BUDGETARY RESOURCES				
Unobligated balance, Brought Forward, October 1	\$ 6	\$ 172	\$ 3,981	\$ 4,159
Recoveries of Prior Year Unpaid Obligations	1	-	51	52
Budget Authority:				
Appropriations	\$ 3	\$ 307	\$ 24,306	\$ 24,616
Borrowing Authority	-	315	-	315
Contract Authority	-	692	-	692
Spending Authority from Offsetting Collections:				
Eamed:				
Collected	222	4,042	3,491	7,755
Change in Receivables from Federal Sources	-	(51)	29	(22)
Change in Unfilled Customer Orders:				
Advances Received	-	18	(9)	9
Without Advance from Federal Sources	-	(1)	125	124
Subtotal	\$ 225	\$ 5,322	\$ 27,942	\$ 33,489
Nonexpenditure Transfers, Net, Anticipated and Actual	-	94	23	117
Temporarily not Available Pursuant to Public Law	-	-	(257)	(257)
Permanently Not Available	-	(1,427)	(1)	(1,428)
Total Budgetary Resources	\$ 232	\$ 4,161	\$ 31,739	\$ 36,132
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred:				
Direct	\$ 229	\$ 355	\$ 24,186	\$ 24,770
Exempt from Apportionment	-	2,768	129	2,897
Reimbursable	-	692	3,693	4,385
Total Obligations Incurred	\$ 229	\$ 3,815	\$ 28,008	\$ 32,052
Unobligated Balance:				
Apportioned	3	298	2,194	2,495
Exempt from Apportionment	-	47	3	50
Unobligated Balance Not Available	-	1	1,534	1,535
Total Status of Budgetary Resources	\$ 232	\$ 4,161	\$ 31,739	\$ 36,132
CHANGE IN OBLIGATED BALANCE				
Obligated Balance, Net:				
Unpaid Obligations, Brought Forward, October 1	\$ 23	\$ 2,669	\$ 15,504	\$ 18,196
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	-	(403)	(3,697)	(4,100)
Total Unpaid Obligated Balance, Net, October 1	\$ 23	\$ 2,266	\$ 11,807	\$ 14,096
Obligations Incurred	229	3,815	28,008	32,052
Less: Gross Outlays	(230)	(3,802)	(26,716)	(30,748)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(1)	-	(51)	(52)
Change in Uncollected Customer Payments from Federal Sources	-	52	(154)	(102)
Obligated Balance, Net, End of Period:	\$ 21	\$ 2,331	\$ 12,894	\$ 15,246
Unpaid Obligations	\$ 21	\$ 2,683	\$ 16,743	\$ 19,447
Less: Uncollected Customer Payments from Federal Sources (Note 3)	-	(352)	(3,849)	(4,201)
Total, Unpaid Obligated Balance, Net, End of Period	\$ 21	\$ 2,331	\$ 12,894	\$ 15,246
NET OUTLAYS				
Gross Outlays	\$ 230	\$ 3,802	\$ 26,716	\$ 30,748
Less: Offsetting collections	(222)	(4,060)	(3,482)	(7,764)
Less: Distributed Offsetting Receipts	(85)	(479)	(2,362)	(2,926)
Net Outlays	\$ (77)	\$ (737)	\$ 20,872	\$ 20,058

See independent auditors' report

FY 2006 (Unaudited)				
Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated	
\$ 9	\$ 165	\$ 4,070	\$ 4,244	
-	-	47	47	
\$ 3	\$ 345	\$ 25,026	\$ 25,374	
-	270	-	270	
-	871	-	871	
220	4,032	3,475	7,727	
-	88	(72)	16	
-	(37)	67	30	
-	4	(607)	(603)	
\$ 223	\$ 5,573	\$ 27,889	\$ 33,685	
-	(69)	17	(52)	
-	(2)	(264)	(266)	
-	(1,583)	(255)	(1,838)	
\$ 232	\$ 4,084	\$ 31,504	\$ 35,820	
\$ 227	\$ 378	\$ 24,096	\$ 24,701	
-	2,905	142	3,047	
-	629	3,279	3,908	
\$ 227	\$ 3,912	\$ 27,517	\$ 31,656	
5	151	2,396	2,552	
-	-	32	32	
-	21	1,559	1,580	
\$ 232	\$ 4,084	\$ 31,504	\$ 35,820	
\$ 20	\$ 2,079	\$ 15,130	\$ 17,229	
-	(312)	(4,375)	(4,687)	
\$ 20	\$ 1,767	\$ 10,755	\$ 12,542	
227	3,912	27,517	31,656	
(224)	(3,321)	(27,097)	(30,642)	
-	-	(47)	(47)	
-	(92)	679	587	
\$ 23	\$ 2,266	\$ 11,807	\$ 14,096	
\$ 23	\$ 2,669	\$ 15,504	\$ 18,196	
-	(403)	(3,697)	(4,100)	
\$ 23	\$ 2,266	\$ 11,807	\$ 14,096	
\$ 224	\$ 3,321	\$ 27,097	\$ 30,642	
(220)	(3,995)	(3,542)	(7,757)	
(54)	(486)	(2,724)	(3,264)	
\$ (50)	\$ (1,160)	\$ 20,831	\$ 19,621	

See independent auditors' report

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

For Years Ended September 30, 2007 and 2006
(\$ in millions)

	FY 2007			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
SOURCES OF COLLECTIONS:				
Cash Collections:				
Interest	\$ -	\$ -	\$ 13	\$ -
Federal Energy Regulatory Commission	82	-	-	-
Power Marketing Administration Custodial Revenue	-	532	-	-
Total Cash Collections	\$ 82	\$ 532	\$ 13	\$ -
Accrual Adjustment	(12)	6	1	-
Total Custodial Revenue	\$ 70	\$ 538	\$ 14	\$ -
DISPOSITION OF REVENUE:				
Transferred to Others:				
Department of the Treasury	(60)	(230)	-	-
Army Corps of Engineers	(13)	(18)	-	-
Bureau of Reclamation	(9)	(296)	-	-
Others	(3)	(5)	1	-
Decrease/(Increase) in Amounts to be Transferred	15	11	(15)	-
Net Custodial Activity	\$ -	\$ -	\$ -	\$ -

See independent auditors' report

FY 2006 (Unaudited)					
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
\$ 13	\$ -	\$ -	\$ 17	\$ -	\$ 17
82	44	-	-	-	44
532	-	545	-	-	545
\$ 627	\$ 44	\$ 545	\$ 17	\$ -	\$ 606
(5)	2	11	-	-	13
\$ 622	\$ 46	\$ 556	\$ 17	\$ -	\$ 619
(290)	(41)	(159)	-	-	(200)
(31)	-	3	-	-	3
(305)	-	(333)	-	-	(333)
(7)	(3)	(2)	-	-	(5)
11	(2)	(65)	(17)	-	(84)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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— Required Supplementary Stewardship Information (RSSI) —

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years 2007 through FY 2003 (in millions)

BASIC	FY 2007			FY 2006		
	Direct Cost	Deprecation & Other	Total	Direct Cost	Deprecation & Other	Total
Energy Diversity						
Energy Efficiency	\$0.4	\$0.0	\$0.4	\$1.3	\$0.1	\$1.4
Environmental Impacts of Energy						
Fossil Energy	\$4.4	\$1.3	\$5.7	\$4.3	\$0.8	\$5.1
Nuclear Energy	\$0.0	\$0.0	\$0.0	\$1.7	\$0.6	\$2.3
Energy Infrastructure						
Power Marketing Administration**	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Weapons of Mass Destruction	\$11.1	\$1.0	\$12.1	\$6.8	\$0.8	\$7.6
Scientific Breakthroughs & Foundations of Science	\$2,753.9	\$667.1	\$3,421.0	\$2,671.5	\$601.1	\$3,272.6
TOTAL BASIC	\$2,769.8	\$669.4	\$3,439.2	\$2,685.6	\$603.4	\$3,289.0
APPLIED*	Direct Cost	Deprecation & Other	Total	Direct Cost	Deprecation & Other	Total
Energy Diversity						
Energy Efficiency	\$169.2	\$9.5	\$178.7	\$169.5	\$12.5	\$182.0
Fossil Energy	\$0.0	\$0.0	\$0.0	\$32.1	\$7.5	\$39.6
Environmental Impacts of Energy						
Fossil Energy	\$136.8	\$41.7	\$178.5	\$98.1	\$20.6	\$118.7
Nuclear Energy	\$71.1	\$15.7	\$86.8	\$84.3	\$33.1	\$117.4
Energy Infrastructure						
Energy Efficiency	\$9.9	\$0.7	\$10.6	\$31.8	\$1.8	\$33.6
Electric Transmission & Distribution	\$12.9	\$1.3	\$14.2	\$66.8	\$3.8	\$70.6
Power Marketing Administration**	\$8.6	\$0.0	\$8.6	\$10.4	\$0.0	\$10.4
Energy Productivity						
Energy Efficiency	\$22.9	\$1.2	\$24.1	\$20.3	\$1.4	\$21.7
Nuclear Deterrent	\$1,799.3	\$165.7	\$1,965.0	\$1,955.6	\$183.1	\$2,138.7
Weapons of Mass Destruction	\$121.5	\$11.2	\$132.7	\$113.8	\$13.8	\$127.6
Scientific Breakthroughs & Foundations of Science	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Environmental Cleanup	\$9.6	\$1.5	\$11.1	\$0.9	\$0.0	\$0.9
Managing the Legacy	\$172.8	\$1.9	\$174.7	\$259.3	\$3.1	\$262.4
TOTAL APPLIED	\$2,534.6	\$250.4	\$2,785.0	\$2,842.9	\$280.7	\$3,123.6
DEVELOPMENT*	Direct Cost	Deprecation & Other	Total	Direct Cost	Deprecation & Other	Total
Energy Diversity						
Energy Efficiency	\$145.4	\$9.0	\$154.4	\$205.7	\$12.0	\$217.7
Fossil Energy	\$0.0	\$0.0	\$0.0	\$48.2	\$11.3	\$59.5
Environmental Impacts of Energy						
Fossil Energy	\$127.7	\$36.6	\$164.3	\$95.8	\$19.9	\$115.7
Nuclear Energy	\$9.1	\$1.0	\$10.1	\$1.3	\$0.3	\$1.6
Energy Infrastructure						
Energy Efficiency	\$19.5	\$0.8	\$20.3	\$28.7	\$1.7	\$30.4
Electric Transmission & Distribution	\$17.0	\$1.7	\$18.7	\$26.0	\$1.6	\$27.6
Power Marketing Administration**	\$2.5	\$0.0	\$2.5	\$1.1	\$0.0	\$1.1
Energy Productivity						
Energy Efficiency	\$22.9	\$1.2	\$24.1	\$20.7	\$1.4	\$22.1
Nuclear Deterrent	\$595.4	\$195.3	\$790.7	\$467.4	\$117.3	\$584.7
Weapons of Mass Destruction	\$66.1	\$6.7	\$72.8	\$84.7	\$5.1	\$89.8
Nuclear Propulsion Plants	\$708.9	\$54.0	\$762.9	\$681.5	\$42.9	\$724.4
Environmental Cleanup	\$22.4	\$3.5	\$25.9	\$2.1	\$0.1	\$2.2
TOTAL DEVELOPMENT	\$1,736.9	\$309.8	\$2,046.7	\$1,663.2	\$213.6	\$1,876.8
TOTAL R&D	\$7,041.3	\$1,229.6	\$8,270.9	\$7,191.7	\$1,097.7	\$8,289.4

* 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.

U.S. DEPARTMENT OF ENERGY
AGENCY FINANCIAL REPORT

FISCAL YEAR
2007

Consolidated and Combined
Financial Statements

FY 2005			FY 2004			FY 2003		
Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total
\$19.9	\$5.1	\$25.0	\$30.3	\$4.6	\$34.9	\$24.3	\$3.6	\$27.9
\$6.0	\$1.7	\$7.7	\$7.1	\$0.8	\$7.9	\$10.1	\$1.2	\$11.3
\$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	\$3.3	\$0.0	\$3.3
\$3.2	\$0.3	\$3.5	\$13.2	\$1.0	\$14.2	\$10.2	\$1.4	\$11.6
\$2,808.7	\$735.5	\$3,544.2	\$2,581.3	\$583.4	\$3,164.7	\$2,448.0	\$594.0	\$3,042.0
\$2,837.8	\$742.6	\$3,580.4	\$2,635.3	\$589.8	\$3,225.1	\$2,495.9	\$600.2	\$3,096.1
Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total
\$161.9	\$24.8	\$186.7	\$130.9	\$13.1	\$144.0	\$81.7	\$11.5	\$93.2
\$34.1	\$8.4	\$42.5	\$38.6	\$3.1	\$41.7	\$41.3	\$4.2	\$45.5
\$123.3	\$41.8	\$165.1	\$137.9	\$16.4	\$154.3	\$145.4	\$17.5	\$162.9
\$52.5	\$35.8	\$88.3	\$74.3	\$6.4	\$80.7	\$12.3	\$1.2	\$13.5
\$74.5	\$7.8	\$82.3	\$45.8	\$4.0	\$49.8	\$56.1	\$6.0	\$62.1
\$55.6	\$4.1	\$59.7	\$18.7	\$2.0	\$20.7	\$0.0	\$0.0	\$0.0
\$9.7	\$0.0	\$9.7	\$11.8	\$0.0	\$11.8	\$11.4	\$0.0	\$11.4
\$15.1	\$2.0	\$17.1	\$25.7	\$3.1	\$28.8	\$31.9	\$4.4	\$36.3
\$1,898.6	\$192.9	\$2,091.5	\$1,888.0	\$404.9	\$2,292.9	\$1,660.5	\$454.5	\$2,115.0
\$73.1	\$5.6	\$78.7	\$60.4	\$4.4	\$64.8	\$95.2	\$13.8	\$109.0
\$0.0	\$0.0	\$0.0	\$3.1	\$0.6	\$3.7	\$2.9	\$0.5	\$3.4
\$15.6	\$1.2	\$16.8	\$28.1	\$4.1	\$32.2	\$23.4	\$4.5	\$27.9
\$144.0	\$1.9	\$145.9	\$65.3	\$1.8	\$67.1	\$75.8	\$1.0	\$76.8
\$2,658.0	\$326.3	\$2,984.3	\$2,528.6	\$463.9	\$2,992.5	\$2,237.9	\$519.1	\$2,757.0
Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total	Direct Cost	Depreciation & Other	Total
\$265.8	\$28.0	\$293.8	\$326.8	\$32.3	\$359.1	\$78.3	\$10.3	\$88.6
\$51.2	\$12.6	\$63.8	\$57.9	\$4.7	\$62.6	\$63.6	\$6.5	\$70.1
\$121.0	\$40.3	\$161.3	\$135.0	\$16.1	\$151.1	\$138.5	\$16.6	\$155.1
\$1.2	\$0.8	\$2.0	\$20.5	\$1.6	\$22.1	\$16.0	\$2.4	\$18.4
\$54.2	\$7.1	\$61.3	\$69.6	\$6.3	\$75.9	\$248.8	\$29.1	\$277.9
\$13.5	\$3.2	\$16.7	\$38.0	\$3.2	\$41.2	\$0.0	\$0.0	\$0.0
\$2.1	\$0.0	\$2.1	\$8.8	\$0.0	\$8.8	\$8.7	\$0.0	\$8.7
\$15.1	\$2.0	\$17.1	\$25.7	\$3.1	\$28.8	\$25.3	\$3.5	\$28.8
\$467.2	\$106.8	\$574.0	\$543.4	\$120.9	\$664.3	\$734.3	\$221.5	\$955.8
\$53.6	\$2.8	\$56.4	\$49.4	\$3.1	\$52.5	\$66.1	\$9.8	\$75.9
\$724.7	\$40.6	\$765.3	\$667.1	\$17.7	\$684.8	\$621.8	\$16.3	\$638.1
\$36.4	\$3.6	\$40.0	\$65.5	\$9.5	\$75.0	\$54.7	\$10.3	\$65.0
\$1,806.0	\$247.8	\$2,053.8	\$2,007.7	\$218.5	\$2,226.2	\$2,056.1	\$326.3	\$2,382.4
\$7,301.8	\$1,316.7	\$8,618.5	\$7,171.6	\$1,272.2	\$8,443.8	\$6,789.9	\$1,445.6	\$8,235.5

FINANCIAL RESULTS

— Research and Development —

Strategic Theme 1: Energy Security

(Basic, Applied and Development)

Environmental Impacts of Energy

Energy Efficiency and Renewable Energy – The Department will improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies and exploring advanced technologies that make a fundamental improvement in our mix of energy options. Discussed below are contributions from the Department offices that contribute to the Energy Security general goal. Energy Efficiency and Renewable Energy – Activities relate to (1) solar technologies; (2) geothermal technologies; (3) wind and hydropower technologies; (4) hydrogen and fuel cell technologies for transportation, stationary, and portable application; (5) energy conservation for the building sector, including residential building, commercial building, and retrofit technologies; (6) biomass technologies; (7) energy efficiency and renewable energy efforts in the Federal sector; (8) energy conservation and energy supply efforts in the industry sector; (9) energy conservation for the transportation sector, including automotive alternative fuels and electric vehicles; and, (10) energy conservation and renewable energy for intergovernmental activities including the State Energy Program and Weatherization Program.

The Solar Energy Technology Program focuses on improving performance of solar energy systems and reducing development, production, and installation costs to competitive levels, thereby accelerating large-scale usage across the Nation and making a significant contribution to a clean, reliable and flexible U.S. Energy supply.

The Wind Program enables wind to compete with conventional fuel throughout the Nation, creating a clean renewable energy option through technology research and development, collaborative efforts, technical support and outreach.

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

The Department is committed to developing advanced fossil power systems capable of achieving 45-50 percent efficiency at a capital cost of \$1,000 per kW or less for a coal-based plant (dollar amount based on FY 2002 dollars). To support this goal, the gasification technologies program is working towards the commercialization of economical and efficient sulfur removal and/or multi-contaminant clean-up.

Energy Infrastructure

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

Strategic Theme 2: Nuclear Security

(Basic, Applied, & Development)

Nuclear Deterrent

Nuclear Weapons Stewardship Activities relate to (1) providing the scientific understanding and engineering development capabilities necessary to support near-term and long-term requirements of the nuclear stockpile; (2) providing scientific understanding of the nuclear package of the weapons systems in order to sustain our ability to certify the nuclear weapons stockpile, support stockpile refurbishment and life extension and to provide capabilities and components necessary to support maintenance and refurbishment in the absence of nuclear testing; and (3) ensuring the weapons complex and its facilities and infrastructure are in place to manufacture and certify the 21st century nuclear weapons stockpile. The applied research and development program of the Science Campaign helps to support the nuclear weapons stewardship goal by ensuring that our nuclear weapons will continue to serve their essential deterrence role.

Weapons of Mass Destruction

Activities conducted provide the science and technology required for treaty monitoring and material control, as well as early detection and characterization of the proliferation of weapons of mass destruction and special nuclear materials and improving the technologies leading to major improvements in responding to chemical and biological attacks. Under the Department's goal to have all worldwide fissile nuclear materials under controls acceptable to the United States by 2025, the nonproliferation verification research and development program will develop new technologies to improve our ability to detect and monitor nuclear explosions.

Nuclear Propulsion Plants

Activities include development, demonstration, improvement, and safe operation of nuclear propulsion plants and reactor cores for application to submarines and surface ships. The Transformational Technology Core (TTC) reactor plant design is designed to meet increasing demands on the submarine fleet, delivering a significant energy increase to future Virginia-class ships with minimum impact to the overall ship design.

Strategic Theme 3: Scientific Discovery and Innovation
(Basic)

Scientific Breakthroughs, Foundations of Science and Research Integration

A major goal in this area is 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. Another goal is 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 two goals are inherently linked since scientific discoveries are dependent upon cutting edge technology and facilities support.

The Department conducts research in the areas of (1) advanced scientific computing relevant to the complex challenges faced by the Department and providing world class supercomputer and networking facilities for scientists; (2) basic energy sciences including nuclear sciences, materials sciences, chemical sciences, engineering geosciences, energy biosciences, advanced energy projects and advanced mathematical sciences; (3) biological and environmental research needed to identify, understand, and anticipate the long term health

and environmental consequences of energy production, development and use; (4) fusion energy sciences including broad-based fundamental research efforts aimed at producing knowledge on fusion; (5) high energy physics activities directed at understanding the nature of matter and energy; (6) nuclear physics activities directed at understanding the fundamental forces and particles of nature as manifested in nuclear matter; and (7) small business innovative research/technology transfer support for energy related technologies that will significantly benefit US businesses, a technology transfer initiative.

Strategic Theme 4: Environmental Responsibility
(Applied & Development)

Managing the Legacy

Some research and development activities focus on the Department's responsibility for cleaning up federal Cold War legacy waste sites. R&D activities are conducted on the long-term storage of high level nuclear waste at a permanent underground repository. Scientific work explores opportunities for better performance in the underground repository and improved cost savings. The work concentrates on four areas: Source Term; Materials Performance; Natural Barriers; and Advanced Technologies.

— Required Supplementary Information (RSI) —

(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	\$3,287 million
Capital Equipment	\$85 million
Total	\$3,372 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, 2007, an amount of \$3,287 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 70 percent.

Capital Equipment

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

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

An amount of \$85 million of deferred maintenance was estimated to be needed as of September 30, 2007, to return capital equipment assets to acceptable operating condition.

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

As of September 30, 2007

(\$ in millions)

BUDGETARY RESOURCES:

Unobligated Balance, Brought Forward, Oct 1
Recoveries of Prior Year Unpaid Obligations
Budget Authority
Nonexpenditure Transfers, Net
Authority Not Available
Total Budgetary Resources

STATUS OF BUDGETARY RESOURCES:

Obligations Incurred
Unobligated Balances Available
Unobligated Balances Not Available
Total Status of Budgetary Resources

CHANGE IN OBLIGATED BALANCE:

Obligated Balance, Brought Forward, Oct 1
Obligations Incurred
Less: Gross Outlays
Obligated Balance Transferred, Net
Less: Recoveries of PY Obligations, Actual
Change in Uncollected Customer Payments, Federal
Obligated Balance, Net, End of Period

NET OUTLAYS

Fossil Energy R&D 89X0213	Science 89X0222	Energy Supply & Conservation 89-0224	Strategic Petroleum Reserve 89X0233	Weapons Activities 89-0240
\$ 601	\$ 20	\$ 61	\$ 592	\$ 412
31	2	6	-	1
593	3,798	2,926	-	8,794
(12)	39	(4)	-	(17)
-	-	-	-	-
\$ 1,213	\$ 3,859	\$ 2,989	\$ 592	\$ 9,190
\$ 749	\$ 3,845	\$ 2,824	\$ -	\$ 9,025
463	14	160	592	165
1	-	5	-	-
\$ 1,213	\$ 3,859	\$ 2,989	\$ 592	\$ 9,190
\$ 560	\$ 2,232	\$ 1,446	\$ 26	\$ 2,222
749	3,845	2,824	-	9,025
(535)	(3,697)	(2,443)	(1)	(8,722)
-	-	1	-	-
(31)	(2)	(6)	-	(1)
-	-	(79)	-	(75)
\$ 743	\$ 2,378	\$ 1,743	\$ 25	\$ 2,449
\$ 535	\$ 3,697	\$ 1,750	\$ 1	\$ 6,279

BUDGETARY RESOURCES:

Unobligated Balance, Brought Forward, Oct 1
Recoveries of Prior Year Unpaid Obligations
Budget Authority
Nonexpenditure Transfers, Net
Authority Not Available
Total Budgetary Resources

STATUS OF BUDGETARY RESOURCES:

Obligations Incurred
Unobligated Balances Available
Unobligated Balances Not Available
Total Status of Budgetary Resources

CHANGE IN OBLIGATED BALANCE:

Obligated Balance, Brought Forward, Oct 1
Obligations Incurred
Less: Gross Outlays
Obligated Balance Transferred, Net
Less: Recoveries of PY Obligations, Actual
Change in Uncollected Customer Payments, Federal
Obligated Balance, Net, End of Period

NET OUTLAYS

Other Defense Activities 89-0243	Defense Environmental Cleanup 89X0251	Defense Nuclear Nonproliferation 89-0309	Naval Reactors 89X0314	Bonneville Power Administration 89X4045
\$ 53	\$ 32	\$ 462	\$ 4	\$ -
2	2	1	-	-
636	5,732	1,830	782	4,264
-	1	(6)	-	(22)
-	-	-	-	(1,427)
\$ 691	\$ 5,767	\$ 2,287	\$ 786	\$ 2,815
\$ 648	\$ 5,664	\$ 1,854	\$ 780	\$ 2,768
43	103	428	6	47
-	-	5	-	-
\$ 691	\$ 5,767	\$ 2,287	\$ 786	\$ 2,815
\$ 310	\$ 2,265	\$ 1,402	\$ 241	\$ 1,986
648	5,664	1,854	780	2,768
(549)	(5,859)	(1,547)	(816)	(2,782)
-	6	-	-	-
(2)	(2)	(1)	-	-
-	-	-	-	64
\$ 407	\$ 2,074	\$ 1,708	\$ 205	\$ 2,036
\$ 549	\$ 5,859	\$ 1,535	\$ 816	\$ (595)

BUDGETARY RESOURCES:

Unobligated Balance, Brought Forward, Oct 1
Recoveries of Prior Year Unpaid Obligations
Budget Authority
Nonexpenditure Transfers, Net
Authority Not Available
Total Budgetary Resources

STATUS OF BUDGETARY RESOURCES:

Obligations Incurred
Unobligated Balances Available
Unobligated Balances Not Available
Total Status of Budgetary Resources

CHANGE IN OBLIGATED BALANCE:

Obligated Balance, Brought Forward, Oct 1
Obligations Incurred
Less: Gross Outlays
Obligated Balance Transferred, Net
Less: Recoveries of PY Obligations, Actual
Change in Uncollected Customer Payments, Federal
Obligated Balance, Net, End of Period

NET OUTLAYS

Western Area Power Administration 89X5068	Uranium Enrichment D&D 89X5231	United States Enrichment Corporation Fund 95X4054	All Other Appropriations	Combined Statement of Budgetary Resources
\$ 84	\$ -	\$ 1,414	\$ 424	\$ 4,159
-	-	-	7	52
753	557	59	2,765	33,489
108	-	-	30	117
-	-	-	(258)	(1,685)
\$ 945	\$ 557	\$ 1,473	\$ 2,968	\$ 36,132
\$ 739	\$ 556	\$ -	\$ 2,600	\$ 32,052
206	1	-	317	2,545
-	-	1,473	51	1,535
\$ 945	\$ 557	\$ 1,473	\$ 2,968	\$ 36,132
\$ 202	\$ 137	\$ -	\$ 1,067	\$ 14,096
739	556	-	2,600	32,052
(727)	(503)	-	(2,567)	(30,748)
-	-	-	(7)	-
-	-	-	(7)	(52)
(11)	-	-	(1)	(102)
\$ 203	\$ 190	\$ -	\$ 1,085	\$ 15,246
\$ 217	\$ 503	\$ (59)	\$ (1,029)	\$ 20,058

— Memorandum from the Inspector General —



Department of Energy
Washington, DC 20585

November 9, 2007

MEMORANDUM FOR THE SECRETARY

FROM:

Gregory H. Friedman
Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Report on the Department of Energy's Fiscal Year 2007 Consolidated Financial Statements

This is to inform you that the audit of the Department's Fiscal Year (FY) 2007 Consolidated Financial Statements has resulted in an unqualified audit opinion. Pursuant to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP (KPMG) to perform the audit. KPMG was responsible for expressing an opinion on the Department's consolidated financial statements based on its audits and the reports of other auditors for the year ended September 30, 2007.

KPMG concluded that the consolidated financial statements present fairly, in all material respects, the financial position of the Department and its net costs, changes in net position, budgetary resources and custodial activity in conformity with U.S. generally accepted accounting principles. As part of this review, auditors also considered the Department's internal controls over financial reporting and tested for compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. The examination revealed the following two significant deficiencies in the Department's system of internal controls, neither of which were considered to be material weaknesses:

- **Environmental Liabilities:** Internal control deficiencies were found to exist in the process to identify and record environmental liabilities accurately, completely and in a timely manner. These weaknesses related to the inadequacy of management evaluations of supporting information, the use of erroneous assumptions and outdated information, and data inconsistencies between sites. The total value of the errors resulting from internal control weaknesses did not result in a material misstatement of the liabilities.
- **Unclassified Network and Information Systems:** Network vulnerabilities and weaknesses in access and other security controls over unclassified computer information systems continue to exist. The Department has taken steps to improve network security over the sites that were reviewed in prior years, however, auditors found weaknesses in user access controls, network monitoring, and software usage at the sites reviewed in the current year.



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The examination disclosed no instances of noncompliance that are required to be reported under applicable audit standards and requirements. With regard to the specific findings associated with the significant deficiencies, the Department concurred and agreed to take corrective actions.

The Office of Inspector General also engaged KPMG to perform additional audit procedures to test the September 30, 2006, recorded balance of undelivered orders. For FY 2006, KPMG expressed a qualified opinion on the Department's consolidated balance sheet because of accounting issues related to obligations and undelivered orders. Earlier this year, the Department provided sufficient evidential matter to substantiate its undelivered orders balance for the prior year. KPMG performed additional audit procedures on this balance and concluded that the Department's consolidated balance sheet presents fairly, in all material respects, its financial position as of September 30, 2006.

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: Deputy Secretary
Under Secretary for Energy, Science and Environment
Administrator, National Nuclear Security Administration
Chief of Staff
Chief Financial Officer

Audit Report: OAS-FS-08-02

— 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, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources for the year ended September 30, 2007 (hereinafter referred to, respectively, as the fiscal year 2007 consolidated financial statements and the consolidated balance sheet as of September 30, 2006, or, if no date is specified, the consolidated financial statements). We were not engaged to audit the accompanying consolidated statements of net cost, changes in net position, and custodial activities, or the combined statement of budgetary resources, for the year ended September 30, 2006 (hereinafter referred to as the other fiscal year 2006 consolidated financial statements).

The objective of our audits was to express an opinion on the fair presentation of the consolidated financial statements. In connection with our fiscal year 2007 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, two of the Department's power marketing administrations, whose Department-related financial data are included in the accompanying consolidated financial statements as of September 30, 2007, and the consolidated balance sheet as of September 30, 2006, were audited by other auditors whose reports have been furnished to us and were considered in forming our overall opinion on the Department's consolidated financial statements.

SUMMARY

As stated in our report on the consolidated financial statements, based upon our audits and the reports of other auditors, we conclude that the Department's consolidated balance sheets as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources for the year ended September 30, 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. In our report dated November 8, 2006, we expressed a qualified opinion on the consolidated

KPMG LLP, KPMG LLP, a U.S. limited liability partnership, is a member of KPMG International, a Swiss cooperative.



balance sheet as of September 30, 2006, because of issues related to accounting for obligations and undelivered orders. In fiscal year 2007, the Department provided sufficient evidential matter to support the undelivered orders balance as of September 30, 2006. Therefore, our present opinion on the Department's consolidated balance sheet as of September 30, 2006, as presented herein, is different from that expressed in our previous report. We did not audit the Department's other fiscal year 2006 consolidated financial statements.

Our report emphasizes that: (1) the cost estimates supporting the Department's environmental remediation liabilities are based upon assumptions regarding funding and other future actions and decisions, many of which are beyond the Department's control; (2) the Department is involved as a defendant in several matters of litigation relating to its inability to accept commercial spent nuclear fuel by January 31, 1998, the date specified in the *Nuclear Waste Policy Act of 1982*, as amended; (3) the Department changed its method of reporting the reconciliation of net costs with budgetary obligations in fiscal year 2007; (4) the Department changed its method of accounting for its contractors' pension and other postretirement benefit plans in fiscal year 2007; and (5) the Department changed its method of reporting budget authority allocation transfers in fiscal year 2007.

Our consideration of internal control over financial reporting resulted in identification of significant deficiencies in the following areas:

- Accounting for environmental liabilities
- Unclassified network and information systems security

However, we do not consider these significant deficiencies to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance 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*. We disclose one other matter for which a final compliance determination has not been made.

The following sections discuss:

- Our opinion on the Department's fiscal year 2007 consolidated financial statements, and the consolidated balance sheet as of September 30, 2006;
- Our consideration of the Department's internal control over financial reporting;
- Our tests of the Department's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements;
- Management's responsibilities; and,
- Our responsibilities.



REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of the United States Department of Energy as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources for the year ended September 30, 2007.

We did not audit the financial statements of Bonneville Power Administration or Western Area Power Administration, whose Department-related financial data as of and for the years ended September 30, 2007 and 2006, are included in the accompanying consolidated financial statements. When combined and compared to the Department's consolidated financial statements, the financial data for these entities represent 17 percent of total assets; 50 percent of total earned revenues; and 13 percent of total program costs as of and for the year ended September 30, 2007; and 18 percent of total assets as of September 30, 2006. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the Department's fiscal year 2007 consolidated financial statements and the consolidated balance sheet as of September 30, 2006, insofar as it relates to the amounts included for Bonneville Power Administration and Western Area Power Administration, is based solely upon the reports of the other auditors.

In our report dated November 8, 2006, we expressed a qualified opinion on the Department's consolidated balance sheet as of September 30, 2006, because the Department did not complete corrective actions to address issues related to accounting for obligations and undelivered orders. The recorded balance of undelivered orders, reported as a component of the unexpended appropriations account balance, was \$11.3 billion as of September 30, 2006. Subsequently, the Department provided sufficient evidential matter to substantiate the fair presentation of undelivered orders as of September 30, 2006, and we performed additional audit procedures to test that account balance. Accordingly, our present opinion on the consolidated balance sheet as of September 30, 2006, as presented herein, is different from that expressed in our previous report.

In our opinion, 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, 2007 and 2006, and its net costs, changes in net position, budgetary resources, and custodial activity for the year ended September 30, 2007, in conformity with U.S. generally accepted accounting principles.

The Department did not engage us to audit the other fiscal year 2006 consolidated financial statements. Because we were unable to express an opinion on the 2005 consolidated financial statements, the 2006 opening balances were unaudited. Therefore, we did not audit the accompanying consolidated statements of net cost, changes in net position, and custodial activities, and the combined statement of budgetary resources, for the year ended September 30, 2006, and accordingly, we do not express an opinion on them.



As discussed in Note 14 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of \$264 billion and \$230 billion as of September 30, 2007 and 2006, 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 \$11 billion and \$6.7 billion as of September 30, 2007 and 2006, respectively.

As discussed in Note 23 to the consolidated financial statements, the Department changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007.

As discussed in Notes 15 and 24 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 in fiscal year 2007. Note 24 also discloses the Department's implementation of OMB guidance related to reporting budget authority allocation transfers in fiscal year 2007.

The information in the Management's Discussion and Analysis, Required Supplementary Stewardship Information, and Required Supplementary Information sections of the Department's fiscal year 2007 *Agency Financial Report* is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our 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 fiscal year 2007 *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 audits 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 other fiscal year 2006 information in the Consolidating Schedules section is based on the other fiscal year 2006 consolidated financial statements on which we express no opinion. Accordingly, we express no opinion on the other fiscal year 2006 information in the Consolidating Schedules.



The information in the Message from the Secretary and the Other Accompanying Information section of the Department's fiscal year 2007 *Agency Financial Report* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. This information has not been subjected to auditing procedures 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.

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 over financial reporting. 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 2007 audit, we noted the following matters, described in more detail in Exhibit I, involving internal control over financial reporting and its operation that we consider to be significant deficiencies:

- **Accounting for environmental liabilities** – We identified deficiencies in the Department's internal controls over identifying and recording environmental liabilities accurately, completely, and timely. The Department should take steps to provide training to field offices regarding management reviews of cost estimates and recording adjustments to environmental liability balances in the proper period, and to ensure adequate coordination between its program offices in the development of cost estimates.
- **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.

We do not believe that these significant deficiencies are material weaknesses. Exhibit II presents the status of audit findings reported in the prior year.



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 our tests of compliance 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 that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which the Department's financial management systems did not substantially comply with the three requirements discussed in the Responsibilities section of this report.

Other Matter. The Government Accountability Office has asserted that the Department violated a restriction contained in the *Energy and Water Development Appropriations Act of 1993*, and further alleges that the Department violated the *Anti-Deficiency Act* in fiscal years 2006 and 2007 by engaging in activities preparatory to granting guaranteed loans under the *Energy Policy Act of 2005*. As of the date of this report, the Department is reviewing this matter, and has not made a final determination as to its compliance or noncompliance with the relevant provisions of these statutes.

RESPONSIBILITIES

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

Management is responsible for the consolidated financial statements, including:

- Preparing the consolidated financial statements in conformity with U.S. generally accepted accounting principles;
- Preparing Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information;
- Establishing and maintaining effective internal control; and,
- Complying with laws, regulations, contracts, and grant agreements applicable to the Department, including FFMIA.

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



Auditors' Responsibilities. Our responsibility is to express an opinion on the Department's consolidated financial statements 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. Those standards and OMB Bulletin No. 07-04 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.

As discussed in the Report on the Consolidated Financial Statements section above, we were not engaged to audit the Department's other fiscal year 2006 consolidated financial statements and we express no opinion on them.

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 2007 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 limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards* and OMB Bulletin No. 07-04. 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 and, accordingly, we do not express an opinion thereon.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2007 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, including certain provisions referred to in FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. 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.

Under OMB Bulletin No. 07-04 and FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The Department's responses to the findings identified in our audit are presented in Exhibit I. We did not audit the Department's responses and, accordingly, we express no opinion on them.

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 9, 2007

Independent Auditors' Report
Exhibit I – Significant Deficiencies

Accounting for Environmental Liabilities

We identified deficiencies in the Department's internal controls over identifying and recording environmental liabilities accurately, completely, and timely. The control deficiencies resulted in current year misstatements of environmental liabilities that were corrected by audit adjustments, and errors in the opening balance, caused by recording adjustments to the liability in the improper accounting period, that were corrected in fiscal year 2007. The current year adjustments to the overall environmental liabilities balance of \$264 billion reported in the fiscal year 2007 consolidated financial statements amounted to approximately \$4 billion. We determined that there was not a significant misstatement of environmental liabilities as of September 30, 2006.

The misstatements that we identified resulted from basing revised estimates on incorrect assumptions and on information that was outdated, a change in a waste shipment schedule that was not communicated between locations, and inadequate field office management reviews of cost estimates.

The Office of Environmental Management (EM) and the various field offices are responsible for reviewing the field office environmental liability submissions and ensuring the timely and accurate recording of the EM liability in the Department's consolidated financial statements. In addition to environmental liabilities that originate from field office submissions, certain liabilities are accounted for at the headquarters level. Most of the errors described above resulted from control deficiencies at field offices. We noted, however, certain headquarters estimates that were based on information that was outdated, resulting primarily from insufficient coordination and inconsistency of assumptions between the Office of Civilian Radioactive Waste Management (OCRWM) and EM.

We understand that in fiscal year 2007, EM began several initiatives to improve the overall accounting for environmental liabilities, including the identification of lessons learned, preparation of a standard operating procedures and policy manual, improving the coordination of inter-site waste shipment schedules and estimates, and development of a model to assess the impact of funding scenarios.

Recommendations:

We recommend that EM issue guidance and provide training to field offices regarding management reviews of cost estimates and recording adjustments to the EM liability in the proper period. The guidance and training should focus particular attention on ensuring that new cost estimates are evaluated in time for adjustment of the liability during or prior to year-end financial reporting, and that the estimates are evaluated to ascertain the potential impact on other components of the liability. EM should also develop procedures for an annual review of assumptions regarding inter-site dependencies, to ensure that assumptions, such as waste shipment schedules and estimates, are consistent between sites. These procedures should help EM to ensure that environmental liabilities reported in the Department's consolidated financial statements are complete and accurate.

Independent Auditors' Report
Exhibit I – Significant Deficiencies

We also recommend that OCRWM and EM develop procedures for adequate coordination between these offices in the development of cost estimates to ensure that annual updates to the estimates are based upon current information and consistent assumptions.

Management's Response:

The Department concurs with the recommendations to strengthen internal controls for environmental liabilities and agrees there was not a significant misstatement of environmental liabilities as of September 30, 2006. To address the recommendation, guidance and training to ensure cost estimates are reviewed by management and adjustments are recorded in the proper period will be provided in fiscal year 2008. Further, lessons learned from the audit are being compiled and will be incorporated into a standard operating procedure for recording environmental liabilities. This procedure will address the timely incorporation of revised estimates and adjustments, and the review of assumptions regarding inter-site dependencies such as waste shipments between sites or to the high-level waste repository. The Department will have the new procedure in place to support the issuance of the spring budget formulation guidance and development of the fiscal year 2008 environmental liability estimate.

Independent Auditors' Report
Exhibit I – Significant Deficiencies

Unclassified Network and Information Systems Security

The Department maintains a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to improve network security at the sites whose controls we, and the Department's Office of Health, Safety and Security (HSS), reviewed in prior years. However, we and the HSS continued to identify network security weaknesses at sites reviewed in fiscal year 2007, and the frequency 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 significant issue in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year 2007. Significant improvements are still needed in the areas of password management, configuration management, and restriction of network services.

Our fiscal year 2007 audit also disclosed weaknesses in access at several sites, similar to our prior year findings. Specifically, we noted weaknesses in the review and approval of user access privileges, password security, monitoring of networks for questionable activity, and usage of versions of application and operating system software that were outdated or not appropriately patched. We also noted weaknesses in the cyber security programs at certain locations in which Federal cyber security requirements and Departmental policies and controls were not properly implemented. Further, the Department's Office of Inspector General has reported deficiencies in the Department's network and information system risk management, configuration management, and access controls in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated September 2007. Matters discussed in that report included an examination of non-financial systems.

The Department has acknowledged the need to improve its information systems security and other information technology controls. In fiscal year 2007, the Department's Chief Information Officer (CIO) continued to implement a comprehensive revitalization plan designed to improve the management of its information security program, and issued enhanced cyber security guidance to strengthen controls and reduce network vulnerabilities. The Cyber Security Revitalization Plan, launched in fiscal year 2006, is a collaborative effort between the Office of the CIO (OCIO), the Under Secretaries, and other senior management to identify and resolve cyber security problems, provide site assistance, and follow up on corrective actions. Once fully implemented, these initiatives and new policies and procedures should strengthen the Department's overall cyber security program.

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

Independent Auditors' Report
Exhibit I – Significant Deficiencies

Recommendation:

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

Management's Response:

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

As stated in the OCIO comments on the *Federal Information Security Management Act* report, the Department of Energy is committed to continued improvement of the protection of its information and information systems through a strong cyber security program. As part of this commitment, the Department has continued the development and implementation of the revitalized cyber security program defined in the March 2006 Revitalization Plan approved by the Deputy Secretary. The Secretary and the Deputy Secretary are personally involved in cyber security management and they have continued to guide the evolution of the Cyber Security Revitalization Plan and focus higher level of attention to the improvement and management of cyber security.

The strong focus on cyber security has led to the decision to institutionalize the current Department cyber security requirements, contained in a series of Technical and Management Requirements (TMRs), into Departmental directives. These directives will require the mandatory implementation of the policies and procedures documented in the directives. The continued high level Department attention to cyber security resulted in a Cyber Summit being convened by the Deputy Secretary to examine how to improve the protection of the Department's information and information systems. The Summit results are being integrated into the fiscal year 2008 cyber security action plan, which continues the implementation of the Revitalization Plan.

In addition to the Cyber Summit, efforts to implement the Revitalization Plan have included reviews of all guidance and the creation of eighteen TMRs. Department Manual 205.1-4, *National Security System Controls Manual*, was issued March 2007. Office of the CIO efforts to ensure compliance with Department policy will include reviews in fiscal year 2008 of all Program Cyber Security Plans (PCSPs) and reviews of the certification and accreditation of a significant number of the Department's information systems.

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

Fiscal Year 2006 Audit Findings (with parenthetical disclosure of year first reported)	Status at September 30, 2007
Financial Management and Reporting Controls - Accounting for Obligations and Undelivered Orders – Considered a Material Weakness (2005)	Implemented; finding closed.
Performance Measurement Reporting – Considered a Reportable Condition (2006)	Not evaluated in the fiscal year 2007 audit – Performance measures are not presented in the fiscal year 2007 <i>Agency Financial Report</i> , in accordance with OMB guidance; therefore, our 2007 audit did not include consideration of internal controls over performance measures.
Unclassified Information Systems Security – Considered a Reportable Condition (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

— 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. Now codified as part of the Reports Consolidation Act of 2000, this effort assesses the agency's progress in addressing previously identified challenges and considers emerging issues facing the Department. The management challenges identified below constitute a major factor in setting priorities for Office of Inspector General audits, inspections, and other evaluations of Department of Energy programs and operations.

This year, we have identified seven management challenges, which include Safeguards and Security, Environmental Cleanup, Stockpile Stewardship, Contract Administration, Project Management, Cyber Security, and Human Capital Management. Representing risks inherent to the Department's complex missions as well as those related to management operations, these challenges are, for the most part, not amenable to immediate resolution and must, therefore, be addressed through a concentrated, persistent effort, resulting in positive results over time. In addition to identifying the above management challenges, we have also developed a "watch list," which consists of management issues that do not meet the threshold of being classified as management challenges, yet warrant continued attention by Department management. This year, the watch list consists of the following operational and programmatic functions: Worker and Community Safety and Infrastructure Modernization.

By aggressively addressing these challenges, the Department can enhance program efficiency and effectiveness; reduce or eliminate operational deficiencies; decrease fraud, waste, and abuse; and achieve substantial monetary savings. We look forward to working with senior management in a continuing effort to improve the Department's programs and operations.

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 key 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 and preserve this mission, the Department employs numerous protective force personnel, maintains various classified materials and other sensitive property, and develops policies designed to protect national security and other critical assets.

Over the past year, the Department has continued to make strides toward improving national security as well as safeguarding the

agency's numerous employees and facilities. While this progress represents a positive step, we conducted reviews during FY 2007, which highlighted the need for continued improvement in this area. For example, in light of the importance of safeguarding weapons parts in the post 9-11 environment, an audit was initiated to determine whether selected National Nuclear Security Administration sites had adequate accountability controls over classified weapons parts. Two of the three sites reviewed had not implemented adequate lifecycle controls and did not track many classified non-nuclear weapons parts in their custody. Accordingly, we made recommendations to improve accountability for all classified weapons parts.

The above example highlights the importance of a strong Safeguards and Security program and the necessity for continued focus and improvement by Department management on this crucial management challenge.

Environmental Cleanup

Since its establishment, the Department has maintained an important environmental mission. With the end of the Cold War, this mission has taken on greater importance, as efforts to dispose of large volumes of solid and liquid radioactive waste became more essential as a result of more than 50 years of nuclear defense work and energy research. The Department is responsible for cleaning contaminated sites and disposing of radioactive waste resulting from nuclear weapons production, nuclear powered naval vessels, and commercial nuclear energy production.

Due to the risks and hazards associated with this difficult and costly task, we conducted a series of reviews during FY 2007 to assess the Department's activities in fulfilling its mission with regard to environmental cleanup. For example, a review to determine if the Department had developed a comprehensive strategy for the remediation of specific burial grounds at the Hanford Site disclosed that planned Departmental actions did not address all pertinent issues. We found that the Department's remediation strategy may produce a waste package that, in some cases, will not meet the Department's current acceptance criteria for interim storage. In addition, the remediation strategy did not reflect the cost to prepare significant quantities of radioactive waste for final disposition. As a result, the Department may incur up to \$188 million more than planned to store, monitor, and manage waste retrieved from the burial grounds. We made recommendations to ensure that these issues are addressed as remediation plans for burial grounds evolve at the Hanford Site.

This review 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, in FY 2007, the Department made significant progress at several contaminated sites. However, the Department continues to experience delays

in accelerated cleanup programs and has been challenged by ongoing concerns at the Yucca Mountain Project. As has been the case in previous years, Environmental Cleanup remains a management challenge that warrants significant attention on the part of Departmental management.

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 maintains stockpile surveillance and engineering capability, refurbishes selected nuclear systems, and sustains the ability to restore the manufacturing infrastructure for the production of replacement weapons, if necessary.

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. Over the past year, the Office of Inspector General has conducted a number of reviews to examine the Department's activities and management strategies in this crucial arena. For example, in 2001, the Office of Inspector General reported that the Department was behind schedule in conducting several stockpile surveillance tests, a key component of the Nuclear Weapons Stockpile Plan. A recent review to determine whether the National Nuclear Security Administration had resolved the weapons testing backlog revealed that while the Department made some progress, significant weapons testing backlogs continued to exist in the surveillance program. From our perspective, elimination of the existing surveillance testing backlog depends, in large part, on the successful implementation and execution of existing Departmental initiatives.

While the Department has taken several steps over the past few years to further enhance the safety and reliability of the country's weapons stockpile, further action is necessary. As illustrated in a number of Office of Inspector General reviews, the Department can continue to improve its Life Extension and Surveillance programs and enhance existing practices related to the cost and scheduling of various stockpile stewardship projects.

Contract Management

As the largest civilian contracting agency in the Federal Government, the Department places significant reliance on the private sector, employing over 100,000 contractor employees. Contracts are awarded to industrial companies, academic institutions, and non-profit organizations that operate a broad range of Department facilities. In fact, most of the Department's operations are carried out through contracts that consume more than 90 percent of the agency's budget. As a result, effective contract administration is an essential component of the Department's management of its many programs.

During FY 2007, the Office of Inspector General conducted reviews that highlighted the need for improved management of

Department contracts. For example, a recent review determined that the Department did not have a system to determine the number and propriety of Intergovernmental Personnel Act (IPA) and Change of Station (COS) assignments at contractor-operated facilities. The Department was not actively ensuring that the IPA and COS assignments were cost effective and operated in accordance with existing procedures or good business practices, or that taxpayer-provided funds supporting these assignments were put to the best possible use. While IPA and COS programs can be beneficial, it is incumbent upon Department officials to ensure that the program is managed in the best interests of the U.S. taxpayers. Accordingly, the report included recommendations to address the problems in this area and to place the IPA and COS programs on a positive path forward.

To its credit, in response to several of our reviews, the Department has developed strategies and programs to improve deficiencies in the area of Contract Management. However, given the number of contracts handled by the Department on a yearly basis, combined with the continuing concerns found during our reviews, the area of Contract Management remains a significant management challenge.

Project Management

The Department undertakes numerous unique and complex multi-million dollar projects in order to support its many goals and objectives. In recent years, the Department has responded to weaknesses in the area of project management in order to improve the discipline and structure for monitoring project performance. Utilizing stronger policies and controls to ensure that ongoing projects are reevaluated frequently, the Department has made project management a primary area of focus.

Recent Office of Inspector General reviews have identified additional improvements that are necessary to ensure that the Department's project management practices are effective and accomplish the goals of the agency. For example, in one of the largest and most important of its environmental remediation activities, the Department is constructing a \$12.2 billion Waste Treatment Plant at the Hanford Site. In order to meet quality assurance standards, the Plant design called for the installation of a computerized network to monitor the operation of the Plant. Our review determined that the Waste Treatment Plant control system acquired by the Department did not meet applicable quality assurance standards. Under the circumstances, we concluded that the Department can not be sure that the Plant's current system is suitable for processing high-level nuclear waste. Moreover, the review raised concerns as to the adequacy of the Department's quality assurance process in the development and deployment of large-scale projects.

Given the complexity and importance of the Department's numerous multi-million dollar projects and the results of recent Office of Inspector General reports, Project Management remains a significant management challenge.

Cyber Security

Given the importance and sensitivity of the Department's numerous projects, laboratories, and assets, along with the vast array of data that is produced, cyber security has become a crucial aspect of the Department's overall security structure as well as the security of the Nation as a whole. In 2005, the Department established a Cyber Security Improvement initiative, the goal of which was to identify improvements for cyber security controls within the Department. In recent years, threats to the Government's information systems have become a major security risk. As a result of these risks and in light of events in recent years involving intrusions to the Department's systems, the Office of Inspector General has categorized Cyber Security as a significant management challenge.

As required by the Federal Information Security Management Act (FISMA), the Office of Inspector General initiated a review to determine whether the Department's unclassified cyber security program adequately protects data and information systems. Our evaluation for FY 2007 found that the Department has taken steps to improve cyber security practices and continued to maintain strong network perimeter defenses against malicious intruders and other external threats. Certain problems, however, persist and additional action is needed to reduce the risk of compromise to information systems. Specifically, the Department should address continuing problems with the certification and accreditation of agency systems, a complex-wide inventory of information systems, and the protection of personal information. The risk of compromise to the Department's information and systems remains higher than acceptable. In order to combat this challenge, the Department has in place an aggressive effort to address existing weaknesses and it continued implementation of its plan to revitalize the cyber security program. To aid the Department in its ongoing efforts, we made several recommendations designed to enhance overall cyber security controls.

As the FISMA and related reports have indicated, the risks associated with protecting the Department's computer systems and personnel

information continue to exist. Due to the evolving nature of cyber security threats, immediate as well as long-term action is necessary to ensure the protection of the Department's information systems.

Human Capital Management

In the 2001 President's Management Agenda, the Office of Management and Budget recognized strategic management of human capital as one of the Government's "most glaring problems." The Agenda specifically outlined concerns that the Department's staff lacked adequate project and contract management skills required to oversee large projects. Subsequently, the Department undertook an effort to perform a critical skills gap analysis in order to review and evaluate specific critical skill needs.

Adding to existing concerns in the area of Human Capital Management, the Department has experienced a 27 percent reduction in the workforce since 1995. In addition, 26 percent of the Department's workforce will be eligible to retire within the next three years. When combined with other factors, the Department is faced with a difficult challenge to ensure that its workforce has the knowledge and skills that are necessary to fulfill the agency's various missions. Recent Office of Inspector General reviews have noted concerns related to Human Capital Management in various areas, including the Department's acquisition workforce and in the establishment of a new loan guarantee program.

As part of the Department's Human Capital Management Strategic Plan, during FY 2007, the Department continued its efforts to reshape its workforce through increased emphasis on performance and accountability. As a result, the Department instituted reorganizations in various program offices in order to address issues of performance excellence and leadership continuity. While these are positive steps, the area of Human Capital Management is an ongoing challenge that will require the attention of Department management in the years to come.

— Summary of Financial Statement Audit and Management Assurances —

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Accounting for Obligations and Undelivered Orders	√		√		
Total Material Weaknesses	1	0	1	0	0

Effectiveness of Internal Control over Financial Reporting (FMFIA Section II)						
Statement of Assurance	Qualified, due to scope limitation.					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Accounting for Obligations and Undelivered Orders	√		√			
Total Material Weaknesses	1	0	1	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 —

The Integrated Management Navigation System (I-MANAGE) Program is the Department's solution for managing enterprise-wide systems initiatives to achieve improved financial and business efficiencies, integrated budget and performance, and expanded electronic government in support of the President's Management Agenda. The I-MANAGE Program is a collaborative Departmental effort to define and provide a modern, integrated corporate business system for the Department of Energy. The Project Portfolio is comprised of enterprise-wide systems initiatives to include: the Standard Accounting and Reporting System (STARS), I-MANAGE Data Warehouse (IDW), Standard Budget System (SBS), Strategic Integrated Procurement Enterprise System (STRIPES), and Corporate Human Resource Information System (CHRIS).

The I-MANAGE Program provides information for managers, ensures common goals and objectives are identified and followed, and eliminates redundant systems and data. The Program also provides more efficient use of finite human resources and allows DOE programs and projects to be managed as a portfolio with visibility and understanding of interrelationships, cost/benefits and dependencies. A blueprint for unified systems has been established and followed to align with the Department's Enterprise Architecture and cyber-security standards.

Current Systems

Standard Accounting and Reporting System

STARS provides the Department with a modern, comprehensive and responsive financial management system that will be 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 and human resources.

I-MANAGE Data Warehouse

IDW is the nucleus for integrating data from all of the Department's business management information systems and facilitating corporate reporting and management decision-making. Data in the IDW will come from the authoritative Departmental corporate business systems. This data-centric approach to integrating data will allow the Department to rapidly respond to new and changing demands for information.

Corporate Human Resource Information System

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.

Systems Underway

Strategic Integrated Procurement Enterprise System

STRIPES is the procurement and contracts management component of the overall I-MANAGE program. STRIPES will also represent the overall DOE approach to providing financial assistance through an OMB approved Grants Management Line of Business response. The STRIPES solution will replace and consolidate as many as 30 Federal corporate, regional and local procurement-related systems across the Department. The goal is to use existing enterprise financial management and other resource planning functionality in a fully integrated solution. The scope of the STRIPES project is focused on conducting those 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 will begin phased deployment in January 2008.

Standard Budget System

SBS will be the first DOE-wide budget formulation and budget execution system. This initiative will implement financial management goals outlined in the President's Management Agenda. SBS will standardize budget formulation and streamline 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 deployment in early FY 2009.

— Improper Payments Information Act Reporting Details —

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.

Improper Payment Rates and Outlook (\$ in millions)

Payment Type	FY 2006			FY 2007			FY 2008			FY 2009			FY 2010		
	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	16,148	10	.06	16,753	16	.10	16,214	13.1	.08	16,181	11.8	.07	16,198	12.5	.08
Payroll	6,646	8	.12	6,373	3	.05	6,347	5.5	.09	6,496	6.8	.10	6,421	6.1	.10
Travel	494	.5	.10	438	.4	.09	466	.4	.09	479	.4	.08	473	.4	.08
Other	363	0	0	409	.3	.07	386	.2	.05	375	.1	.03	380	.2	.05
Total	23,651	18.5	.08	23,973	19.7	.08	23,413	19.2	.08	23,531	19.1	.08	23,472	19.2	.08

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 stan-

dards 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 2006				FY 2004 – FY 2005		FY 2004 – FY 2006	
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
\$20,570	\$9,231	\$15	\$10	\$28.5	\$25.8	\$43.5	\$35.8

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

— 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 Office of Inspector General (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 2007, the Department took final action on 43 IG reports with the agreed upon actions including final action on eight IG operational, financial and pre-award audit reports with funds put to better use. At the end of the period, 114 reports awaited final action.

Status of Final Action on IG Audit Reports for FY 2007

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 the beginning of the period	102	\$683
With actions agreed upon during the period	55	\$79
Total pending final action	157	\$683
Achieving final action during the period	43	\$359
Requiring final action at the end of the period	114	\$324

Inspector General's Contract Audit Reports

During FY 2007, there are no IG contract audit reports pending final action.

Contract Audit Reports Statistical Table FY 2007

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

	Number of Reports	Disallowed Costs* (\$ in Millions)
Contract audit reports with management decisions on which final action had not been taken at the beginning of the period	0	\$0
Contract audit reports issued on which management decisions were made during the period	0	\$0
Total contract audit reports pending final action during the period	0	\$0
Contract audit reports on which final action was taken during the period	0	\$0
Recoveries	0	-
Reinstatements	0	-
Contract audit reports needing final action at the end of the period	0	\$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 U.S. Government Accountability Office (GAO) audits are a major component of the Department's audit follow-up program. At the beginning of FY 2007 there were 42 GAO audit reports awaiting final action. During FY 2007, the Department received 36 additional final GAO audit reports, of which 17 required tracking of corrective actions and 19 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 2007, leaving 42 GAO reports awaiting final action at year-end.

— Glossary of Acronyms —

ABR	Advanced Burner Reactor	HWMA	Hazardous Waste Management Act
ACI	American Competitiveness Initiative	IG	Inspector General
AEI	Advanced Energy Initiative	IOU	Investor Owned Utilities
AFR	Agency Financial Report	IPA	Intergovernmental Personnel Act
ANL	Argonne National Laboratory	IPIA	Improper Payment Information Act
APR	Annual Performance Report	ISM	Integrated Safety Management
ASU	Air Separation Unit	IT	Information Technology
BPA	Bonneville Power Administration	ITM	Ion-Transport Membrane
BPI	Budget and Performance Integration	LCF	Leadership Computing Facilities
BRC	Bioenergy Research Center	LEU	Low Enriched Uranium
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act	MA	Office of Management
CFO	Chief Financial Officer	MMS	Mineral Management Service
CFTC	Consolidated Fuel Treatment Center	MOX	Mixed Oxide
CIO	Chief Information Officer	MPC&A	Materials Protection Control and Accounting
COL	Construction and Operating License	MT	Metric Tons
COS	Change of Station	MTU	Metric Tons of Uranium
CSRS	Civil Service Retirement System	NAPA	National Academy of Public Administration
D&D	Decontamination and Decommissioning	NE	Office of Nuclear Energy
DARHT	Dual-Axis Radiographic Hydrotest Facility	NEP	National Energy Policy
DNN	Defense Nuclear Nonproliferation	NEPA	National Environmental Policy Act
DoD	Department of Defense	NETL	National Energy Technology Laboratory
DOE	Department of Energy	NIST	National Institute of Standards and Technology
DSI	Direct-Service Industries	NNSA	National Nuclear Security Administration
EEOICPA	Energy Employees Occupational Illness Compensation Program Act	NRC	Nuclear Regulatory Commission
EIA	Energy Information Administration	NRD	Natural Resources Damages
EM	Environmental Management	NSF	National Science Foundation
EPact	Energy Policy Act	NSRC	Nanoscale Science Research Center
ERISA	Employee Retirement Income Security Act	NWF	Nuclear Waste Fund
ES&H	Environmental Safety and Health	NWPA	Nuclear Waste Policy Act
ESA	Endangered Species Act	OCRWM	Office of Civilian Radioactive Waste Management
ESnet	Energy Science Network	OMB	Office of Management and Budget
EVM	Earned Value Management	OPM	Office of Personnel Management
EVMS	Earned Value Management System	ORNL	Oak Ridge National Laboratory
FCRPS	Federal Columbia River Power System	PAR	Performance and Accountability Report
FERC	Federal Energy Regulatory Commission	PART	Program Assessment Rating Tool
FERS	Federal Employees Retirement System	PEIS	Programmatic Environmental Impact Statement
FFMIA	Federal Financial Management Improvement Act	PMA	Power Marketing Administration
FISMA	Federal Information Security Management Act	PMA	President's Management Agenda
FMFIA	Federal Managers' Financial Integrity Act	PRB	Postretirement Benefits
FRPC	Federal Real Property Council	PTIP	Plant Throughput Improvement Plan
FY	Fiscal Year	R&D	Research and Development
FYP	Five Year Plan	RSI	Required Supplementary Information
GAAP	Generally Accepted Accounting Principles	RSSI	Required Supplementary Stewardship Information
GAO	Government Accountability Office	SC	Office of Science
GC	General Counsel	SECA	Solid State Energy Conversion Alliance
GMRA	Government Management Reform Act	SEN	Save Energy Now
GNEP	Global Nuclear Energy Partnership	SES	Senior Executive Service
GPRA	Government Performance and Results Act	SFAS	Statement of Financial Accounting Standards
HC	Office of Human Capital Management	SFFAS	Statement of Federal Financial Accounting Standards
HEU	Highly Enriched Uranium	SNF	Spent Nuclear Fuel
HEV	Hybrid Electric Vehicle	SOFC	Solid Oxide Fuel Cell
HSS	Office of Health, Safety and Security	SPR	Strategic Petroleum Reserve
HTDS	High Temperature Desulfurization System	SRS	Savannah River Site
HTS	High Temperature Superconductivity	TTC	Transformational Technology Core
		USEC	United States Enrichment Corporation
		YTIP	Y-12 Throughput Improvement Plan

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