Fiscal Year 2010

# Agency Financial Report

U.S. DEPARTMENT OF ENERGY

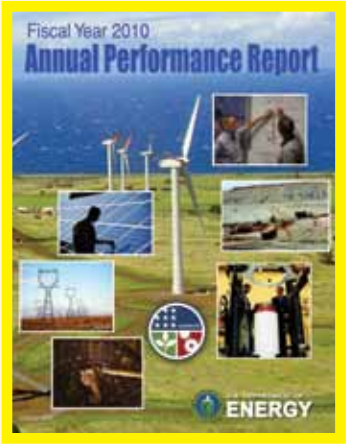
DOE/CF-0056

# Foreword

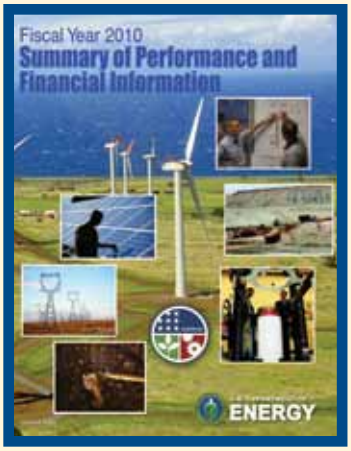
The Reports Consolidation Act of 2000 authorizes Federal agencies, with the Office of Management and Budget's (OMB) concurrence, to consolidate various reports in order to provide performance, financial and related information in a more meaningful and useful format. The Department of Energy (Department or DOE), has chosen an alternative reporting to the consolidated Performance and Accountability Report and instead, produces an *Agency Financial Report*, an *Annual Performance Report* and a *Summary of Performance and Financial Information*, pursuant to the OMB Circular A-136. This reporting approach simplifies and streamlines the performance presentations while utilizing the Internet for providing and leveraging additional performance information. The Department's FY 2010 reporting includes the following three components and will be available at the website below, as each component is completed:

**Agency Financial Report (AFR)**
The AFR 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, Secretarial priorities, analysis of financial statements, systems, controls and legal compliance and other management priorities 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 Statement of Management Challenges, Improper Payments Information Act Reporting details and other statutory reporting.




**Annual Performance Report (APR)**
[will be available February 15, 2011]
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.




**Summary of Performance and Financial Information**
[will be available February 15, 2011]
This document will highlight the most important performance and financial information from the APR and AFR in a brief, executive format.

**The above three alternative reportings meet the following legislated reporting requirements:**

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

**All three PAR reports will be available at www.energy.gov/about/budget.htm**

Printed with soy ink on recycled paper

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# Message from the Secretary

I am pleased to present the U.S. Department of Energy's *FY 2010 Agency Financial Report*. This report provides key financial and performance information that demonstrates our accountability to the American people for both our financial results and our performance in discovering the solutions to power and secure America's future.

Over the past year, the Department's efforts have brought it closer to its goals of expanding the frontiers of science (science, discovery and innovation); creating clean energy jobs (economic prosperity); curbing the carbon pollution that threatens our planet (clean, secure energy); and reducing nuclear dangers (national security). This report is the first of three that the Department produces as an alternative for performance and accountability reporting. The remaining two reports, the *FY 2010 Annual Performance Report* and the *FY 2010 Summary of Performance and Financial Information*, will be available in February 2011.

Fiscal year 2010 was the second year of implementing the American Recovery and Reinvestment Act (Recovery Act). The Department contributed to the Administration's goal of stimulating the U.S. economy through ramping up its activities in energy-related areas of spending, project performance, and job creation. I am especially proud of the Department's accomplishments in obligating $32.7 billion in Recovery Act contract and grant funds, in an unprecedented 18 months, to specific clean energy and science projects. Significant impacts were seen throughout the country, including weatherizing low-income homes; the clean-up of several nuclear sites; Smart Grid investments; advanced batteries grants; major investments in wind and solar power; and project commitments for carbon sequestration. Many of these activities have contributed to economic growth while laying the foundation for long-term prosperity through a clean energy economy.

This momentum needs to be sustained. However, it will require industry and government working together to accelerate innovation that addresses numerous challenges. Comprehensive energy and climate legislation — providing stable, long-term incentives that will unleash America's inventors, entrepreneurs and industries — will be needed to truly transform how America consumes and produces energy. It is the private sector that will

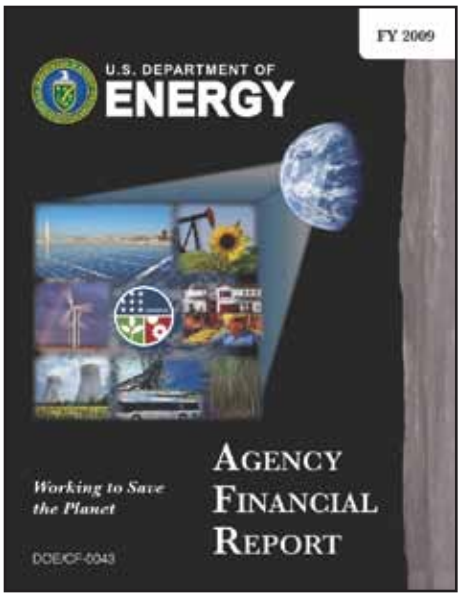
ultimately drive this new industrial revolution and bring it to scale. As a scientist, I am an optimist and believe we can meet this challenge and lead the world in the 21st century.

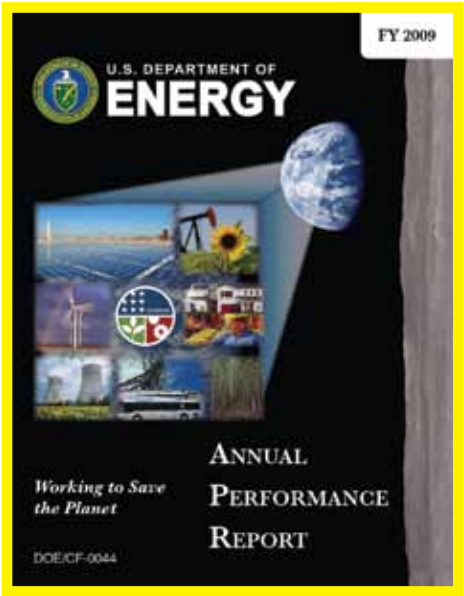
The independent public accounting firm KPMG LLP conducted an audit of the Department's fiscal year 2010 financial statements contained in this report. Based on the results of that audit, I am pleased that the Department received an unqualified audit opinion. Based on our internal evaluations, I can provide 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.

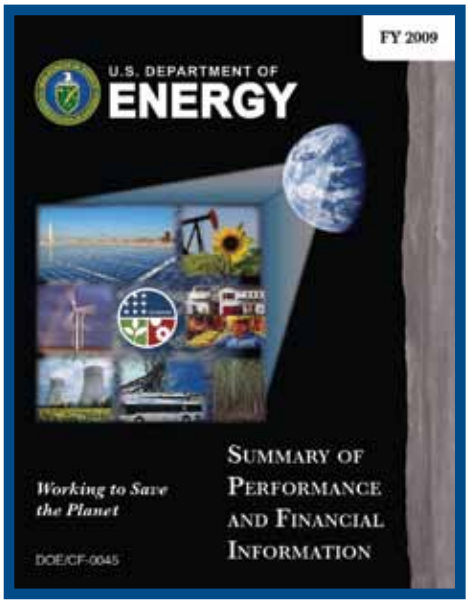
As Secretary, I assure you that Department of Energy employees take their work seriously and I commend them for their contributions.

Steven Chu
November 12, 2010

# 2009 CERTIFICATE OF EXCELLENCE




AGA

## CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING®

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## *U.S. Department of Energy*

**In recognition of your outstanding efforts preparing DOE's Annual Financial Report for the fiscal year ended September 30, 2009.**

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

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Agency Highlights

### MISSION

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

### MANAGEMENT PRINCIPLES

1. Our mission is vital and urgent.
2. Science and technology lie at the heart of our mission.
3. We will treat our people as our greatest asset.
4. We will pursue our mission in a manner that is safe, secure, legally and ethically sound, and fiscally responsible.
5. We will manage risk in fulfilling our mission.
6. We will apply validated standards and rigorous peer review.
7. We will succeed only through teamwork and continuous improvement.

### STRATEGIC STRUCTURES

As the Department expects to finalize its new strategic plan during FY 2011, the following table illustrates the relationship between the prior strategic structures.

| 2006 STRATEGIC THEMES | 2010 SECRETARIAL PRIORITIES |
|---|---|
| Science, Discovery and Innovation | Scientific Discovery and Innovation |
| Energy Security | Economic Prosperity<br>Clean, Secure Energy |
| Nuclear Security<br>Environmental Responsibility | National Security |
| Management Excellence | |

# History

The Department has one of the richest and most diverse histories in the Federal Government, with its lineage tracing back to the Manhattan Project and the race to develop the atomic bomb during World War II. Following that war, Congress created the Atomic Energy Commission in 1946 to oversee the sprawling nuclear scientific and industrial complex supporting the Manhattan Project and to maintain civilian government control over atomic research and development (R&D). 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.

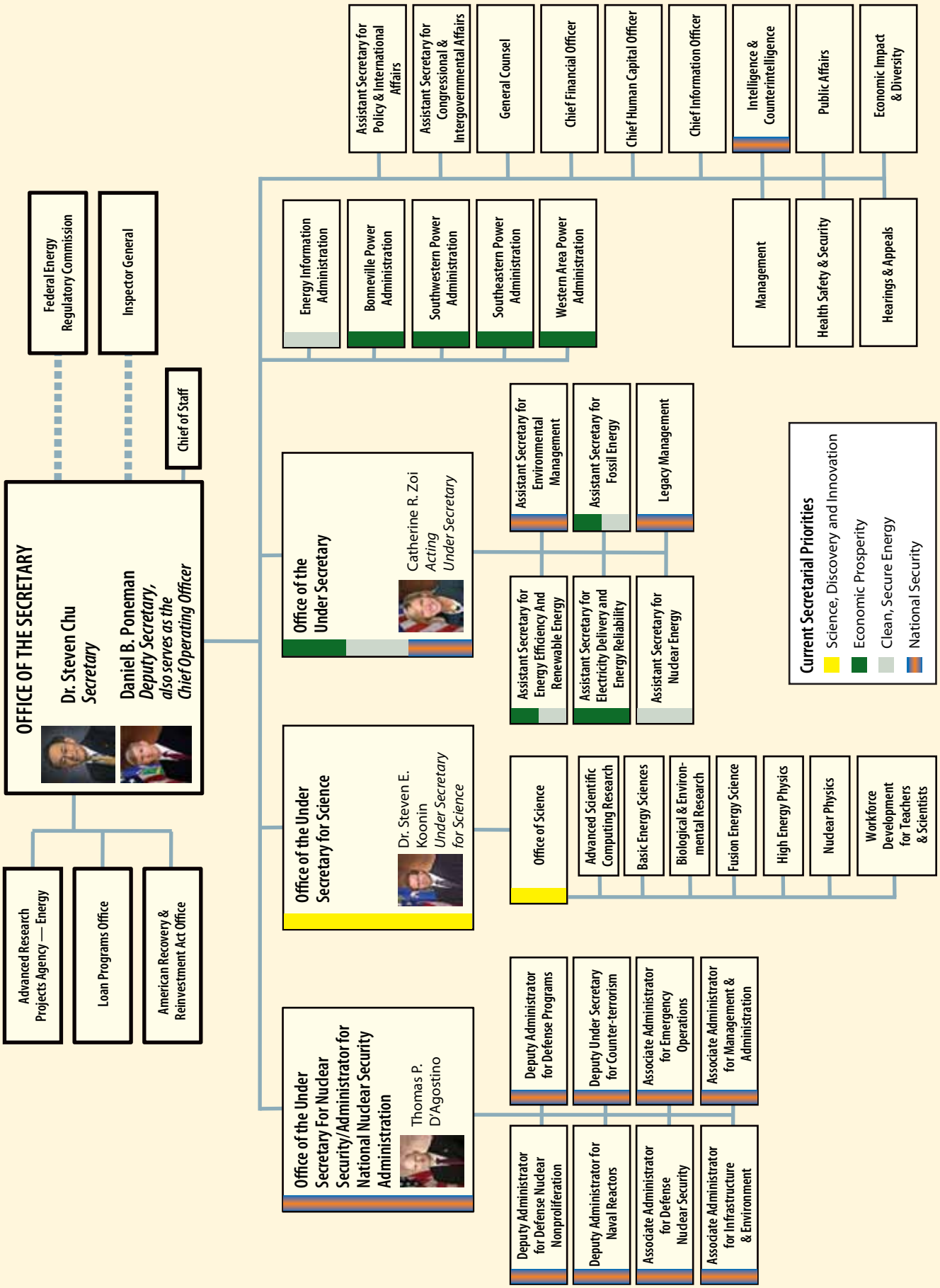
*Early Pantex Plant loading and packing artillery shells and bombs.*

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. On February 17, 2009, the Department was significantly impacted by President Obama signing into law the American Recovery and Reinvestment Act of 2009 (Recovery Act or ARRA). The Recovery Act more than doubled the Department's base budget by providing an additional $36.7 billion of funding for the acceleration of a number of critical commitments in the Department's mission and activities. These near-term investments have helped jumpstart the economy, save and create jobs, and have served as a down payment on addressing fundamental energy challenges while reducing carbon emissions and U.S. dependence on oil.

***Recovery Act dollars put to work***

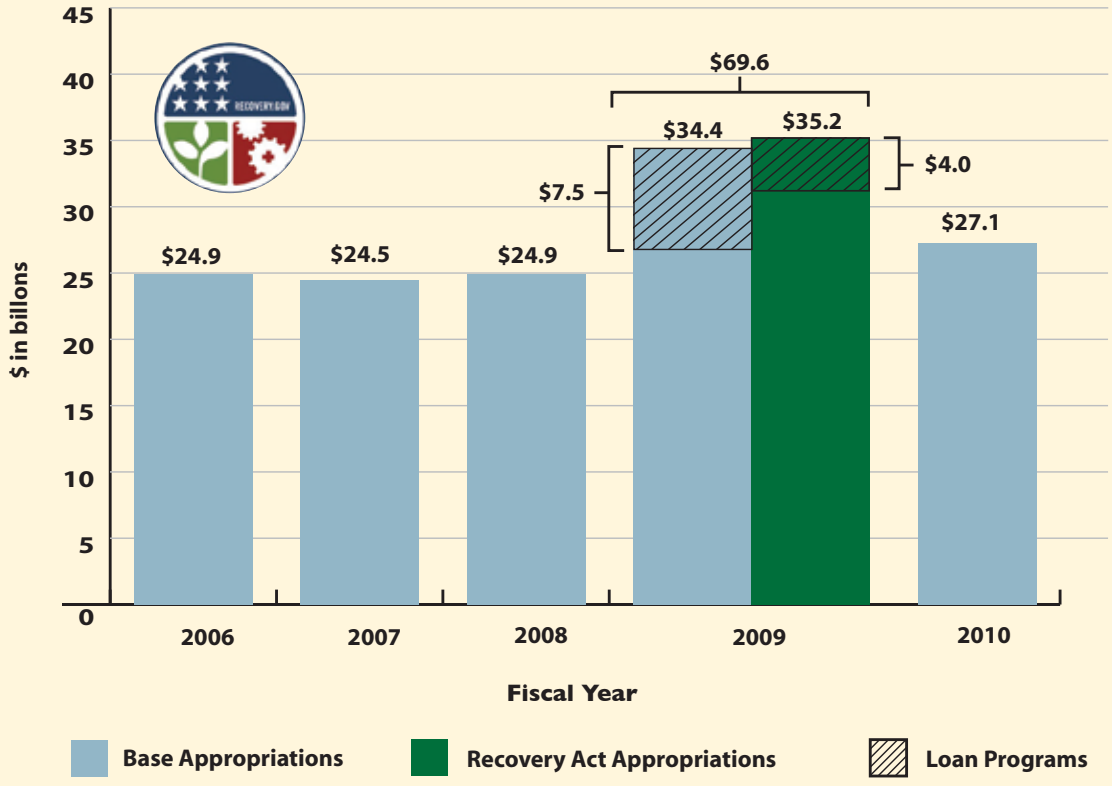
# Agency Organizational Structure



# Financial Resources

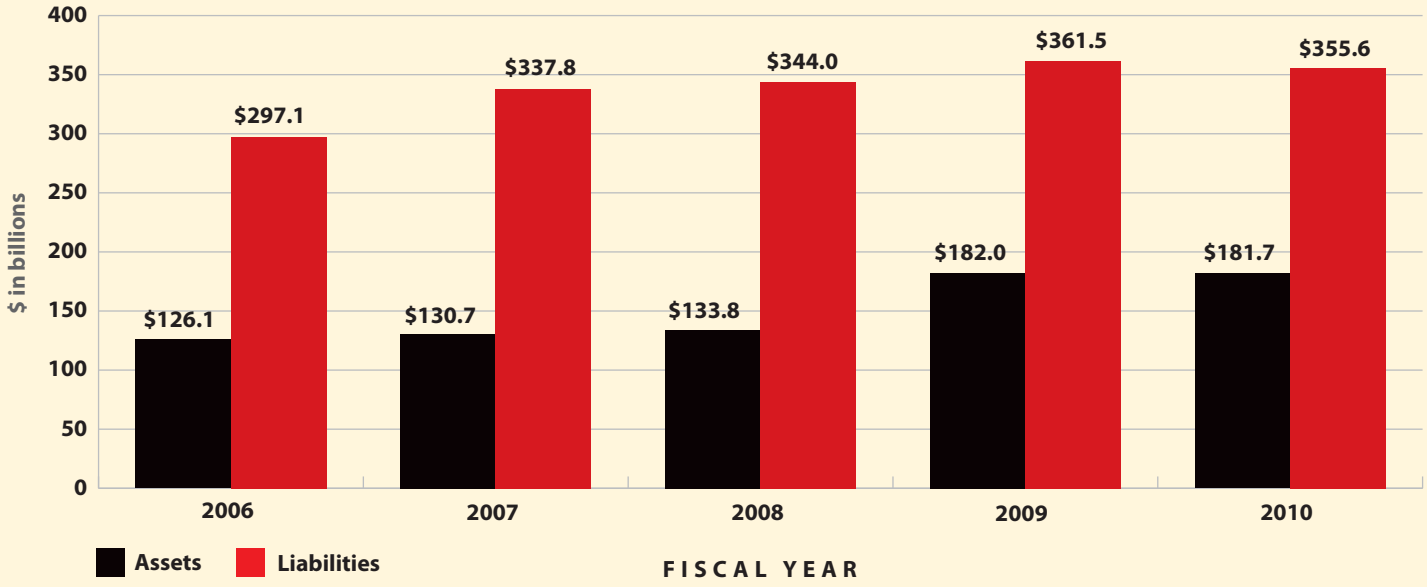
## Adjusted Appropriated Amounts

(Adjustments include appropriation transfers, reductions and appropriations temporarily not available.)

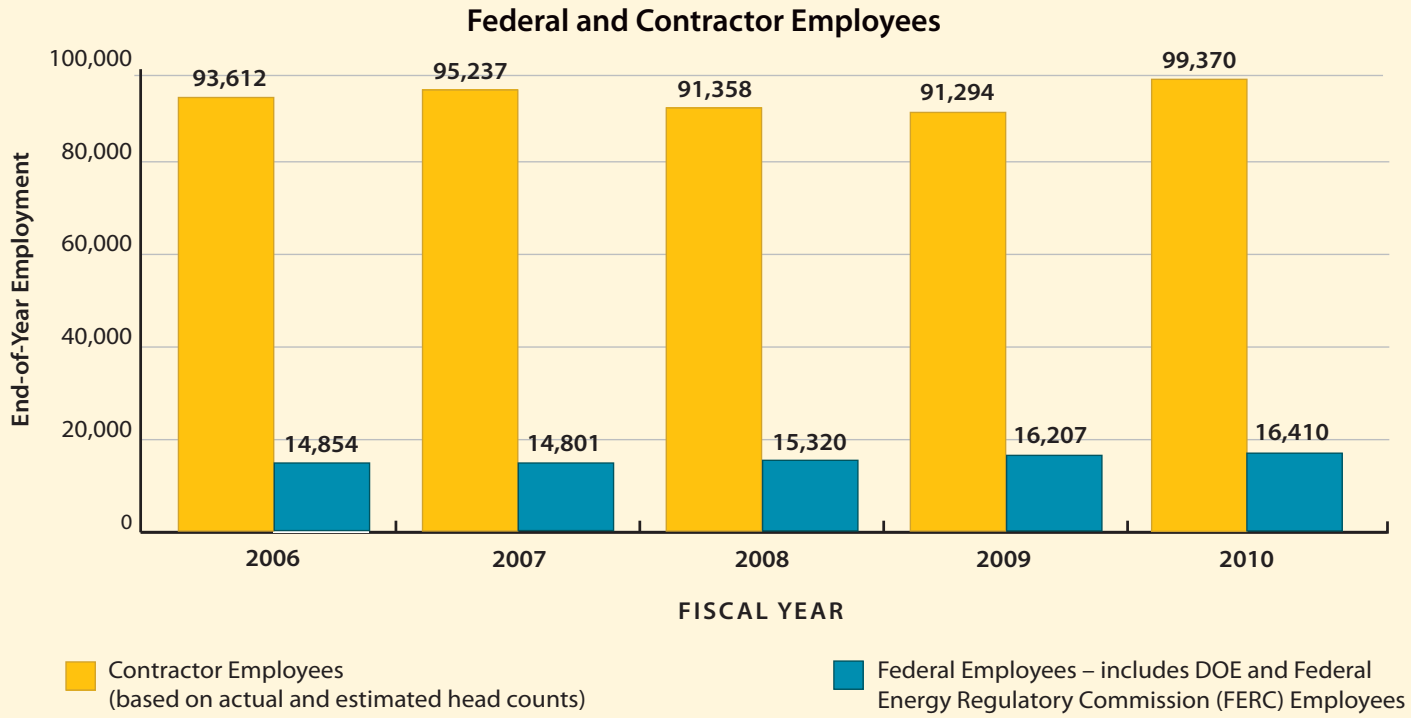



(Original $38.7 billion of Recovery Act Appropriations was later reduced by $3.5 billion in transfers and rescissions. Does not include the Western Area and Bonneville Power Administrations' borrowing authority and credit reform financing accounts.)

## Assets and Liabilities



# Human Capital Resources




# Financial Management Report Card

| | REQUIREMENT OR INITIATIVE | SUPPORTING INDICATORS (see page references for more detail) |
|---|---|---|
| ✔ | Government Management Reform Act — Financial Statement Audit | — Unqualified Audit Opinion (see pages 102 and 116) |
| ✔ | Federal Managers' Financial Integrity Act —<br>Internal Controls (Section II)<br>Financial Systems (Section IV) | — No Material Weaknesses (Section II) (see pages 26 and 116)<br>— Financial Systems generally conform to (Section IV) requirements and no FISMA significant deficiencies identified (see pages 26 and 116). |
| ✔ | OMB Circular A-123, Appendix A | — No Material Weaknesses (see pages 26 and 116) |
| ✔ | Federal Financial Management Improvement Act | — Substantially comply with Federal financial management system requirements (see pages 26 and 116). |
| ✔ | Federal Information Security Management Act (FISMA) | — Substantially comply with FISMA requirements as evidenced by annual FISMA reporting data. |
| ✔ | Improper Payments Information Act | — <1% Erroneous Payment Rate<br>Not considered significant risk per OMB guidance (see page 118). |

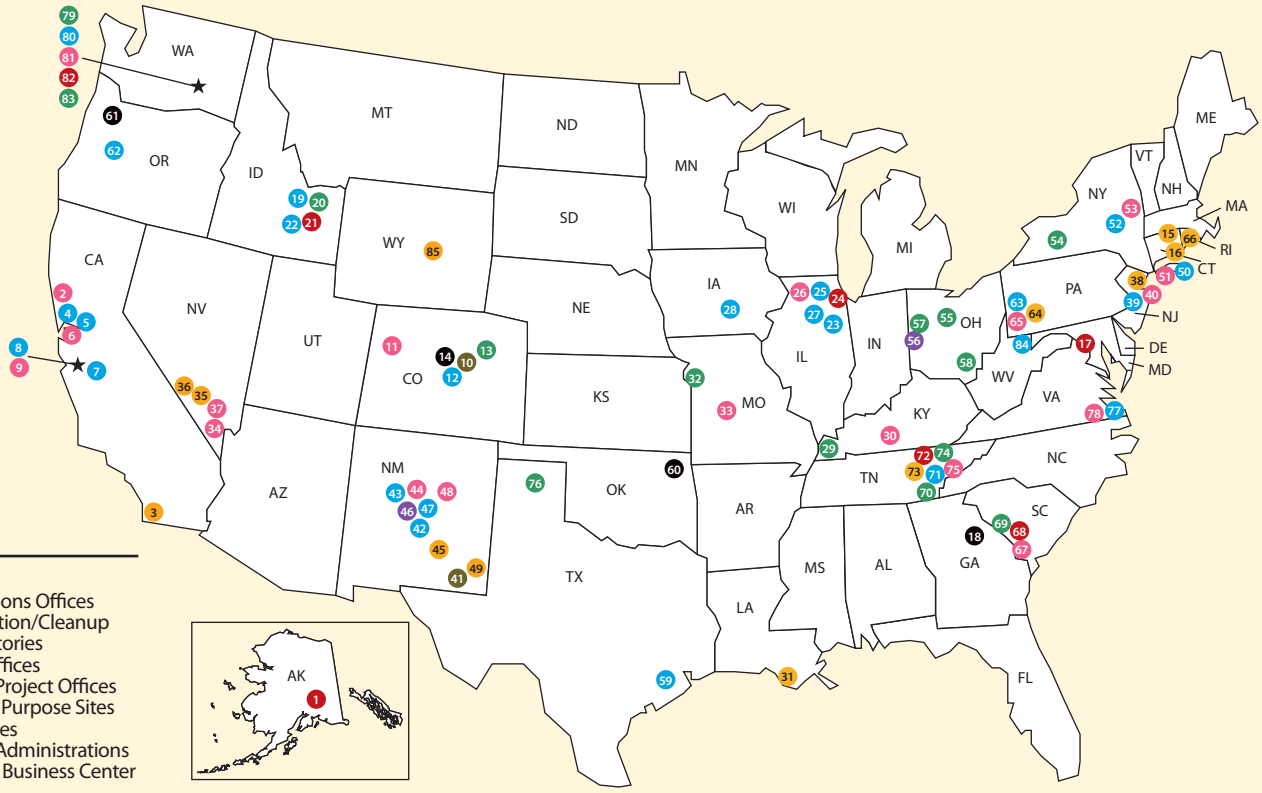
# Performance Summary

The tables in this section will be updated with FY 2010 data in the Department's FY 2010 Annual Performance Report available in February 2011.

| SECRETARIAL PRIORITY | BASE PROGRAM | FISCAL YEAR 2008 PERFORMANCE | | | FISCAL YEAR 2009 PERFORMANCE | | |
|---|---|---|---|---|---|---|---|
| | | Targets Met | Targets Not Met | Unknown Results | Targets Met | Targets Not Met | Unknown Results |
| 1. SCIENCE, DISCOVERY AND INNOVATION | High Energy Physics | 5 | 0 | 0 | 4 | 0 | 0 |
| | Nuclear Physics | 5 | 0 | 0 | 2 | 3 | 0 |
| | Biological & Environmental Research | 6 | 1 | 0 | 7 | 0 | 0 |
| | Fusion Energy Sciences | 3 | 1 | 0 | 3 | 0 | 0 |
| | Basic Energy Sciences | 4 | 0 | 0 | 4 | 0 | 0 |
| | Advanced Scientific Computing Research | 2 | 0 | 0 | 2 | 0 | 0 |
| 2. ECONOMIC PROSPERITY | Electricity Delivery & Energy Reliability | 5 | 0 | 0 | 7 | 1 | 0 |
| | Western Area Power Administration | 3 | 0 | 0 | 3 | 0 | 0 |
| | Bonneville Power Administration | 3 | 0 | 0 | 3 | 0 | 0 |
| | Southeastern Power Administration | 2 | 0 | 0 | 2 | 0 | 0 |
| | Southwestern Power Administration | 5 | 0 | 0 | 4 | 0 | 0 |
| | Building Technologies | 6 | 0 | 0 | 5 | 0 | 0 |
| | Industrial Technologies | 3 | 0 | 0 | 3 | 0 | 0 |
| | Federal Energy Management Program | 2 | 0 | 0 | 2 | 0 | 0 |
| | Weatherization | 2 | 0 | 0 | 1 | 1 | 0 |
| | State Energy Programs | 2 | 0 | 0 | 2 | 0 | 0 |
| | Petroleum Reserves | 3 | 0 | 0 | 3 | 0 | 0 |
| 3. CLEAN, SECURE ENERGY | Hydrogen Technology | 8 | 1 | 0 | 4 | 1 | 0 |
| | Research & Development | 5 | 0 | 0 | 6 | 1 | 0 |
| | Solar Energy | 4 | 0 | 0 | 3 | 1 | 0 |
| | Wind Energy | 3 | 1 | 0 | 2 | 2 | 0 |
| | Geothermal Technology | 2 | 0 | 0 | 2 | 0 | 0 |
| | Water Power | 0 | 0 | 0 | 2 | 0 | 0 |
| | Vehicle Technologies | 5 | 0 | 0 | 4 | 1 | 0 |
| | Near-Zero Atmospheric Emissions Coal-Based Electricity & Hydrogen Production | 15 | 1 | 1 | 12 | 0 | 1 |
| | New Nuclear Generation Technologies | 8 | 0 | 0 | 5 | 0 | 0 |
| | National Nuclear Infrastructure | 2 | 0 | 0 | 2 | 0 | 0 |
| | Energy Information Administration | 3 | 0 | 0 | 3 | 0 | 0 |
| 4. NATIONAL SECURITY | Office of the Administrator | 1 | 0 | 0 | 2 | 0 | 0 |
| | Directed Stockpile Work | 4 | 1 | 0 | 4 | 1 | 0 |
| | Science Campaign | 6 | 0 | 0 | 4 | 0 | 0 |
| | Engineering Campaign | 5 | 0 | 0 | 5 | 0 | 0 |
| | Inertial Confinement Fusion Ignition & High Yield Campaign | 5 | 0 | 0 | 5 | 0 | 0 |
| | Advanced Simulation & Computing Campaign | 4 | 0 | 0 | 4 | 0 | 0 |
| | Readiness Campaign | 3 | 0 | 0 | 4 | 0 | 0 |
| | Readiness in Technical Base & Facilities | 3 | 1 | 0 | 3 | 1 | 0 |
| | Secure Transportation Asset | 5 | 0 | 0 | 5 | 0 | 0 |
| | Nuclear Weapons Incident Response | 1 | 0 | 0 | 1 | 0 | 0 |
| | Facilities & Infrastructure Recapitalization Program | 4 | 0 | 0 | 3 | 0 | 0 |
| | Environmental Projects & Operations | 2 | 0 | 0 | 2 | 0 | 0 |
| | Defense Nuclear Security | 2 | 0 | 0 | 3 | 0 | 0 |
| | Cyber Security | 2 | 1 | 0 | 3 | 0 | 0 |
| | Nonproliferation & Verification Research & Development | 6 | 0 | 0 | 6 | 0 | 0 |
| | Elimination of Weapons-Grade Plutonium Production | 2 | 1 | 0 | 4 | 0 | 0 |
| | Nonproliferation & International Security | 5 | 0 | 0 | 5 | 0 | 0 |
| | International Nuclear Materials Protection & Cooperation | 4 | 1 | 0 | 5 | 1 | 0 |
| | Fissile Materials Disposition | 2 | 0 | 1 | 2 | 1 | 0 |
| | Global Threat Reduction Initiative | 5 | 0 | 0 | 4 | 0 | 0 |
| | Naval Reactors | 5 | 0 | 0 | 5 | 0 | 0 |
| | Environmental Management | 3 | 3 | 0 | 6 | 1 | 0 |
| | Nuclear Waste Disposal | 2 | 1 | 0 | 2 | 0 | 0 |
| | Legacy Management | 2 | 0 | 0 | 1 | 0 | 1 |
| | TOTAL | 199 | 14 | 2 | 190 | 16 | 2 |

| RECOVERY ACT PROJECT | FISCAL YEAR 2009 PERFORMANCE | | |
|---|---|---|---|
| | Targets Met | Targets Not Met | Results Unknown |
| Energy Efficiency and Renewable Energy: | | | |
| Biomass | 3 | 1 | 0 |
| Solar Energy | 0 | 3 | 0 |
| Geothermal Technology | 4 | 1 | 0 |
| Wind Energy | 3 | 1 | 0 |
| Water Power | 1 | 0 | 0 |
| Hydrogen Technologies | 1 | 0 | 0 |
| Vehicle Technologies | 4 | 1 | 0 |
| Community Renewable Energy Deployment | 1 | 0 | 0 |
| Energy Efficiency & Conservation Block Grants | 1 | 0 | 0 |
| Building Technologies | 3 | 2 | 0 |
| Industrial Technologies | 3 | 1 | 0 |
| State Energy Programs | 1 | 0 | 0 |
| Federal Energy Management Program | 2 | 0 | 0 |
| Facilities & Infrastructure | 0 | 3 | 0 |
| Appliance Rebates | 1 | 0 | 0 |
| Weatherization | 0 | 1 | 0 |
| Environmental Management | 17 | 17 | 0 |
| Electricity Delivery & Energy Reliability | 6 | 1 | 0 |
| Loan Guarantees | 2 | 1 | 0 |
| Fossil Energy | 5 | 0 | 0 |
| Western Area Power Administration | 0 | 0 | 1 |
| Science: | | | |
| High Energy Physics | 5 | 2 | 0 |
| Nuclear Physics | 11 | 0 | 0 |
| Biological & Environmental Research | 6 | 0 | 0 |
| Fusion Energy Sciences | 4 | 5 | 0 |
| Basic Energy Sciences | 6 | 0 | 0 |
| Advanced Scientific Computing Research | 2 | 4 | 0 |
| Laboratories Infrastructure | 2 | 2 | 0 |
| Advanced Research Projects Agency-Energy | 1 | 0 | 0 |
| TOTAL | 95 | 46 | 1 |

# Major Laboratories and Field Facilities




**Legend**
- Operations Offices
- Production/Cleanup
- Laboratories
- Field Offices
- Site or Project Offices
- Special Purpose Sites or Offices
- Power Administrations
- Service Business Center

**Alaska**
1 Arctic Energy Office

**California**
2 Berkeley Site Office
3 Energy Technology Engineering Center
4 Lawrence Berkeley National Laboratory
5 Lawrence Livermore National Laboratory
6 Livermore Site Office
7 Sandia National Laboratories
8 SLAC National Accelerator Laboratory
9 SLAC Site Office

**Colorado**
10 Golden Field Office
11 Grand Junction Office
12 National Renewable Energy Laboratory
13 Rocky Flats Closure Project
14 Western Area Power Administration

**Connecticut**
15 16 Northeast Home Heating Oil Reserves

**District of Columbia**
17 Washington D.C. Headquarters

**Georgia**
18 Southeastern Power Administration

**Idaho**
19 20 Idaho National Laboratory
21 Idaho Operations Office
22 Radiological Environmental Sciences Laboratory

**Illinois**
23 Argonne National Laboratory
24 Chicago Office
25 Fermi National Accelerator Laboratory
26 Fermi Site Office
27 New Brunswick Laboratory

**Iowa**
28 Ames Laboratory

**Kentucky**
29 Paducah Gaseous Diffusion Plant
30 Portsmouth/Paducah Project Office

**Louisiana**
31 Strategic Petroleum Reserve

**Missouri**
32 Kansas City Plant
33 Kansas City Site Office

**Nevada**
34 Nevada Site Office
35 Nevada National Security Site
36 Yucca Mountain
37 Office of Civilian Radioactive Waste Management

**New Jersey**
38 Northeast Home Heating Oil Reserve
39 Princeton Plasma Physics Laboratory
40 Princeton Site Office

**New Mexico**
41 Carlsbad Field Office
42 Inhalation Toxicology Research Institute
43 Los Alamos National Laboratory
44 Los Alamos Site Office
45 National Training Center
46 NNSA Service Center
47 Sandia National Laboratories
48 Sandia Site Office
49 Waste Isolation Pilot Plant

**New York**
50 Brookhaven National Laboratory
51 Brookhaven Site Office
52 Knolls Atomic Power Laboratory
53 Schenectady Naval Reactors Office
54 West Valley Demonstration Project

**Ohio**
55 Columbus Environmental Management Project
56 EM Consolidated Business Center
57 Miamisburg Closure Project
58 Portsmouth Gaseous Diffusion Plant

**Oklahoma**
60 Southwestern Power Administration

**Oregon**
61 Bonneville Power Administration
62 National Energy Technology Laboratory – Albany

**Pennsylvania**
63 Bettis Atomic Power Laboratory
64 National Energy Technology Laboratory – Pittsburgh
65 Naval Reactors Laboratory Field Office

**Rhode Island**
66 Northeast Home Heating Oil Reserve

**South Carolina**
67 Savannah River National Laboratory
68 Savannah River Operations Office
69 Savannah River Site Office

**Tennessee**
70 East Tennessee Technology Park
71 Oak Ridge National Laboratory
72 Oak Ridge Site Office
73 Office of Scientific and Technical Information
74 Y-12 Plant
75 Y-12 Site Office

**Texas**
76 Pantex Plant and Site Office
59 National Energy Technology Lab – Sugar Land

**Virginia**
77 Thomas Jefferson National Accelerator Facility
78 Thomas Jefferson Site Office

**Washington**
79 Hanford
80 Pacific Northwest National Laboratory
81 Pacific Northwest Site Office
82 Richland Operations Office
83 Office of River Protection

**West Virginia**
84 National Energy Technology Laboratory – Morgantown

**Wyoming**
85 Naval Petroleum Reserve No. 3 – Casper

# High-Priority Performance Goals

In FY 2010, the Department of Energy established seven high-priority performance goals which are intended to focus senior leadership's attention on top administration and departmental priorities and promote better coordination across agencies on key performance priorities. These efforts are being reviewed and monitored by the White House, the Office of Management and Budget, the President's Management Council, and the Performance Improvement Council. The first results associated with these goals are expected in FY 2011. These goals are also being integrated into the formulation process for DOE's new strategic plan which is expected to be issued in FY 2011.

A "high-priority performance goal" is a measurable commitment to a specific result the federal government will deliver for the American people. DOE's goals are as follows:

- **Renewable Capacity** – Double renewable energy generating capacity (excluding conventional hydropower) by 2012;
- **Advanced Batteries** – Assist in the development and deployment of advanced battery manufacturing capacity to support 500,000 plug-in hybrid electric vehicles per year by 2015;
- **Nuclear Loans** – Commit (conditionally) to loan guarantees for two nuclear power facilities to add new low-carbon emission capacity of at least 3,800 megawatts during 2010;
- **Retrofits** – Department of Energy and Department of Housing and Urban Development will work together to enable the cost-effective energy retrofits of 1.1 million housing units through FY 2011 (of this number, DOE programs will contribute to retrofits of an estimated 1 million housing units);
- **Secure Nuclear** – Make significant progress towards securing the most vulnerable nuclear materials worldwide within four years;
- **Nuclear Weapons** – Maintain the U.S. nuclear weapons stockpile and dismantle excess nuclear weapons to meet national nuclear security requirements as assigned by the President through the Nuclear Posture Review; and
- **Legacy Waste** – Reduce the Department's Cold War legacy waste site footprint by 40%, from 900 square miles to 540 square miles by 2011.

# Recovery Act and Performance

Contained in the American Recovery and Reinvestment Act of 2009 (Recovery Act) were the seeds of a clean energy economy. The legislation made a down payment on America's clean energy future, with historic investments in energy efficiency, renewable energy, transportation, carbon capture and storage, and a smarter electric grid. Other initiatives included accelerating the clean-up of Cold War legacy nuclear sites and supporting technological and scientific innovation. Congress entrusted DOE with $35.2 billion in appropriations and $6.5 billion in Power Marketing Administration borrowing authority for these purposes. The Department was also directed to work with Treasury to provide clean energy manufacturing tax credits and generation tax grants; to date these have amounted to more than $7 billion. The Department has worked to invest its share of this funding quickly and wisely. Detailed FY 2010 results from the DOE Recovery Act programs follow.

## Energy Efficiency

Under the Recovery Act, DOE has made an historic investment in low-income home energy efficiency. The Recovery Act provided $5 billion for the Weatherization Assistance program to fund local agencies to perform home energy audits and weatherization services for low-income families. By August 2010, this program had improved the energy efficiency in 200,000 homes. More than 600,000 homes are expected to be weatherized by March of 2012 – each with upgrades like better furnaces, insulation, and caulking. These energy-efficient upgrades are important to the thousands of Americans who are paying less for utilities, and they are also important to the 13,000 American workers whose jobs are supported by our weatherization program.

A total of $3.2 billion was provided to fund the Energy Efficiency and Conservation Block Grant program. The competitive portion of this program is known as Better Buildings. The leading projects under this program are defining new approaches to make energy efficiency services available to all Americans at significantly lower cost. Vice President Biden kicked off the White House's Earth Day activities this year by announcing the communities that received $452 million in awards. This injection of funding has helped more than 2,300 cities, counties, states, territories, and Indian tribes develop their own efficiency programs, including building code development, energy audits and retrofits, efficient public lighting, and landfill gas capture. The program has created jobs while making a meaningful difference in energy usage at the local level.

*Recovery Act new hires at Hanford site in Washington.*

The State Energy program was expanded through Recovery Act funds of $3.1 billion. Examples include the following: Michigan has supported 14 manufacturers to fill gaps in the clean energy supply chain; Indiana has supported nearly 500 wind manufacturing jobs; and Idaho has improved energy efficiency in 210 K-12 schools across the state, putting money back into school budgets. The states also received $300 million to facilitate energy efficient appliance rebate programs.

## Clean Energy

One of the administration's programs under the Recovery Act, the payments-in-lieu of tax credits program (also referred to as the Section 1603 program), pays developers as soon as a renewable energy project is placed in service. By partnering with private industry, the Department of Treasury and DOE have funded renewable energy projects with enough capacity to power more than one million homes; that is enough clean energy to power the homes of everyone living in Boston, Seattle, Atlanta, Kansas City, and Cincinnati combined.

Together with the Department of Treasury, DOE also awarded $2.3 billion in tax credits for 183 clean energy manufacturing projects in 43 states. This investment will be matched by as much as $5.4 billion in private sector funding. High technology, clean energy manufacturing is quickly expanding within the United States. Domestic clean energy manufacturers like Cardinal Fastener in Bedford Heights, Ohio, received a $480,000 tax credit to produce bolts for wind turbines and will double its workforce within the next year. Itron in West Union, South Carolina received more than $5 million in tax credits to help it re-equip its plant to keep up with the demand for advanced smart meters. CalStar Products received $2.4 million in tax credits for a plant in Caledonia, Wisconsin, to manufacture bricks and pavers that have 40% post-industrial recycled content and use almost 90% less energy than traditional products.

Clean energy deployment has been supported through the Loan Guarantee program. During FY 2010, DOE announced more than $3.5 billion in loans or conditional commitments to build renewable energy and grid electrification projects, such as AES (NY), BrightSource (CA), Abound (CO), Beacon (NY), First Wind (HI) and Blue Mountain (NV). These commitments have proven effective in bringing private capital off the sidelines and into the market. For example, the Department made a conditional commitment to Abengoa Solar, Inc., in Arizona to finance the construction of a concentrating solar power generation facility that will have 250 megawatts of capacity using parabolic trough solar collectors and an innovative thermal energy storage system.

More than $600 million has been invested in grants toward the research, development, and deployment of renewable energy. In order to accelerate innovation in the marketplace, large-scale user facilities have been supported; including a biofuels facility at the National Renewable Energy Laboratory, a wind turbine blade testing facility in Boston, batteries facilities at Argonne and Idaho National Laboratories, and a net-zero buildings research facility at Lawrence Berkeley National Laboratory.

## Transportation

Through $3.9 billion from the Recovery Act and $8.4 billion from the Department's Advanced Technology Vehicles Manufacturing loan program, a broad portfolio of transportation technologies have been supported. Investments include everything from plug-in hybrids and all-electric vehicles to natural gas vehicles, advanced batteries, advanced biofuels, hydrogen, and improvements in internal combustion engine efficiency. These investments have created jobs, helped boost the U.S. auto manufacturing industry, and improved fuel efficiency standards. The Department is also facilitating the installation of the necessary infrastructure, including more than 20,000 charging locations in a dozen cities to support plug-in hybrid electric vehicles.

A total of $300 million was awarded in Clean Cities grants to help 25 cities expand their efforts to cut oil consumption by using high-efficiency cars, trucks, and buses that run on alternative fuels. These cities will deploy more than 9,000 alternative-fuel vehicles – 70% of which will run on natural gas. Funding also included $100 million for projects that will improve the efficiency of heavy-duty trucks and passenger vehicles.

To meet future energy challenges, new, clean, domestic sources of fuel must be developed as well. That is why the Recovery Act included funding to help develop the next generation of biofuels. More than $700 million from the Recovery Act has been obligated to support 19 biorefinery projects. For example, Enerkem received $50 million to build a plant in Pontotoc, Mississippi, to convert waste into biofuels. Enerkem's process reduces the volume of waste going to the landfill by 90% while creating useful fuels. The goal is to more than triple America's biofuels production in the next 12 years, cutting oil imports by $41 billion.

## Smart Grid

The Department has invested more than $4.2 billion in Recovery Act funds to help modernize the U.S. electricity distribution grid. Modernizing the grid makes it possible to increase reliability and efficiency, allows for smart metering, enables two-way flows of electricity, and accommodates larger amounts of energy from intermittent renewable sources such as solar and wind power. Matched by more than $5.5 billion in private sector funding, DOE is supporting 131 projects that will increase reliability and give consumers more choice and control over their energy use. Funding has been provided for the installation of more than 850 sensors to improve reliability, security and provide visibility and control across the entire U.S. transmission system; 200,000 new smart transformers; and nearly 700 automated substations that will prevent failures and allow power companies to respond more effectively when power lines are knocked down by bad weather. By 2013, the number of smart meters is expected to more than double to 26 million nationally through a combination of public and private investment.

**Hall D of the CEBAF accelerator.** *This 12 GeV Upgrade project, which will double the energy of the lab's electron beam accelerator, providing scientists with an unprecedented tool for studying the nucleus of the atom.*

## Carbon Capture and Storage

An unprecedented $3.4 billion was provided by the Recovery Act for investment in carbon capture and storage technologies. By attracting significant private capital, DOE has been pursuing projects that will capture more than 10 million tons of carbon dioxide ($CO_2$) annually by 2015 and help demonstrate the economic viability of carbon capture and storage by 2020. Five projects were selected to accelerate the development of advanced coal technologies with carbon capture and storage at commercial-scale. One of the five, American Electric Power, is demonstrating a chilled ammonia process that is expected to effectively capture at least 90% of the $CO_2$ from a flue gas stream. As part of the industrial carbon capture program, Archer Daniels Midland is demonstrating an advanced amine process to capture $CO_2$ from industrial flue gases and sequester the $CO_2$ in a sandstone reservoir. Conversion of captured $CO_2$ into products such as chemicals, fuels, building materials, and other commodities is also being explored.

## Cold War Legacy Clean-up

The Office of Environmental Management (EM) received $6 billion in the Recovery Act to accelerate cleanup work at 17 sites, reducing the lifecycle costs to taxpayers. During FY 2010, EM projects created or saved thousands of jobs in communities like Hanford, Washington; Savannah River, South Carolina; and Oak Ridge, Tennessee. DOE met its goals to permanently dispose of nearly 8,400 cubic meters of transuranic waste and nearly 73,000 cubic meters of low-level waste; more than 3 million square feet of contaminated facilities have been demolished. By September 2010, the footprint of land and structures requiring cleanup was reduced by 20%; the goal is to reduce the footprint by 40% by September 2011.

## Science and Technology

Funding of $1.6 billion was included in the Recovery Act to advance basic research through the Department's Office of Science. Work has been accelerated on key priorities, including the National Synchrotron Light Source II at Brookhaven National Laboratory and an upgrade to the Continuous Electron Beam Accelerator Facility (CEBAF) at the Thomas Jefferson National Accelerator Facility. Sixteen new Energy Frontier Research Centers and upgrades to the supercomputer at Oak Ridge National Laboratory are being supported.

A total of $400 million was designated for high-risk, high-reward research through the Advanced Research Projects Agency–Energy (ARPA-E). The ARPA-E is pursuing truly transformational solutions to our energy problems. Three rounds of funding were completed through ARPA-E. The first round was a broad call for the best ideas in any area that could have a transformational impact on energy, ranging from an all-liquid metal battery that could provide grid-scale storage and cut costs by 90% to a novel carbon capture process that emulates the processes of the human body; 36 additional projects were funded. The second funding solicitation focused on developing better batteries, carbon capture processes, and electrofuels, which use microorganisms to harness energy and convert carbon dioxide into liquid fuels; 37 projects were funded. The final round of awards was for work in grid-scale energy storage, highly efficient cooling technologies and air conditioners, 48 advanced power converters, and other energy technologies; projects were funded. Award recipients from the first funding round have already begun negotiations on establishing manufacturing facilities in the United States; DOE is highly optimistic about the future return on these investments.

# Strategic Planning and Program Performance

The narrative below discusses FY 2010 results for the Department of Energy (DOE) programs and is aligned with the Secretary's priorities and objectives, as first presented in FY 2009. A new strategic plan is under development and is expected to be in place during FY 2011. A detailed discussion of results will be presented in DOE's *Annual Performance Report* and will include FY 2010 performance goals, assessment methodology, metrics, relevant external reviews, and documentation of performance data. This report will be included with DOE's FY 2012 *Congressional Budget Request*, which will be submitted in February 2011.

*Vice President Biden and Secretary Chu*

## PRIORITY 1 SCIENCE, DISCOVERY AND INNOVATION

*Invest in science to achieve transformational discoveries*

### Objectives:

- Organize and focus on breakthrough science
- Develop and nurture science and engineering talent
- Coordinate DOE work across the Department, the federal government, and globally
- Advance climate science to better understand the human impact on the global environment

### Supporting Office:

Science

Scientific discovery and innovation provides the technological foundation for all of the Department's activities. Through the nurturing of scientific discoveries and delivery of major scientific tools, the Department is transforming the understanding of nature and advancing the energy, economic, and national security of the United States. This mission supports the president's plan to increase federal investment in the sciences, train students and researchers in scientific fields, invest in areas important to our clean energy future, and to make the United States a leader in climate change solutions while maintaining a role in international science and energy experiments. The Department supports more than 12,000 Ph.D. scientists who work in the 17 national labs and 25,000 visiting Ph.D.s, graduate students, undergraduates, engineers, and technicians. Key examples of FY 2010 program performance outcomes and benefits to U.S. citizens for the science priority follow.

**World's First X-ray Laser**. The Linac Coherent Light Source (LCLS) at the SLAC National Accelerator Laboratory – the world's first high-energy x-ray electron laser facility – became operational in June 2010. This is a milestone for x-ray user facilities and it advances the state-of-the-art from storage-ring-based third generation synchrotron light sources to a fourth generation linac-based light source. This is a new instrument that will enable us to see the structure of materials that we could not determine by any other means. Knowing those structures will lead to a deeper understanding of how they work and numerous new discoveries, from pharmaceuticals to solar photovoltaics. The early science program at the LCLS conducted experiments during the commissioning period; this early science program has already produced world-class transformational discoveries published in high-profile scientific journals. The unique capabilities of the LCLS have quickly attracted a robust experimental

program, which has received 107 proposals involving 672 scientists from 22 countries for the fall 2010 operational period.

**Prototype Data Network**. In March of 2010, DOE's Energy Sciences Network (ESnet) completed the first milestone in constructing its Advanced Network Initiative (ANI) testbed by installing Infinera's dense wavelength-division multiplexing (DWDM) equipment. DWDM refers to optical networking systems that can send large volumes of data over multiple wavelengths of light on a single fiber. The ever growing demand for network bandwidth from large science collaborations, such as the Large Hadron Collider, requires DOE's ESnet to push toward next generation technologies to keep pace. The ESnet is managing the research project on advanced networking that is deploying the U.S. 100 gigabit per second testbed to develop the tools and techniques necessary to utilize this technology in the ESnet backbone. Toward this end, ESnet participated in collaborations between the IEEE and the International Telecommunication Union's Telecommunication Standardization Sector Study Group to establish, in June 2010, a new IEEE standard governing 40 and 100 gigabit per second Ethernet operations to ensure that these new rates are transportable over optical transport networks.

**New Earth Model**. DOE has made significant improvements to the newly released version of the Community Earth System Model (CESM), a national model that is co-sponsored by DOE and the National Science Foundation. DOE improved six of the seven new elements identified as upgraded earth system components of the model. DOE's most notable contributions include the extension of a carbon-nitrogen cycle model that is prognostic for carbon and nitrogen cycles as well as vegetation phenology (the study of the annual cycles of plants and how they respond to seasonal changes in their environment); the successful development of a new sea-ice sub-model and a new land-ice model; several physical formulation improvements to the global ocean sub-model; a new detailed atmospheric chemistry model; a new radiation package; a new aerosol sub-model; and two new cloud schemes for near-surface layered clouds and the lifecycle of cirrus clouds. DOE also developed a new computer architecture that provides "plug and play" capability for the earth model.

**Progress in Bioenergy**. Significant advances were achieved in FY 2010 by the DOE Bioenergy Research Centers regarding characterization, modeling, and design of biological systems targeting mission needs in bioenergy production. The Joint BioEnergy Institute used synthetic biology tools to redirect the fatty acid metabolism of a microbe to produce biodiesel and other important chemicals from plant biomass sugars. Complementary research at the BioEnergy Science Center achieved more than 3,000-fold improvement in the expression levels of cellulase enzymes in a yeast strain that can ferment 5- and 6-carbon sugars into ethanol. This represents an important step in improving efficiencies for biofuel production by consolidating biomass breakdown and fuel production in a single organism. Researchers at the Great Lakes Bioenergy Research Center completed a systems biology study examining gene expression and enzyme secretion by two wood-degrading fungi. The research revealed substantial differences in the timing and types of enzymes expressed during wood degradation, providing new insights into the molecular mechanisms that allow degradation of complex biomass and the development of novel approaches for biofuels production.

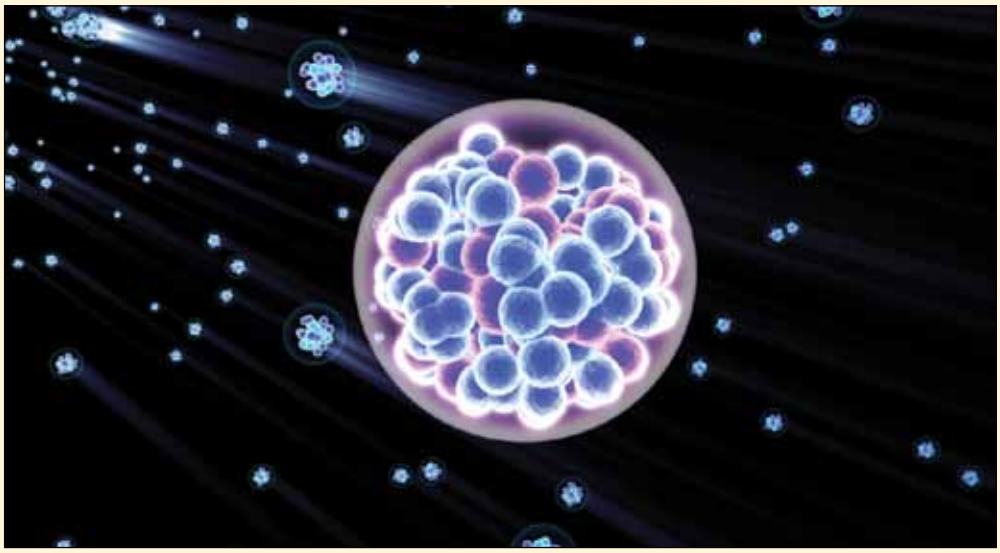


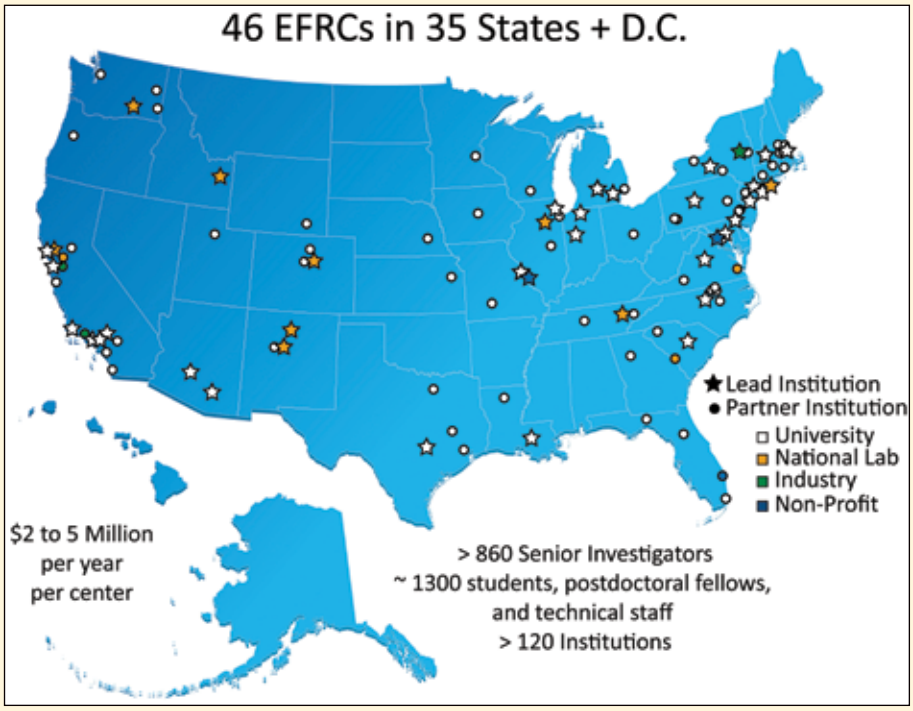
*Illustration of the newly discovered element 117.*

**New Element Discovered**. An international team of scientists from Russia and the United States, including two DOE national laboratories and two universities, has discovered element 117, the newest super heavy element. Discovery of element 117 was accomplished following nearly 3 months of bombardment of a radioactive berkelium-249 target (produced at the High Flux Isotope Reactor at Oak Ridge National Lab through the DOE Isotope program) with intense beams of calcium-48 at the Joint Institute for Nuclear Research cyclotron in Dubna, Russia. This discovery represents the latest and the most challenging successful step in a decades-long journey to expand the periodic table.

**Hot Graphics Cards Fuel Supercomputing**. Scientists at Thomas Jefferson National Laboratory purchased 200 graphics processing units (GPUs) to create a new type of computer cluster. The new cluster became operational

in January 2010 with the express purpose of tackling the difficult mathematics behind quark-gluon interactions, a basic component in describing matter in the standard model of particle physics. Taking the output of numerical simulations – which can take more than a year of running – from supercomputers around the United States as input, the new GPU cluster is used in a second stage of analysis to deliver much more physical parameters for a variety of exotic subatomic particles than possible within resource constraints using supercomputers alone. A very attractive feature of this development is that using the GPU architecture provides five times the computer power (100 teraflops) than previously available for this research with much less cost and power use than if the full calculation was performed on a supercomputer.

**New Scientific Workforce Training**. DOE started the Science Graduate Fellowship and the Early Career Research programs in FY 2010. The fellowship program supports outstanding students in pursuit of graduate training in basic research in areas of physics, biology, chemistry, mathematics, engineering, computational sciences, and environmental sciences and to encourage the development of the next generation scientific and technical talent in the United States. DOE awarded 150 of these fellowships during FY 2010 using $12.5 million of Recovery Act funds and $5 million of base funding. The Early Career Research program supports outstanding scientists early in their careers by providing competitively selected 5-year research awards to researchers who have received a Ph.D. within the past 10 years and who are untenured, tenure-track assistant professors in U.S. academic institutions or full-time employees in DOE national laboratories. In FY 2010, 68 research awards were provided through $85 million in Recovery Act funds.




*These integrated, multi-investigator centers will conduct fundamental research focusing on one or more of several "grand challenges" recently identified in major strategic planning efforts by the scientific community.*

## Strategic Challenges

**Developing New Scientific Tools and Facilities**. It is necessary to incorporate work at the leading edge of discovery science – sometimes termed high-risk, high-return research – to advance the nation's scientific capabilities. This requires identifying and developing investment strategies, primarily through substantial involvement with the research communities. A large part of these strategies include the support of the planning, design, construction, and operation of scientific user facilities in the nation. This requires recruitment of effective and forward-looking program managers, who are experts in their fields and can effectively communicate program research priorities and interests to the scientific community; select proposal reviewers that are open to new ideas; provide guidance to merit reviewers – including guidance on consideration of high-risk, high-return research; and make recommendations on proposal selection.

**Focusing on High-Priority Research**. Basic research needs to incorporate scientific work that is relevant to the missions of energy and the environment through activities that bring together the research community and the end users; for example, the DOE technology offices and the private sector. Reports from external groups also inform the makeup of our research proposal, such as the National Academies report *America's Energy Future: Technology and Transformation*. The results of these workshops and studies have formed the basis for the Bioenergy Research Centers, the Energy Frontier Research Centers (EFRCs), and the Energy Innovation Hubs.

**Ensuring a Skilled Workforce**. There is a growing need for scientists and engineers in the private and public sectors, including researchers, to operate the national laboratories across the nation. Providing technical and scientific training is vital to ensure that America remains competitive and prosperous.

# PRIORITY 2 ECONOMIC PROSPERITY

*Drive the revolution to create clean energy jobs and increase competitiveness*

## Objectives:

- Save Americans money through efficiency
- Increase clean energy production
- Promote the development of an efficient, "smart" electricity transmission and distribution network
- Enable responsible domestic production of oil and natural gas
- Create a green workforce
- Foster clean energy innovation and entrepreneurship

## Supporting Offices:

Electricity Delivery and Energy Reliability
Energy Efficiency and Renewable Energy
Fossil Energy
Nuclear Energy
Energy Information Administration
Power Marketing Administrations

The Department of Energy has been working to help communities across the nation become more prosperous by providing the means to produce a clean-energy infrastructure and use energy more effectively. DOE has provided grants and incentives for efficient energy; promoting the development of an efficient, "smart" electricity transmission and distribution network; and funded the production of low-carbon energy sources, batteries, fuels, and electric transportation infrastructure domestically — programs that have helped create and save jobs. Key examples of FY 2010 program performance outcomes and benefits to U.S. citizens for the economic prosperity priority follow.

**Smart Grid Gains Momentum**. In October and November 2009, DOE announced the selection of 100 projects under the Smart Grid Investment Grants program, providing $3.4 billion in grants to utilities and other entities for smart grid upgrades to the electric grid; and $620 million under the Smart Grid Demonstration Program in 32 new awards for demonstrations of smart grid technologies and large-scale energy storage. Including private investment through cost shares, these two program initiatives represent a $9.6 billion investment in modernizing the electric grid. DOE has devoted approximately $4.2 billion to implementing smart grid programs, thereby accelerating the deployment of smart grid technologies across the transmission and distributions system. Smart grid technologies enable real-time monitoring of energy usage and automated adaptation of energy flow to save energy and reduce costs. Smart grid tools provide enhanced data through feedback from the electrical system, allowing operators to gain a wide-area picture of grid status and increase both stability and efficiency. Enhanced data will not only let operators analyze the root causes of any problems and increase stability but, through computer control and energy management, will also monitor energy usage in real time, enabling consumers to better control their use of energy and reduce costs.

**Systems Integration for Solar Technologies.** *A 25-megawatt photovoltaic system in DeSoto, Florida, generates enough electricity annually to power about 3,000 homes.*

**Nuclear Power Boost**. Underscoring the administration's commitment to jumpstart the nation's nuclear power industry, DOE offered conditional commitments in February 2010 for $8.33 billion in loan guarantees for the construction and operation of two new nuclear reactors at a plant in Burke, Georgia. The project is scheduled to be the first U.S. nuclear power plant to break ground in nearly three decades. The two new 1,100 megawatt Westinghouse AP1000 nuclear reactors at the Alvin W. Vogtle Electric Generating Plant will supplement the two existing reactor units at the facility. According to industry projections, the project will create approximately 3,500 onsite construction jobs. Once the nuclear reactors become operational, the project will create 800 permanent jobs.

**Solar Start-ups**. DOE announced in July 2010 the offer of a conditional commitment to Abengoa Solar, Inc., for a $1.45 billion loan guarantee to finance the construction and start-up of a concentrating solar power generating facility. The Solana, Arizona, plant will add 250 megawatts of capacity to the electrical grid using parabolic trough solar collectors and an innovative six-hour thermal energy storage system-the first of its kind in the country. Once operational, the Solana project will supply clean electric power to approximately 70,000 homes, reducing overall $CO_2$ emissions by 475,000 tons.

Abengoa Solar estimates that the Solana project will employ approximately 1,600 workers during the construction phase of the project and create over 80 skilled permanent jobs for the plant's operation. Over 70% of the components and products used for Solana will be made in the United States. Two assembly factories will be constructed on the Solana site, and as a result of Solana's large need for mirrors (over 900,000), a new mirror manufacturing facility will be sited just outside of the Phoenix area, contributing additional direct investment and adding more jobs to Arizona's economy.

Another company, BrightSource Energy, was offered a conditional commitment for more than $1.37 billion in loan guarantees to support the construction and start-up of Ivanpah Solar Complex, three utility-scale concentrated solar power plants located in California's Mojave Desert. The project will produce approximately 400 megawatts of electricity. It is expected to create approximately 1,000 construction jobs and about 86 operations and maintenance jobs.

**Building Efficiency Improves**. Through the Building Technologies program, DOE established seven new energy conservation standards and updated six and completed seven test procedure final rules. The program engaged more than 20 commercial building stakeholders to design a new building prototype that uses 50% less energy, and retrofit an existing building for at least 30% energy savings. The program also demonstrated solid state lighting prototypes including: a cool white light-emitting diode that delivers 117 lumens per watt and a record-breaking white organic light-emitting diode with a power efficacy of 102 lumens per watt at 1,000 candela per square meter; commercialized dynamic insulation; new Energy Star hybrid electric water heaters; and a low-cost solar water heating system. DOE also established the Energy Star criteria for water heaters and solid state lighting, and completed 30-40% whole house energy savings builder technology packages for five U.S. climate regions.

**Weatherization Exceeds Expectations**. In August 2010, DOE announced award selections for approximately 120 organizations across the country that will receive nearly $120 million to drive innovation under the Weatherization Assistance program. These investments will enable successful weatherization agencies to expand their programs and will support new pilot projects to demonstrate innovative weatherization delivery and financial models and new technologies. This program surpassed monthly targets during 2010 — weatherizing more than 31,600 homes across the country in June alone. More than 80,000 homes were weatherized across the country during the summer. The program has created jobs in local communities, saved money for families, and reduced carbon pollution across the country.

## Strategic Challenges

**Modernizing the Electrical Grid**. The nation's ability to meet the growing demand for reliable electricity is challenged by an aging transmission and distribution system and by vulnerabilities in the energy supply chain. Despite increasing demand, there has been a long period of underinvestment in power transmission and infrastructure maintenance. Modernization requires development of digital network controls and transmission, distribution, and storage breakthroughs.

**Achieving Low-Energy Buildings**. Continued research and industry/government collaboration are required to solve the problem of developing residential and commercial buildings that use very low levels of energy to function. Breakthroughs across technology areas are needed pertaining to building materials (insulation, roofing, etc.), space-conditioning equipment, water heating, and lighting. Any increases in building efficiencies will save money for Americans and contribute to prosperity.

# PRIORITY 3 CLEAN, SECURE ENERGY

*Cut the carbon pollution that is changing our climate, while reducing our dependence on oil*

### Objectives:

- Increase energy efficiency in homes, businesses, and vehicles
- Move to clean, safe, low-carbon sources of energy
- Discover breakthroughs in energy technologies with game-changing impacts

### Supporting Offices:

Electricity Delivery and Energy Reliability
Energy Efficiency and Renewable Energy
Fossil Energy
Nuclear Energy
Energy Information Administration
Power Marketing Administrations

Achieving President Obama's climate change goal to reduce U.S. greenhouse gas emissions 17% below 2005 levels by 2020 and 83% by 2050 necessitates contributions from the full portfolio of available clean energy technologies – from efficiency programs and building technologies that can be deployed in the near term to long-term investments in new nuclear power

and carbon capture and storage. DOE is making investments in a variety of renewable sources of electricity generation and deploying technologies to decrease energy use in homes, transportation, and industry. Investments in energy efficiency projects through grants to states and weatherization assistance have had immediate tangible benefits by reducing energy use and lowering energy bills. Near-zero emissions coal plants will help allow fossil fuels to be used as abundant and low-carbon emitting energy resources in the future. Nuclear energy is a fundamental component of the energy mix as well, and currently supplies about 20% of the nation's electricity. Key examples of FY 2010 program performance outcomes and benefits to U.S. citizens for the clean, secure energy priority follow.

**Research in Biofuels Moves Forward**. Solicitations were issued for new integrated biorefineries, the development of an algal biofuels consortium, the development of an advanced biofuels consortium, accelerated alternative vehicle fuels testing, and biofuels infrastructure. Critical analytical studies have been completed and put to use for program investment and portfolio decision making. Fifteen sustainability-focused projects were initiated with domestic and international partners.

**New Milestones in Solar**. Photovoltaics R&D demonstrated manufacturable 23.4% efficient cells and manufactured the first 100 kilowatts of U.S.-produced T-5 product for commercial rooftops. Targets of 17-20 cents per kilowatthour for residential and 12-16 cents per kilowatthour for commercial photovoltaic systems have been exceeded. Concentrating Solar Power R&D developed next generation polymeric reflective coatings for troughs and towers that critically enable reduced solar field cost and enhanced performance necessary to achieve targets.

**Wind Technology Advances**. Dynamometer testing and calibration of a wind turbine gearbox that provide valuable operational data for the Gearbox Reliability Collaborative effort were completed. Eighty-one new wind energy project awards were selected for up to a total of $22.3 million, more than half of which will simultaneously address market and deployment challenges.

**Water Grants Awarded**. DOE's first-ever grants for wave, tidal, and ocean current energy were awarded. These grants support the development and testing of devices; fund resource assessments; address environmental impacts and siting concerns; and establish two university-led National Marine Renewable Energy Centers to serve the emerging marine and hydrokinetic (MHK) industry as integrated facilities for research and in-water testing. The program established the primary source of information for the water power industry with an updated, searchable database of all wave, tidal, and ocean current technologies and projects, as well as a catalogue for MHK technology developers.

*Ocean Pacific Technologies' PowerBuoy® system extracts the natural energy in ocean waves and is capable of responding to differing wave conditions. The result is a leading edge, ocean-tested proprietary system which generates reliable, clean and environmentally-beneficial electricity.*

OCEAN POWER TECHNOLOGIES, INC.

**Vehicle Efficiency Gains**. Research and development in commercial vehicle hybrid engines has resulted in fuel economy gains of 10 to 12% over the past 4 to 5 years. These gains are estimated to have saved 2.4 billion gallons of fuel. The program garnered three *R&D 100* awards during the year and signed two separate license agreements to commercialize their patented composite cathode materials for advanced lithium-ion batteries. The program developed performance for significantly higher specific battery capacities, a 50% increase over conventional materials.

**DOE Takes Lead in Hybrids**. President Obama announced in March 2010 that the federal government will lead by example in replacing older cars in the federal fleet with fuel efficient hybrids and plug-in hybrid electric vehicles, reducing dependence on oil as well as cutting carbon dioxide and other pollution. DOE led the way on this initiative by replacing 753 vehicles with hybrids in FY 2010, bringing the total number of hybrid vehicles in DOE's fleet to 888 and generating future fuel savings for taxpayers.

**Next Steps for FutureGen**. DOE met with state of Illinois officials and private partners in Chicago in August 2010 and discussed the next steps for the FutureGen 2.0 carbon capture and storage project in Illinois, a clean coal repowering program and carbon dioxide ($CO_2$) storage network. This investment in the world's first, commercial-scale, oxy-combustion power plant will help to open up the over $300 billion market for coal unit repowering and position the country as a leader in an important part of the global clean energy economy. Preparations then began for the

*Agreements with Ameren Corp. and the FutureGen Industrial Alliance formally commit $1 billion in stimulus funding to the revised FutureGen project*

repowering of Unit 4 at the Ameren facility in Meredosia, with construction set to begin in 2012. At the same time, a process was planned to locate a site for the carbon sequestration research, repowering workforce training facility, visitor center, and long-term $CO_2$ repository.

**Carbon Task Force Established**. On February 3, 2010, President Obama sent a memorandum to the heads of executive departments and federal agencies establishing an Interagency Task Force on Carbon Capture and Storage (CCS). The goal was to develop a comprehensive and coordinated federal strategy to speed the commercial development and deployment of clean coal technologies. The Task Force, co-chaired by DOE and the Environmental Protection Agency, was charged with proposing a plan to overcome the barriers to the widespread, cost-effective deployment of CCS within 10 years, with a goal of bringing 5 to 10 commercial demonstration projects online by 2016. On August 12, 2010, the Task Force delivered a series of recommendations to the President. The report concludes that CCS can play an important role in domestic greenhouse gas emissions reductions and includes specific actions to help overcome remaining barriers.

**$CO_2$ Storage Projects Selected**. DOE announced in August 2010 the selection of 15 projects to develop technologies aimed at safely and economically storing $CO_2$ in geologic formations. Funded with $21.3 million over 3 years, these selections will complement existing DOE initiatives to help develop the technology and infrastructure to implement large-scale $CO_2$ storage in different geologic formations across the nation. These projects will support the goal to reduce greenhouse gas emissions, making the United States a leader in mitigating climate change.

**Progress in Nuclear Power Deployment**. DOE's Nuclear Power 2010 program was brought to closure as planned in FY 2010. The program was successful in achieving its stated goal of demonstrating the redesigned regulatory process. The program worked with the Nuclear Regulatory Commission and industry to demonstrate regulatory processes such as early site permits and construction and operating licenses. This work has stimulated utilities to consider building nuclear power plants, as shown in the spike in license applications from 2002 to the present. The nuclear industry has submitted 17 applications to build 26 new nuclear power plants. Thirteen applications are currently active, and seven additional applications are planned. As of summer 2010, eight utilities had ordered large, long-lead nuclear component forgings, and site preparation work for new reactors had started at four facilities.

## Strategic Challenges

**Carbon Reductions**. To achieve the president's stated goal of reducing the country's greenhouse gas emissions by 83% by 2050, DOE must assist in providing the means to mitigate $CO_2$ emissions from current coal-fueled electric power plants and industrial sources. These sources combined produce about 50% of the nation's $CO_2$ emissions. Given the high cost and amount of energy required to capture and sequester $CO_2$ with existing technology, development of advanced low-cost technology will help overcome the barriers to commercial deployment of carbon capture and sequestration in the 2020 time frame. Widespread cost-effective deployment of carbon capture and storage will occur only if the technology is commercially available at economically competitive prices and supportive national policy frameworks are in place.

**Advances in Nuclear Power**. To ensure that nuclear energy can be part of the clean energy mix, challenges related to the increased use of nuclear energy must be addressed, both domestically and internationally. These challenges include developing technologies and other solutions that can improve the reliability, sustain the safety, and extend the life of current reactors, as well as provide improvements in the affordability of new reactors. Developing sustainable nuclear fuel cycles that provide an integrated and permanent solution to high-level nuclear waste management is also critical. Understanding and minimizing risks of nuclear proliferation in the development of reactor and fuel cycle technologies must occur to enable the safe and secure expansion of nuclear energy.

**Industry Partnerships**. The range of energy technologies is very diverse, requiring collaboration to organize resources effectively that span multiple disciplines. Long R&D timetables make large scale demonstration projects, such as carbon capture and sequestration, difficult to manage and plan. Approaches for benefits tend to be short-sighted and isolated to specific programs, driving DOE's applied R&D efforts towards incremental outcomes. Additionally, game changing technologies can only be realized through collaboration with the private sector, the success of which depends on market factors outside DOE's control.

# PRIORITY 4 NATIONAL SECURITY

*Maintain nuclear deterrent and prevent proliferation*

## Objectives:

- Provide a safe and effective nuclear arsenal without nuclear testing
- Reduce nuclear dangers through nonproliferation and arms control activities
- Provide safe, militarily-effective nuclear propulsion plants to the U.S. Navy
- Complete legacy environmental cleanup

## Supporting Offices:

National Nuclear Security Administration
Environmental Management
Legacy Management

The Department continues its efforts to meet goals for nonproliferation, weapons stewardship, nuclear propulsion and legacy cleanup – leveraging science to promote national security. President Obama established goals for the United States to lead an international effort to make significant progress in securing the most vulnerable nuclear weapons around the world within 4 years; establish new nuclear nonproliferation treaties and partnerships to reduce nuclear stockpiles and ban nuclear testing; and maintain a safe, secure, and effective arsenal to deter any adversary. The federal government has the responsibility to ensure a clean, safe, and healthy environment for future generations. To deliver on the Department's obligations stemming from 50 years of nuclear research and weapons production during the Cold War, the Department continues to focus its resources on those activities that will yield the greatest risk reductions, with safety as the utmost priority. DOE's diverse and technically complex cleanup mission includes: decontaminating and decommissioning (D&D) nuclear facilities, remediating contaminated soil and ground water, constructing and operating facilities to treat radioactive liquid tank waste, securing and storing nuclear material, and transporting and disposing of transuranic and low-level wastes. Key examples of FY 2010 program performance outcomes and benefits to U.S. citizens for the national security priority follow.

**Weapons Dismantled**. The W62 dismantlement program was completed a full year ahead of schedule. The United States produced the W62 in the 1970s, and the warhead saw service until recently.

**Laser Energy Milestone**. Scientists at the National Ignition Facility at Lawrence Livermore National Laboratory have successfully delivered an historic level of laser energy – more than 1 megajoule – to a target in a few billionths of a second and demonstrated the target drive conditions required to achieve fusion ignition. This is about 30 times the energy ever delivered by any other group of lasers in the world.

**Weapons Simulations**. As part of DOE's stockpile stewardship program, Advanced Simulation and Computing (ASC) has earned 3 of the top 10 spots on the latest TOP500 supercomputer list. ASC computers use models and simulations to understand and predict behaviors associated with aging weapons by, among other things, evaluating various stages of a nuclear explosion.

**Plutonium Reactor Shut Down**. On April 15, 2010, the last Russian weapons-grade plutonium production reactor was permanently shut down, 8 months ahead of schedule. Steady progress has been achieved in the construction of a fossil fuel plant to supply replacement heat to the city of Zheleznogorsk.

**Nuclear Detonation Detection**. During FY 2010, DOE delivered two new space sensor payloads for detecting and reporting nuclear detonations for the next-generation Global Positioning System satellites and developed and validated enhanced computer models for improving world-wide monitoring of seismic signals associated with nuclear detonations.

**Negotiation of New Treaty**. On April 8, 2010, Presidents Obama and Medvedev signed the New START Treaty to further limit and reduce strategic offensive arms. DOE participated throughout the National Security Council led interagency policy development process and the direct negotiation of the New START Treaty with Russia.

**Global Threat Reduction Initiative**. In February 2010, the remaining highly enriched uranium (HEU) was removed from Chile, making it the fifth country to remove all of its HEU since President Obama called for an international effort to secure all vulnerable nuclear material around the world.

**Cooperation with Russia**. An agreement was established with Russian Federal Customs Service to equip all of Russia's border crossings (about 370 sites) with radiation detection equipment by the end of 2011; to date, 221 sites in Russia have been equipped. DOE assisted Russia with installation of nuclear

security upgrades at 73 Russian nuclear warhead sites and with improvement of nuclear security at 37 Russian nuclear material sites. The United States and Russia signed a Protocol amending the Plutonium Management and Disposition Agreement, which commits each country to dispose of no less than 34 metric tons of excess weapon-grade plutonium enough material for approximately 17,000 nuclear weapons.

**Key Partner in Containing BP Oil Spill**. The DOE national laboratories were tasked to look at ways to seal the oil leak in the Gulf in April 2010. At the direction of President Obama, Secretary Chu assembled a team of top scientists to monitor the progress of BP's effort to contain the leak and to help design the strategies that solved the containment dilemma. In addition, DOE with NASA and other scientific agencies had more than 200 scientists, engineers, and other experts from the national laboratories actively supported the efforts to respond to the spill. Secretary Chu also made the data on the spill work widely available on DOE's web site to ensure the public and outside experts making recommendations were fully informed.

**Cleanup Contract Awarded**. In August 2010, DOE selected a contractor for the next phase of the cleanup at the Portsmouth site in south-central Ohio. Fluor-B&W Portsmouth, LLC, will be the prime contractor for the decontamination and decommissioning of the Portsmouth Gaseous Diffusion Plant. The project and the new contract will save and create jobs locally. The contract is valued at over $2 billion over 10 years, which includes an initial 5-year contract period plus a potential 5-year extension depending on contractor performance and the government's need. More than 30% of the total project value is expected to support work by small businesses.

**Moab Milestone Reached**. Two million tons of uranium mill tailings were shipped by rail from the Moab site to the site at Crescent Junction, Utah, for permanent disposal. This amount would fill 60 stories of the 110-story Willis Tower in Chicago, Illinois. This milestone comes only 5 months after the Moab Project shipped the first of the 16 million tons of total tailings.

**Hanford Stack Demolished**. The K East Reactor's 175-foot-high exhaust stack was brought down on July 23, 2010, at the Hanford Site in southeastern Washington State under the K Basin Closure Project. Taking down the stack clears the way for additional demolition work in the 100-K Area and forever changes the Hanford skyline. The explosive demolition also brought down heavy equipment inside the K East Reactor, including counterweights and overhead cranes that had been used during reactor operations.

**Radioactive Equipment Removed**. DOE's Central Plateau contractor completed removal of more than 120 large radioactive pieces of equipment from the deck of U Canyon during July 2010. The canyon is one of five former nuclear fuel-reprocessing plants at the Hanford Site in southeast Washington State. U Canyon will be a model for the demolition of other canyons on the Hanford Site. Efficiencies were found that not only reduce hazards but also put the project closer to meeting DOE's goal to have the canyon prepared for demolition by 2012.

## Strategic Challenges

**Nuclear Deterrence**. In order to meet the President's goal of securing the world's vulnerable nuclear material, it will be necessary to engage nations around the world to realize opportunities to secure these materials, and to engage our global partners to provide a share of the resources and expertise needed to accomplish this ambitious goal. The challenge at home will be to rebuild the national consensus on the role of the nuclear deterrent in our national security strategy and mobilize the political and financial support to make the sustained long term investments needed to transform the Cold-War nuclear weapons complex to a robust National Security Enterprise.

**Safe Storage for Nuclear Material**. The Administration has determined that Yucca Mountain is not an option for waste storage. The Blue Ribbon Commission on America's Nuclear Future will conduct a comprehensive review of policies for managing the back end of the nuclear fuel cycle, and will provide recommendations for developing a safe, long-term solution to managing the nation's used nuclear fuel and nuclear waste.

**Developing a Nuclear Workforce**. Maintenance, design, and development of reactor plants for nuclear-powered submarines and aircraft carriers requires a highly trained engineering work force and industrial base, highly skilled sustainment of core skills, capabilities, and supporting infrastructure. There is also a need for nuclear engineers for weapons programs.

*A heater is loaded into an open cell at U Canyon as work progresses to clear the deck of the facility.*

# Management's Analysis, Assurances and Priorities

## Analysis of Financial Statements

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

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

### Balance Sheet

As shown in Chart 1, The Department's total assets decreased by a net $.3 billion from FY 2009. This is due to a $7.4 billion decrease in Fund Balance with Treasury (FBWT) which was offset by $7.1 billion in increases from various assets (primarily Intragovernmental Net Investments, Net Direct Loan and Loan Guarantees and Net General Property, Plant and Equipment). The $7.4 billion FBWT decrease is primarily due to additional ARRA disbursements in FY 2010. In mid FY 2009, the Department received all of its ARRA appropriated funding and disbursed approximately $1 billion by year-end. In FY 2010, the Department disbursed an additional $7.2 billion of ARRA appropriated funds. Total liabilities decreased from FY 2009 primarily as a result of changes in unfunded liability estimates (see Chart 5 on page 23).

**Chart 1: Total Assets and Liabilities with Breakdown of FY 2010 Liabilities**

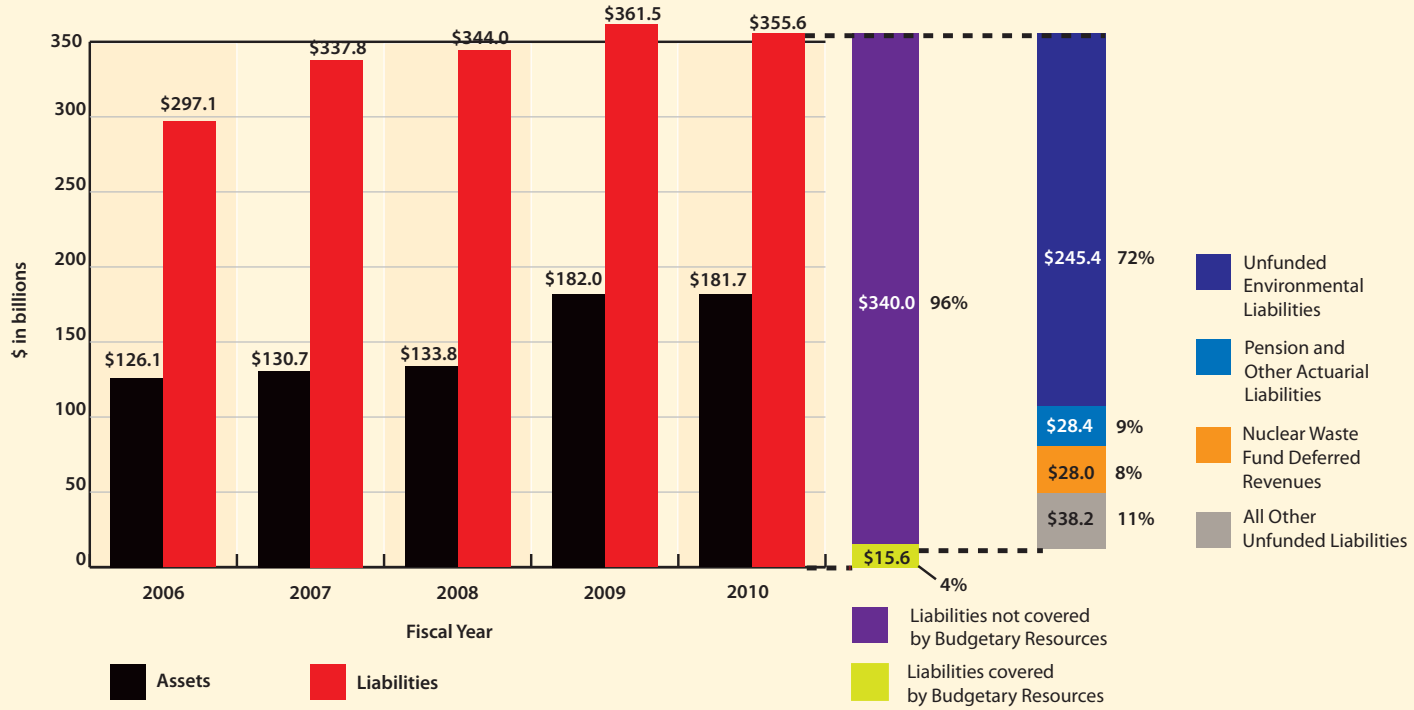
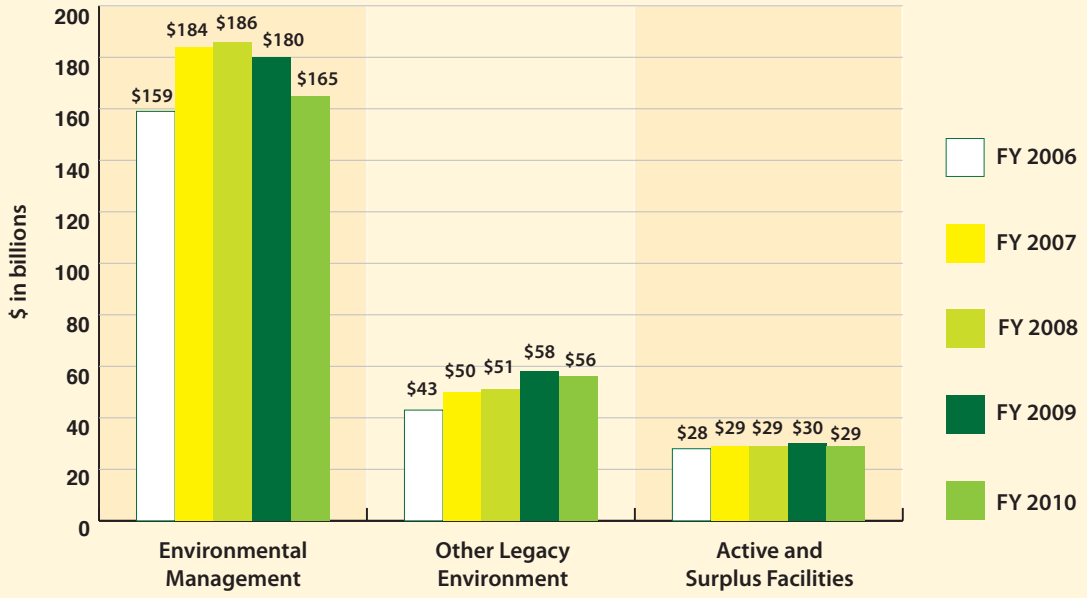


**Chart 2: Composition of Environmental Cleanup and Disposal Liability**




## Net Cost of Operations

The major elements of net cost (see Chart 3) include program costs, unfunded liability estimate changes and earned revenues. The Statement of Net Cost also provides program cost information along the Department's four strategic themes (see Chart 4).

Unfunded liability estimate changes result from inflation adjustments; improved and updated estimates; revisions in acquisition strategies, technical approach, or scope; and regulatory changes. The Department's overall net costs are dramatically impacted by these changes in environmental and other unfunded liability estimates. Since these estimates primarily relate to past years of operations, they are not included as current year program costs, but rather reported as "Costs Not Assigned" on the Consolidated Statements of Net Cost. Unfunded Liability Estimate Changes decreased $2.8 billion in FY 2010 (See Charts 5 and 6).

**Chart 3: Major Elements of Net Cost**

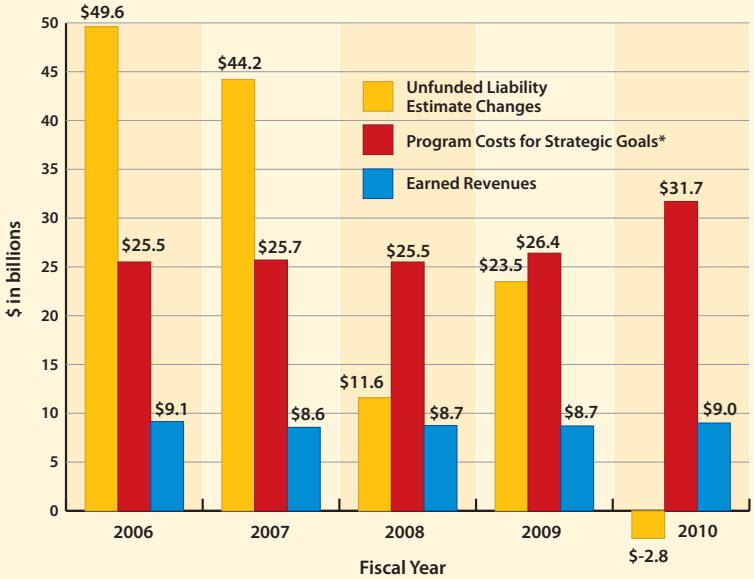
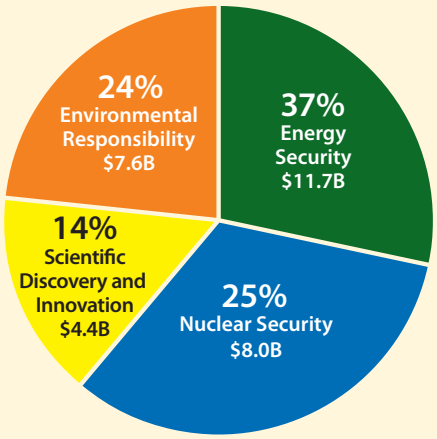



**Chart 4: FY 2010 Program Costs (Gross) Breakdown by Strategic Goals***




** Program costs for strategic goals exclude certain costs not directly attributable to the strategic goals, such as the cost of reimbursable and other miscellaneous programs, costs applied to the reduction of legacy environmental liabilities and imputed costs for the occupational illness program. These excluded costs are more fully described in Notes 21-23 of the financial statements.*

The significant environmental liability estimate decreases resulted from several factors. First, the Department restructured project estimates in FY 2010 to a lower level of detail which facilitated management attention on cost and performance of individual capital assets and operating activities on both base program and Recovery Act environmental cleanup projects. Second, the Department is beginning to realize returns on its investments in technology development that significantly reduce life cycle costs at several sites and to shorten the duration of cleanup. This is especially noticeable in the tank waste cleanup projects, which comprise approximately one-third of the Environmental Management Program's total liability. Third, the Department is achieving cost savings as it completes activities conducted with funds under the Recovery Act. And finally, the Department's cleanup activities continue to mature as a result of better project definition. This allows the Department to lower uncertainty and mitigate known risks which contributes to reducing the contingency costs associated with its projects.

The Department's FY 2010 unfunded liability estimates for contractor pension and postretirement benefits other than pensions (PRB) plans increased by $0.7 billion and $2.9 billion, respectively. The major components of these estimate changes are shown in Chart 6. The most significant component of the change resulted from a decrease in the rates used to discount the liabilities to present value. These discount rates are based on the yields of high-quality fixed income securities as of September 30th 2010 and 2009. Plan liabilities also changed due to differences in actual plan experience for the year compared to the actuarial assumptions for rates of retirement, termination of employment, compensation increases, health care inflation, and other demographic factors, including changes made to those assumptions to better reflect anticipated future experience. The overall increase in the pension plan liabilities were also offset by the better than expected investment return on pension plan assets for the year.

**Chart 5: Unfunded Liability Estimate Changes**

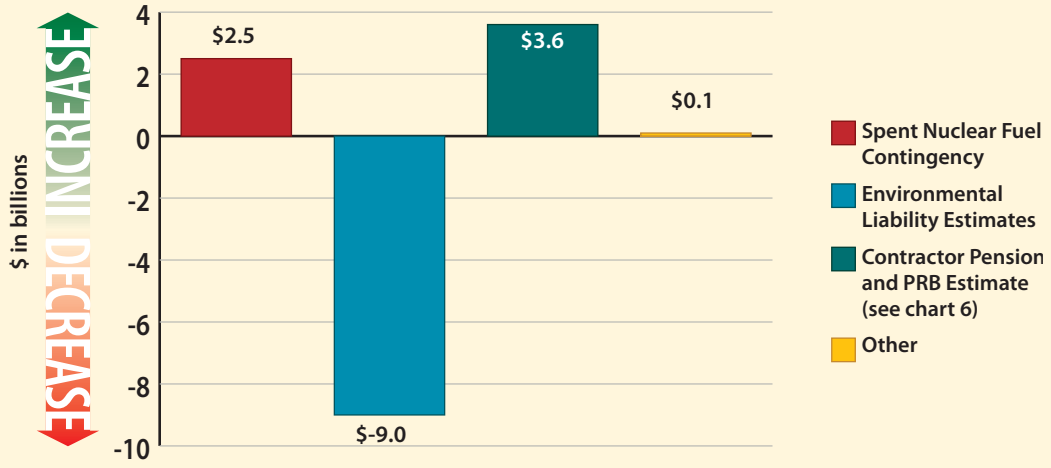
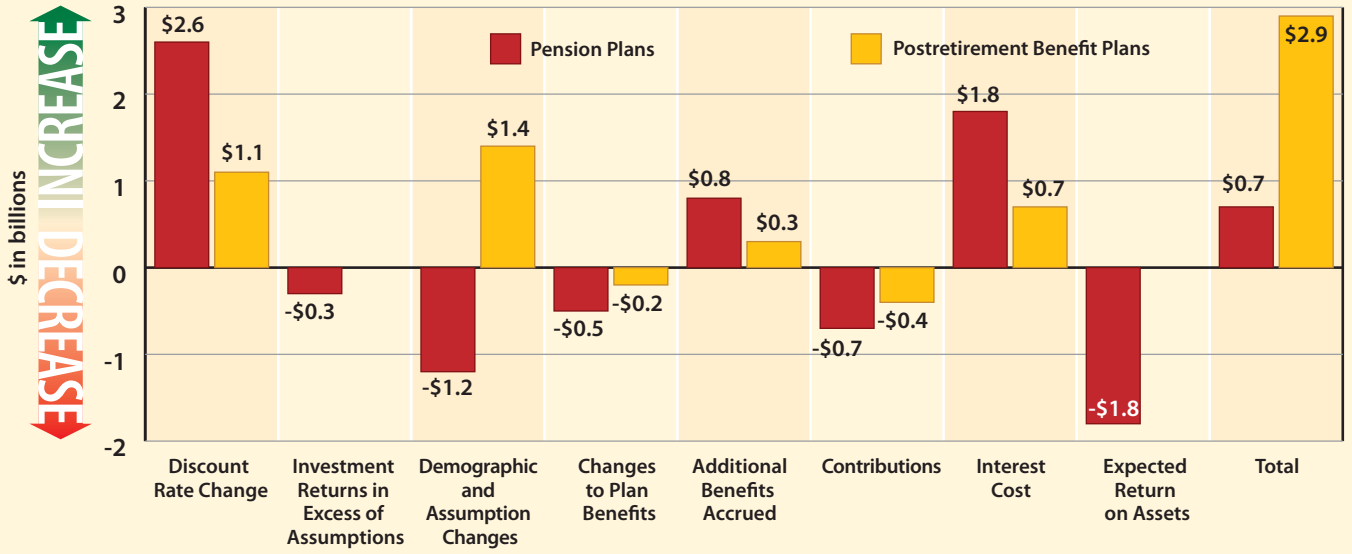



**Chart 6: Contractor Employee Pension and PRB Liability Estimate Changes**



## Budgetary Resources

The Combined Statements of Budgetary Resources provide information on the budgetary resources 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 (Treasury) and appropriated for Energy's use by Congress. Since budgetary accounting rules and financial accounting rules 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. As shown in Chart 7, for FY 2010, budget authority from appropriations has decreased by $46.1 billion from FY 2009. Budget authority decreased by $36.7 billion due to no new authority from the Recovery Act.

The Department's Obligations Incurred decreased by $11.7 billion from FY 2009. This $8.8 billion decrease was due to there being no new loans in the Credit Reform Financing Accounts in FY 2010. The remaining decrease is due to normal activity.

Chart 8 displays Recovery Act Cumulative Appropriations, Obligations and Outlays by major category.

**Chart 7: Obligations Incurred**

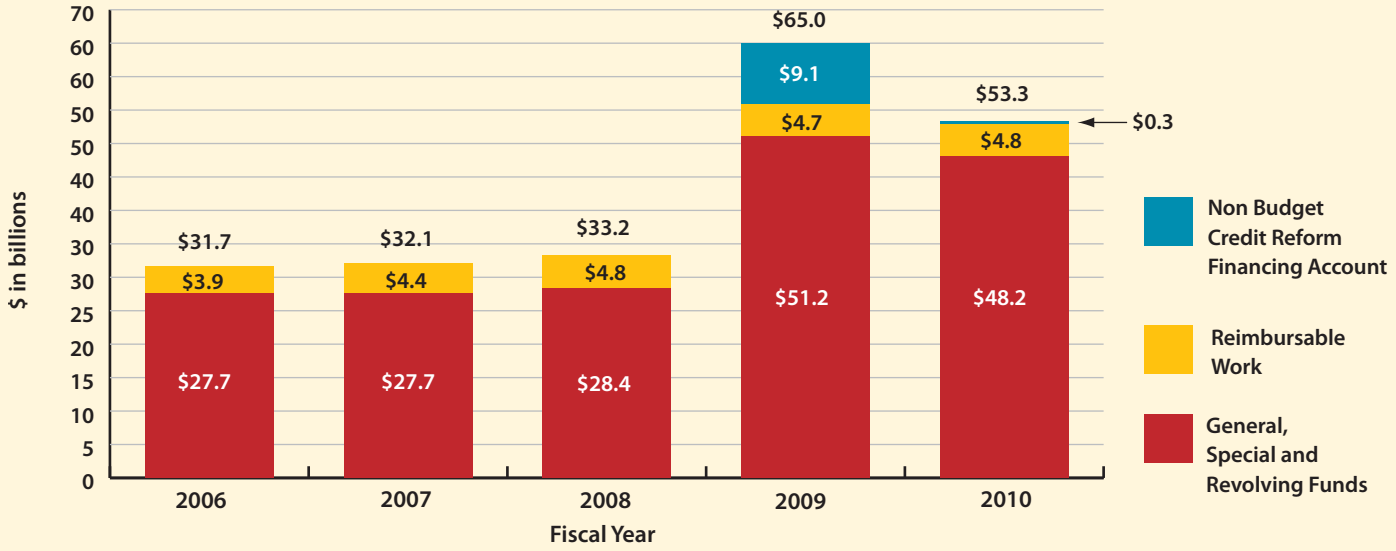
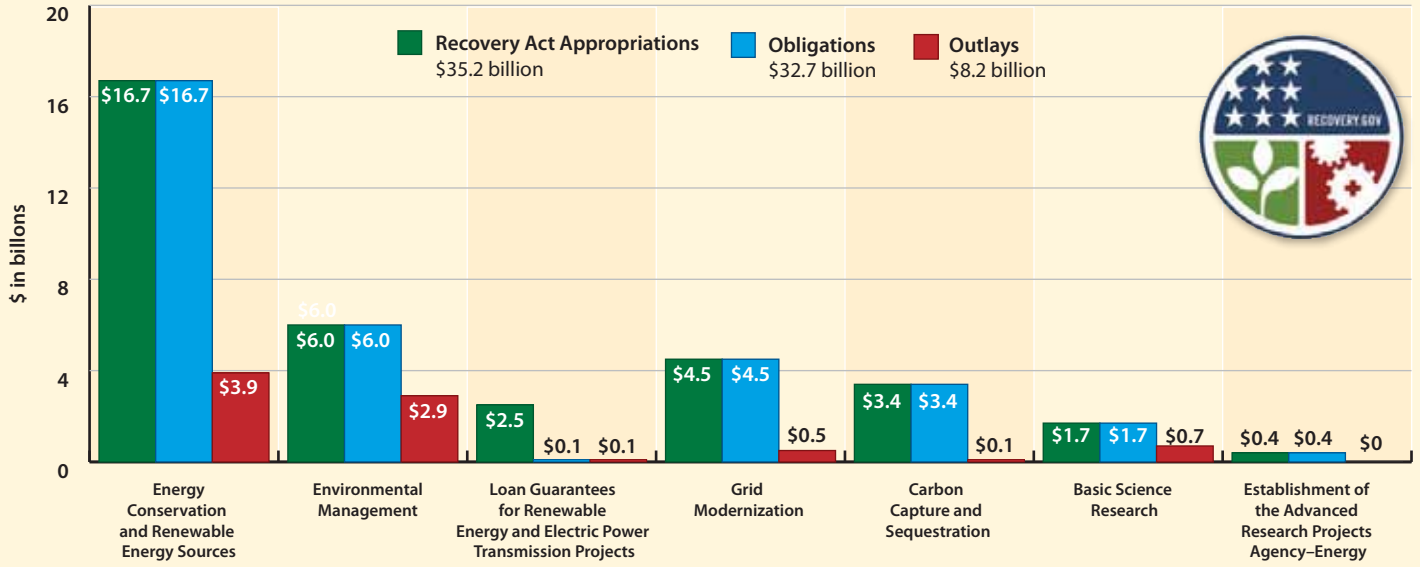



**Chart 8: Recovery Act Appropriations, Obligations and Outlays**

(Cumulative amounts below exclude the Western Area and Bonneville Power Administrations' borrowing authority and credit reform financing accounts)



## Chart 9: Linking Priorities, Budget and Cost

| 2006 STRATEGIC THEME | 2010 SECRETARIAL PRIORITIES | 2006 STRATEGIC GOALS | FY 2010 BUDGETARY EXPENDITURES INCURRED[a] ($ IN BILLIONS) | PROGRAM COST[b] (GROSS $ IN BILLIONS) | |
|---|---|---|---|---|---|
| | | | | FY2010 | FY2009 |
| Energy Security | Priority 3<br>Priority 2 | Energy Diversity | $2.3 | $11.7 | $7.5 |
| | Priority 3 | Environmental Impacts | $1.5 | | |
| | Priority 2 | Energy Infrastructure | $5.3 | | |
| | | Energy Productivity | $3.3 | | |
| Nuclear Security | Priority 4 | Nuclear Deterrent | $6.8 | $8.0 | $8.7 |
| | | Weapons of Mass Destruction | $2.2 | | |
| | | Nuclear Propulsion Plants | $0.9 | | |
| Scientific Discovery and Innovation | Priority 1 | Scientific Breakthroughs<br>Foundations of Science | $5.0 | $4.4 | $4.1 |
| Environmental Responsibility | Priority 4 | Environmental Cleanup | $9.0 | $7.6 | $6.1 |
| | | Managing the Legacy | $0.4 | | |

*a Budgetary Expenditures Incurred is synonymous with delivered orders — amounts accrued or paid for services performed, goods and tangible property received, or for programs for which no current service is required such as loans. Budgetary Expenditures are obtained from the Budgetary Standard General Ledger and are reported/recorded based on budgetary accounting rules. Includes capital expenditures but excludes such items as depreciation, changes in unfunded liability estimates, and certain other non-fund costs and allocations of Departmental Administration activities.*

*b Program Costs (Gross) are taken from the Department's Consolidated Statements of Net Cost.*

# Analysis of Systems, Controls and Legal Compliance

## Management Assurances

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

The Department has completed its evaluation of management and financial system internal controls. Based on that assessment, as of September 30, 2010, the Department can provide reasonable assurance that management internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulationswere 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 (FFMIA).

In addition, the Department is providing reasonable assurance that internal controls over financial reporting as of June 30, 2010, were working effectively and no material weaknesses were identified in the design or operation of the specific controls over financial reporting. This assessment and evaluation of internal control over financial reporting, includes safeguarding assets and compliance with applicable laws and regulations, as required by Appendix A of OMB Circular A-123 and Departmental requirements. The evaluation required an assessment of both entity and process controls.

The Department is responsible for establishing and maintaining adequate internal control (including safeguarding of assets and compliance with applicable laws and regulations) over all of the Department's American Recovery and Reinvestment Act (ARRA) funding. Controls have been established to ensure that the following critical objectives are met: (1) ARRA funding has been expended for the intended purposes and in accordance with internal and external guidance; (2) reported results regarding the expenditures of funds and the outcomes achieved are accurate and verifiable; and (3) key processes affecting the execution of ARRA funding have been evaluated and are deemed effective.

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

Steven Chu
November 12, 2010

## Federal Managers' Financial Integrity Act

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

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

The Department's evaluation for FY 2010 identified no material weaknesses in the design or operation of its management and financial system internal controls.

## OMB Circular A-123, Appendix A

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. The Department's evaluation for FY 2010 did not identify any material weaknesses as of, or subsequent to, June 30, 2010.

## 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.

## American Recovery and Reinvestment Act

The Recovery Act was signed into law to jumpstart our economy, create or save millions of jobs and put a down payment on addressing long-neglected challenges so our country can thrive in the 21st century. The Recovery Act is an extraordinary response to a crisis unlike any since the Great Depression, and includes measures to modernize our Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief and protect those in greatest need.

The Department has established and maintained adequate internal controls to ensure that: (1) Recovery Act funding has been expended for the intended purposes and in accordance with internal and external guidance; (2) reported results regarding the expenditure of Recovery Act funds and the outcomes achieved are accurate and verifiable; and (3) key processes impacting the execution of Recovery Act funding have been evaluated and are deemed effective.

# Management Priorities

The Department carries out multiple complex and highly diverse missions. Although the Department is continually striving to improve the efficiency and effectiveness of its programs and operations, there are some specific areas that merit a higher level of focus and attention. These areas oftentimes require long-term strategies for ensuring stable operations and represent the most daunting Management Priorities 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 Other Accompanying Information section of this report. Similarly, in FY 2003 the GAO identified six major management challenges and program risks to be addressed by the Department.

The Department, after considering all critical activities within the agency and those areas identified by the IG and GAO, has identified ten Management Priorities that represent the most important strategic management issues facing the Department now and in the coming years.

### CONTRACT AND PROJECT ADMINISTRATION

**Key Challenges**: Congress directed that the Department take corrective action to be removed from the GAO High-Risk List for inadequate contract and project oversight and management. DOE has been on this list since its inception in 1990. Leadership commitment from the Department's senior management and support from GAO and OMB is required to shape the necessary broad ranging policy and cultural changes and prevent adverse impact to the Department's mission.

**Departmental Initiatives**: The Department completed a comprehensive Root Cause Analysis (RCA) of contract and project management deficiencies in April 2008 and approved a Corrective Action Plan (CAP) in July 2008. The CAP addressed the root causes with solutions that provide demonstrable results. Based on progress over the past several years, especially in DOE's Office of Science, GAO in 2009 narrowed the scope of the high-risk designation to only include DOE's National Nuclear Security Administration and Office of Environmental Management. GAO issued a scorecard with five criteria for removing all DOE programs from the High-Risk List. While GAO acknowledges that the Department has met three of these criteria, DOE had to demonstrate that it met the two remaining criteria, including having sufficient staffing resources and independently validating the effectiveness of corrective measures.

Nearly all corrective actions identified in the CAP were completed in FY 2010. As a result, the Department made sustainable improvements to contract and project management and generated measurable results. The necessary data has been provided to GAO to assist in their determination of the High-Risk List. In short, the Department strengthened front-end planning by implementing Project Definition Rating Index and Technology Readiness Assessment Tools, developed Program specific staffing models based on industry and government best practices to provide appropriate project and contract oversight during planning and execution phases, and has adopted a policy for fully funding projects costing $50 million or less. A web-enabled replacement Project Assessment and Reporting System that provides transparent, consistent and quality project performance data (including contractor Earned Value Management System data) to all levels of field and Headquarters' management was developed and deployed. A revision to DOE's project management directive, DOE Order 413.3A, has been issued.

In FY 2011, efforts will transition from RCA/CAP closeout to Contract and Project Management Reform. There will be increased focus on contract management to include: expanding management reviews for high visibility contracts and programs; improving contract surveillance, monitoring and oversight; and strengthening contract/project alignment and change control. These continuous improvement opportunities will be implemented to further enhance the Department's efforts to consistently deliver capital asset projects within scope, cost and schedule commitments. Implementation of the RCA/CAP corrective measures will be monitored and appropriate project success performance metrics will be reported to Departmental leadership, OMB and GAO. In addition, DOE will report on its improvement status to the House and Senate Appropriations Committees in the annual budget request.

### ACQUISITION PROCESS MANAGEMENT

**Key Challenges**: The Department is the largest civilian contracting agency in the Federal Government and spends approximately 90% of its annual budget on contracts to operate its scientific laboratories, engineering and production facilities, and environmental restoration sites. The Department has been challenged, both externally and internally, to improve the efficiency and efficacy of the procurement process. Most recently, a July 2009 report by the National Academy of Public Administration identified systemic and other areas where improvements could be made to facilitate DOE's acquisition processes. In addition, the DOE Inspector General has identified contract management as a management challenge and has issued two additional reports on DOE's acquisition workforce. DOE, through its own internal assessments, has determined that it needs to improve the quality of both its procurement systems across the complex and the procurement transactions which they produce. In response to the key challenges, DOE conducted a root cause analysis and developed a corrective action plan that will, over time, help the Department's major projects meet their budget, schedule and scope requirements. Vulnerabilities will be eliminated or mitigated by the initiatives implemented during FY 2010.

**Departmental Initiatives**: Significant progress has been made in addressing this Management Priority. The majority of corrective measures have been completed and will improve the way contracts are awarded and administered. In FY 2010, the Office of Procurement and Assistance Management (OPAM) implemented a concept of operations for the Source Evaluation Board Secretariat Function and further matured its source selection knowledge management initiatives. OPAM also worked with EM to develop an aggressive portfolio of initiatives that will build on, and further mature, its re-engineering of the competitive contracting process with a focus on acquisition planning and proposal evaluations, and strengthening field contracting operational effectiveness. Specific areas of focus include:

- Strengthening front-end planning (requirements definition).
- Augmenting project staffing levels.
- Strengthening risk management strategies.
- Improving cost estimating capability.
- Stronger Federal oversight, including better integration of acquisition strategies, acquisition plans and project plans.
- Enhancing integrated contract teams through Deep Dive Reviews, Program Reviews and other oversight actions along with close interaction between Program and Office of Procurement acquisition officials.

Highlights of significant activities include developing Departmental guidance on Project Front-End Planning and publishing a Technical Readiness Assessment Guide. OPAM and EM have also collaborated in the development of a stand-alone course for managing contract/project changes which is expected to significantly improve our post-award management function. In addition, OPAM will continue to work on and support Government-wide initiatives aimed at building and strengthening the acquisition workforce.

DOE's ability to obligate approximately $32.7 billion in ARRA funding under an extremely quick timeframe demonstrates the success of the initiatives undertaken in FY 2010. DOE's acquisition and program workforce was quickly mobilized and worked in a truly collaborative manner making this massive obligation possible. In some instances, personnel were co-located in order to facilitate the process and resulting awards. DOE also undertook a number of industry outreach efforts to educate the public on the competitive award process making the entire process more efficient. These lessons learned will be incorporated into all facets of DOE acquisition. OPAM officials have also begun interacting with programs at the acquisition concept phase to help acquisition officials build their requirements. OPAM's engagement from the beginning of each major acquisition and its continued assistance throughout the entire acquisition cycle significantly enhances the success of the program and facilitates award and post-award management.

### SECURITY

**Key Challenges**: The Department works to ensure the security of national assets entrusted to the DOE while minimizing impact to productivity and achievement of the Department's mission objectives.

**Departmental Initiatives**: In FY 2010, Departmental elements continued the security reform efforts initiated in FY 2009 to maintain high standards of safeguards and security of national assets entrusted to the Department thus contributing to National security and safety of the public while reducing regulatory burden. Through leadership, worker and stakeholder engagement, and operational experience, the Department continued to refine its safeguards and security policies and focus its oversight programs. The Department

continued to implement an aggressive outreach program to establish and strengthen lines of communication, seek feedback and resolve areas of interest and concern. Such activities included conducting focus group meetings led by the Office of Health, Safety and Security with participation from DOE program offices, worker trade unions, professional associations and other stakeholders. DOE program and staff offices continued reviewing safeguards and security programs and requirements to validate the technical basis and soundness of Department security measures in order to shift towards clear, concise, performance-based requirements without being overly prescriptive or redundant, and to maximize the use of consensus standards. Where necessary, requirements were amended to better support the Department's overall mission objectives and management principles. Independent oversight activities were further focused on sites and laboratories that maintain significant levels of classified materials and/or information and poor performance. Additionally, the Department continued to reduce the overall security footprint and meet the Graded Security Protection (GSP) Policy by consolidating and improving special nuclear material storage facilities; eliminating or releasing for general use facilities that previously required safeguarding; restructuring security management systems; deploying security technologies; implementing the tactical response force doctrine where needed; and modifying contractual incentives and performance metrics to enhance the Department's overall effectiveness.

In FY 2011, the Department will work towards institutionalizing the safeguards and security reforms implemented in FY 2009 and FY 2010 through the following initiatives:

- Maximize the use of national and international consensus standards while ensuring DOE requirements are performance-based, meaningful, clear and concise without being overly prescriptive or redundant.
- Streamline the access authorization process and implement other efficiencies while continuing to institute Homeland Security Presidential Directive 12 for physical and logical access controls.
- Continue implementing the requirements of the GSP Policy by updating risk acceptance and vulnerability assessment processes, deploying cost-effective security technologies in coordination with implementing the tactical response force doctrine where appropriate, and consolidating and improving nuclear material storage facilities.
- Maintain effective levels of security expertise throughout the Department by providing security training and professional development programs through the National Training Center.
- Foster improvements to security performance by clarifying roles and responsibilities for Federal and contractor line management. and
- Continue the conduct of effective and transparent safeguards and security self-assessment, independent oversight, and enforcement programs to maintain stakeholder and public confidence.

## ENVIRONMENTAL CLEANUP

**Key Challenges**: Within the Department, EM's mission is to clean up the environmental legacy of nuclear weapons production and nuclear energy research. Fifty years of conducting these activities produced unique, technically complex problems, which must be solved under the most hazardous of conditions, and which will require billions of dollars a year for several more decades.

Technical and programmatic risks and associated uncertainties are an inherent part of such complex cleanup projects, which can last for decades and often require first-of-a-kind solutions. Also, EM's cleanup work at most sites is governed by one or more regulatory agreements or orders that establish the scope of work to be performed at a given site and the dates by which specific cleanup milestones must be achieved. Compliance with these agreements and orders is the major cost driver for the EM program.

In some cases, regulatory milestones were developed that pre-judged characterization results. As a consequence, these milestones did not result in cost-effective cleanup or risk reduction strategies. Since the inception of the EM program, it has become evident that a cleanup prioritization focusing solely on achieving compliance milestones does not achieve the greatest risk reductions and cleanup progress in a cost-effective manner.

In addition to being responsible for the cleanup of the legacy of the Manhattan Project and the Cold War, the Department has a backlog of excess facilities, materials and wastes requiring cleanup. EM has established a procedure to integrate the remediation and disposition of these environmental liabilities into its existing program.

**Departmental Initiatives**: In FY 2011, the Department will continue its environmental cleanup mission with the following ongoing initiatives:

- Specific cleanup actions can be re-sequenced to reduce risk more quickly; therefore, EM has been reviewing its cleanup agreements with regulators to identify actions that can reduce costs and accelerate risk reduction.
- To specifically address project and contract management performance, EM teamed with the US Army Corps of Engineers to develop a Corporate Implementation Plan (CIP) as a roadmap to address contract and project management challenges. The successful implementation of CIP will produce the following benefits: increased Federal ownership of cleanup projects; standardization of processes; clear

communication of requirements and policy; timely and effective change control for both project management and contract management.

- Departmental Program Offices and the National Nuclear Security Administration (NNSA) formally nominated more than 300 excess facilities, materials, and wastes that are no longer needed for current program missions. EM has a comprehensive process in place to determine if cleanup liabilities, including excess facilities, materials, and wastes, are suitable for transfer to EM from these Departmental Program Offices. When EM determines that nominated facilities and materials/wastes from other Program Offices within the Department satisfy transfer criteria, those facilities, materials, and wastes enter the EM program only when funding is available to address them. Until that time, the current owners (Departmental PSOs and NNSA) retain ownership, and are responsible for any surveillance and maintenance costs associated with them.
- EM has restructured its program in order to clearly differentiate and separate Capital Asset Projects from non-capital asset activities. This new structure is designed to more succinctly align capital asset acquisitions with Federal and Departmental asset management requirements.
- DOE has developed a planning process that analyzes life-cycle cost profiles for discrete scope elements to inform more optimum allocation of resources across the complex and to identify and accommodate additional cleanup scope. As part of this process, alternative approaches that maximize risk reduction and cost savings are being identified and evaluated.

## NUCLEAR WASTE DISPOSAL

**Key Challenges**: The Department of Energy is directed by the amended Nuclear Waste Policy Act of 1982 (NWPA) to manage and dispose of the nation's commercial and defense high-level waste and spent nuclear fuel in a manner that protects public health, safety and the environment.

The NWPA authorizes the Secretary to enter into contracts with commercial nuclear utilities and commercial research reactor operators that own and generate spent nuclear fuel. In return for the 1 mill per kilowatt-hour fee payment by utilities into the Nuclear Waste Fund, the government was to begin disposing of their spent nuclear fuel starting in 1998. As of October 2010, 74 lawsuits have been filed by utilities to recover damages resulting from the delay. The Department of Justice has been able to settle twelve of the lawsuits. To date, approximately $776 million in claims have been paid under these settlements with contract holders continuing to submit annual claims for additional costs. Additional annual payments will be made until the government "catches up" with its spent fuel acceptance obligations. The Department of Energy reviews the claims and provides recommendations for approval to the Department of Justice. Staff from the Department of Energy continue to be the lead government witness for the remaining unsettled cases being tried and continues to manage the Nuclear Waste Fund with a balance of approximately $25 billion.

The Department's FY 2010 budget request announced the Administration's intended termination of the Office of Civilian Radioactive Waste Management and the Yucca Mountain repository project and included funding to explore alternatives for nuclear waste disposal. The Department remains committed to meeting its obligations to manage and ultimately dispose of spent nuclear fuel and high-level radioactive waste.

**Departmental Initiatives**: The Secretary has convened a Blue Ribbon Commission of experts to evaluate alternative approaches to meet the Federal government's responsibility.

## STOCKPILE STEWARDSHIP

**Key Challenges**: The goal of the Department's Stockpile Stewardship Program is to sustain the safety and effectiveness of the nation's nuclear arsenal without returning to the use of nuclear testing. Since its inception in 1993, the stewardship endeavor has accomplished its intended purpose — but it now faces multiple challenges.

As the nation's nuclear weapons arsenal continues to age, so does the Department's critical research and production infrastructure, much of which consists of remnant facilities from the Cold War era. Furthermore, the composition and functional alignment of the workforce has become problematic. The enterprise's ability to attract, retain, exercise and invigorate the critical technical skills necessary to ensure agile responses to future national or international events has also been impacted. These conditions have created unique scientific and tactical challenges that must be overcome. Overcoming these challenges will support the ability of the Secretary, jointly with the Secretary of Defense, to annually certify to the President the status of nuclear weapons in the stockpile. It will also enable them to provide credible advice on whether underground nuclear tests need to resume.

**Departmental Initiatives**: Stewardship of the nation's nuclear weapons stockpile is one of the most complex, scientifically technical programs undertaken. DOE needs to ensure that all aspects of this mission-critical responsibility will be fulfilled. The success of stockpile stewardship activities is dependent upon unprecedented scientific and engineering tools. These tools will better enable NNSA to understand the changes that occur as nuclear weapons age. NNSA will also then be better able to enhance the surveillance assessments of existing weapons and extend weapon life spans when necessary. The "NNSA Defense Programs Strategic Framework," in concert with other high-level strategic plans, outlines paths to be followed by the Stockpile Stewardship activities and sets forth

priorities and strategies to address the most critical challenges including:

- Ensuring a safe, secure and effective nuclear weapons stockpile as directed by our national leadership.
- Correctly sizing and evolving the nuclear security enterprise to effectively and efficiently meet current and future mission requirements.
- Sustaining the critical scientific, technological and engineering capabilities (both human capital and technical facilities) necessary for our nation's nuclear security.

The 2010 Nuclear Posture Review (NPR) was released in April of this year and provides a roadmap for implementing the President's agenda for reducing nuclear dangers around the world. Following the release of the NPR, NNSA published its "FY 2011 Stockpile Stewardship and Management Plan of May 2010" (SSMP). The SSMP provides a 20-year strategy for executing the stockpile management requirements specified in the NPR. It includes detailed activities for sustaining a strong nuclear deterrent for the duration of the new START Treaty and into the future, without the need to resume underground nuclear testing and covers all of the following major elements of the nuclear weapons complex: the stockpile; the science, technology and engineering base; the production and laboratory infrastructure; and the Federal and contractor workforce. It also addresses the future intellectual infrastructure challenges facing NNSA, including mitigating the increasing loss of scientists with design experience as well as shortages in other critical science, technology, and engineering skills while further developing NNSA non-proliferation capabilities. The SSMP describes a path that continues the trend of a smaller active stockpile and demonstrates the reduction in size of the inactive stockpile at key milestones, such as when the life extension program is completed for the B61 weapon system.

Initiatives that will be undertaken in FY 2011 to meet the President's vision and meet key requirements identified include:

- Completing the ongoing Life Extension Program (LEP) for the W76 warhead and full nuclear scope LEP study and follow-on activities for the B61 bomb to ensure first production begins in FY2017.
- Initiating an LEP study to explore the life extension options for the W78 system.
- Completing the design and beginning construction of the Chemistry and Metallurgy Research Facility Replacement Nuclear Facility at the Los Alamos National Laboratory (LANL).
- Increasing pit manufacturing capacity and capability at the Plutonium Facility at LANL.
- Increasing warhead surveillance and essential investments to support stockpile assessment and certification in the absence of underground nuclear testing.

## CYBER SECURITY

**Key Challenges**: Despite overall improvements in the cyber security posture of the Department and the reduction in the number of cyber security findings, cyber attacks are increasing in their level of complexity, frequency and aggression. These persistent, pervasive areas of weakness must be addressed at an enterprise level to ensure that DOE information assets and systems are adequately protected from harm. Senior DOE management's support of a mission based risk management approach with Program Secretarial Officers responsible for considering cyber security risk from an enterprise view may help to broaden current perspectives and drive improvements where systemic issues were believed to have existed. Rich data regarding the cyber security profile of enterprise systems is currently collected by the Office of the Chief Information Officer (CIO) for external Federal reporting requirements. The implementation of a continuous effort to synthesize and analyze this data for use by senior Departmental management could provide key internal stakeholders with a tool for enhancing their understanding of current trends regarding cyber security risks facing the DOE enterprise.

**Departmental Initiatives**: Cyber security is vital to protecting national security and securing America's energy future. During FY 2010, the Department took transformative steps to improve the management of cyber security. At the direction of the Deputy Secretary, the Department established an Information Technology (IT) and cyber security governance council which brings together the Department's most senior leadership to oversee the agency cyber security program.

Long-term and continuous corrective action is required to effectively manage the evolving nature of cyber security threats. Towards sustaining and improving its cyber security program, in FY 2011 the Department will continue to:

- Focus on a mission based risk management approach.
- Develop and implement the Cyber Security Strategic Plan.
- Develop and implement the Cyber Security Architecture.

## HUMAN CAPITAL MANAGEMENT

**Key Challenges**: The Department requires a highly technical and specialized workforce to accomplish its scientific and technological missions. The ongoing challenge to maintain a capable workforce with the right people and skills is compounded by increased competition for individuals with the knowledge, skills and competencies that the Department needs; and the knowledge and skill drain from retirements.

**Departmental Initiatives**: The Department continues to implement creative programs and sound business practices to enhance its competitive position with respect to workforce

issues. The Department has bolstered recruitment and outreach activities through Web 2.0 initiatives; the DOE Student Ambassadors Program; launching an island in the Second Life virtual world; and expanding the DOE Scholars, Future Leaders, and Career Intern Programs. The Office of the Chief Human Capital Officer continues to provide timely and effective human capital management policies, guidance and accountability oversight. The Department has outlined how such programs support its strategic goals in a new Human Capital Management Strategic Plan.

The Department's Hiring Reform is a top-five priority in the Management Excellence Agenda of the Deputy Secretary's Operations Management Council. In July 2010, the Department launched a DOE-wide "time-to-hire" tracking system and was recognized by the Partnership for Public Service for the system's accessibility, visibility and transparency of information. To facilitate improvements in the hiring process, the Deputy Secretary and Chief Human Capital Officer directed the implementation of the Department's Hiring Reform Action Plan on November 1, 2010, in accordance with the President's seven Hiring Reform Initiatives. During FY 2010, the Department reduced the average hiring cycle time (recruitment initiation to entrance-on-duty) from 174 to 96 calendar days DOE-wide.

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

## SAFETY AND HEALTH

**Key Challenges**: The Department works to maintain the safety and health of its workers and the public, while striving to enhance productivity and achieve its mission objectives.

**Departmental Initiatives**: In FY 2010, Departmental elements continued the safety reform efforts initiated in FY 2009 to maintain high standards of health and safety for its workers and the public while reducing regulatory burden. Through leadership, worker and stakeholder engagement, and operational experience, the Department continued to refine its safety and health policies, focus its oversight programs, and align its enforcement activities. The Department continued to implement an aggressive safety and health outreach program to establish and strengthen lines of communication, seek feedback and resolve areas of interest and concern. Such activities included conducting focus group meetings led by the Office of Health, Safety and Security with participation from DOE program offices, worker trade unions, professional associations and other stakeholders. DOE program and staff offices continued reviewing safety programs and requirements to validate the technical basis and soundness of Department safety measures. Where necessary, requirements were amended to better support the Department's overall mission objectives and management principles. The Department also continued to strengthen safety oversight of capital projects, to include major nuclear design and construction projects and to ensure that quality assurance and safety requirements are properly implemented in all project life-cycle phases. Independent oversight activities were further focused on operations involving higher hazards and poor performance. The Department continued to align its worker and nuclear safety enforcement programs with those of the Occupational Safety and Health Administration and the Nuclear Regulatory Commission to provide a more consistent regulatory environment to its contractor base. The Department also continued integrating and implementing Title 10 C.F.R. 851, Worker Health and Safety requirements and Integrated Safety Management principles, into all facets of work planning and execution, including work conducted under the American Recovery and Reinvestment Act.

In FY 2011, the Department will work towards institutionalizing the safety reforms implemented in FY 2009 and FY 2010 through the following initiatives:

- Maximize the use of national and international consensus standards while ensuring DOE requirements are performance-based, meaningful, clear and concise without being overly prescriptive or redundant;
- Strengthen the implementation of Department safety-related programs, e.g., DOE Voluntary Protection Program and 10 C.F.R. 851, Worker Health and Safety, through corporate assistance and awareness activities;
- Maintain effective levels of safety and health expertise throughout the Department by providing safety training and professional development programs through the National Training Center;
- Foster improvements to safety performance by clarifying and communicating roles and responsibilities for Federal and contractor line management; and
- Continue the conduct of effective and transparent safety and health self-assessment, independent oversight, and enforcement programs to maintain stakeholder and public confidence.

## RECOVERY ACT

**Key Challenges**: Through the American Recovery and Reinvestment Act, the Department of Energy was appropriated $35.2 billion contract, grant and loan guarantee funds and $6.5 billion in power marketing administration borrowing authority. DOE was originally appropriated $38.7 billion of American Recovery and Reinvestment Act funds, which was later reduced to $35.2 billion after $3.5 billion in rescissions from the loan program. The Department is also supporting Treasury in administering more than $15 billion in tax grants for renewable-energy generation and tax credits for clean-energy manufacturing. These Recovery Act funds represented

a five-fold increase in the Applied Energy base budget and required the majority of program offices to significantly scale up operations quickly. Moreover, DOE established a new program, Advanced Research Project Agency-Energy (ARPA-E), and stood up its loan guarantee program. As a result of Recovery Act, the Department increased transparency and accountability, made high-quality decisions quickly, improved efficiency in the procurement process and improved collaboration within DOE and with external stakeholders.

**Departmental Initiatives**: Over the last two fiscal years, the Department has undertaken the following initiatives to meet the goals of the Recovery Act:

- Developed a master plan that defined key deadlines: issuing notices of funding opportunities, applications to be due, completion of review processes, announcements, NEPA reviews, contracts to be completed and projects to be started.
- Developed an online financial database for Recovery Act work, accessible through the iPortal. This provides every manager a consistent set of information regarding the current status of programs aggregated by agency or program or at the level of a particular project. Information related to obligations, payments and milestones is also available. Daily reports are generated and made available to the Department's senior management and the Congress.
- Specified the resources required to meet deadlines in the master plan. This highlighted the Department's need for reviewers, environmental compliance specialists and procurement officers. DOE worked vigorously with partners and external stakeholders to bring in more resources to the Department. The additional resources created the capacity to deliver at scale.
- Held regular "tag up" meetings bringing together the programs and relevant functions to identify critical issues, assign staff to resolve the issues and set a clear deadline for resolution.
- Conducted Recovery Program Review to perform a deep dive into a specific Program Office's financial, operational and impact metric progress in meeting targets.
- Developed comprehensive risk management plans for each program. Plans were supported by Inspector General's preventative up-front audit, documenting each instance of waste, fraud and abuse that had occurred over the last decade in any program receiving funds under the Recovery Act.
- Established call centers to help those applying for funding and, if necessary, provided resources to the field to facilitate the application process.

While the Department had success in obligating the Recovery Act funds, continued focus will remain on the following issues:

- Ensuring Recovery Act funds are expended quickly and wisely to maximize job creation and meet energy goals.
- Strengthening risk management practices as part of project oversight, including, closing out ARRA related contracts on a timely basis and resolving post-award audits promptly.
- Providing appropriate level of resources for ARRA–specific oversight and management through the end of ARRA projects.

| DOE MANAGEMENT PRIORITIES | IG CHALLENGE AREAS FY 2010 | GAO CHALLENGE AREAS |
|---|---|---|
| Contract and Project Administration S<br>Acquisition Process Management S | Contract and Financial Assistance Award Management S | Resolve problems in contract management that place the agency at high risk for fraud, waste and abuse S |
| Security D | Safeguards and Security D | Address security threats and problems D |
| Environmental Cleanup D<br>Nuclear Waste Disposal D | Environmental Cleanup D | Improve management for cleanup of radioactive and hazardous wastes D |
| Stockpile Stewardship D | Stockpile Stewardship D | Improve management of the Nation's nuclear weapons stockpile D |
| Cyber Security S | Cyber Security S | |
| | Energy Supply D | Enhance leadership in meeting the Nation's energy needs D |
| Human Capital Management S | Human Capital Management S | |
| Safety & Health S | | |
| Recovery Act S and D | | |
| | | Revitalize infrastructure S |

D Mission Direct S Mission Support

*Secretary Chu speaks after the first Chevrolet Volt battery came off the assembly line at the GM Brownstown Battery plant in Brownstown Township, Michigan. The facility is the first lithium ion battery pack manufacturing plant in the U.S. operated by a major automaker. (Photo by Steve Fecht for General Motors)*

# FINANCIAL RESULTS

# Message from the Chief Financial Officer

During Fiscal Year 2010, the Department demonstrated extraordinary leadership in contributing to the Administration's goal of stimulating the U.S. economy by making major investments in clean energy that will transform the way we use energy. I am especially proud of the Department's accomplishments in obligating $32.7 billion in American Recovery and Reinvestment Act (Recovery Act) contract and grant funds, in an unprecedented 18 months, and with a level of transparency that is cited as a model for the Federal government.

We take seriously our commitment to obligate Recovery Act funds expeditiously and judiciously to stimulate the economy and to invest in sound projects that will become the foundation for long-term prosperity through a clean energy economy. The Department has put into place risk mitigation plans to ensure that Recovery Act award recipients are held to a high standard of accountability. We also implemented initiatives to increase transparency in reporting the Recovery Act spending to the public. For example, DOE identified all Recovery Act recipients on its website. DOE now updates amounts obligated and paid to each recipient on a weekly basis, and emails a report to all State "Recovery Act Czars" showing the financial status of each recipient in their respective State. In addition, DOE makes available to the public a description of the Agency-wide goals of the Recovery Act, Program Office specific goals, and detailed descriptions of 147 projects including funding levels and performance objectives. These and other reports can be found on www.energy.gov/recoverydata.htm.

Improving the Department's financial transparency will continue to be a high priority for me. The Department's integrated corporate financial and business system, iManage, has proven its capabilities during the Recovery Act implementation by providing users with decision-making capabilities and networking tools. Next year, we will look for practical opportunities to apply these Recovery Act capabilities and tools to the Department's base programs.

The Department's Fiscal Year 2010 financial statements were audited and received the best audit report possible – a clean, unqualified opinion. Furthermore, no material weaknesses in internal controls were identified by the audit. The Department and the entire senior leadership team recognize the value of accurate and timely financial information for decision making and the financial management community can be proud of this accomplishment.

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 financial and performance results of the Department. Thank you.

Steve Isakowitz
November 12, 2010

# Consolidated and Combined Financial Statements

## INTRODUCTION TO PRINCIPAL STATEMENTS

The Department's financial statements have been prepared to report the financial position and results of operations of the Department of Energy, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the 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. The audit of the Department's principal financial statements was performed by an independent certified public accounting firm selected by the Department's IG. The auditors' report issued by the independent certified public accounting firm is included in this report.

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

### Consolidated Balance Sheets

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

### Consolidated Statements of Net Cost

The Consolidated Statements of Net Cost summarize the Department's operating costs by the strategic themes and goals identified in the Department's September 30, 2006 Strategic Plan. All operating costs reported reflect full costs, including all direct and indirect costs, consumed by a program or responsibility segment. The full costs are reduced by earned revenues to arrive at net costs.

### Consolidated Statements of Changes in Net Position

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

### Combined Statements of Budgetary Resources

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

### Consolidated Statements of Custodial Activities

The Consolidated Statements of Custodial Activities identify revenues collected by the Department on behalf of others. These revenues primarily result from power marketing administrations that sell power generated by hydroelectric facilities owned by the Corps and the Bureau of Reclamation.

# PRINCIPAL STATEMENTS

## U. S. Department of Energy Consolidated Balance Sheets

As of September 30, 2010 and 2009

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| **ASSETS:** (NOTE 2) | | |
| Intragovernmental Assets: | | |
| Fund Balance with Treasury (Note 3) | $ 56,249 | $ 63,671 |
| Investments, Net (Note 4) | 31,396 | 29,421 |
| Accounts Receivable, Net (Note 5) | 496 | 543 |
| Regulatory Assets (Note 6) | 5,468 | 5,489 |
| Other Assets | 61 | 56 |
| **Total Intragovernmental Assets** | **$ 93,670** | **$ 99,180** |
| Investments, Net (Note 4) | 195 | 195 |
| Accounts Receivable, Net (Note 5) | 4,018 | 3,941 |
| Direct Loan and Loan Guarantees, Net (Note 7) | 2,435 | 437 |
| Inventory, Net: (Note 8) | | |
| Strategic Petroleum and Northeast Home Heating Oil Reserve | 21,700 | 21,626 |
| Nuclear Materials | 21,454 | 20,459 |
| Other Inventory | 513 | 500 |
| General Property, Plant, and Equipment, Net (Note 9) | 29,687 | 27,654 |
| Regulatory Assets (Note 6) | 4,605 | 4,746 |
| Other Non-Intragovernmental Assets (Note 10) | 3,421 | 3,256 |
| **Total Assets** | **$ 181,698** | **$ 181,994** |
| **LIABILITIES:** (NOTE 11) | | |
| Intragovernmental Liabilities: | | |
| Accounts Payable | $ 101 | $ 62 |
| Debt (Note 12) | 14,847 | 12,708 |
| Deferred Revenues and Other Credits (Note 13) | 36 | 31 |
| Other Liabilities (Note 14) | 1,281 | 236 |
| **Total Intragovernmental Liabilities** | **$ 16,265** | **$ 13,037** |
| Accounts Payable | 4,832 | 4,088 |
| Loan Guarantee Liability (Note 7) | 4 | – |
| Debt Held by the Public (Note 12) | 5,915 | 6,166 |
| Deferred Revenues and Other Credits (Note 13) | 29,495 | 27,456 |
| Environmental Cleanup and Disposal Liabilities (Note 15) | 250,209 | 267,657 |
| Pension and Other Actuarial Liabilities (Note 16) | 28,405 | 24,744 |
| Obligations Under Capital Leases (Note 17) | 540 | 568 |
| Other Non-Intragovernmental Liabilities (Note 14) | 4,406 | 4,606 |
| Contingencies and Commitments (Note 18) | 15,481 | 13,222 |
| **Total Liabilities** | **$ 355,552** | **$ 361,544** |
| **NET POSITION:** | | |
| Unexpended Appropriations | | |
| Unexpended Appropriations - Earmarked Funds (Note 19) | $ 18 | $ 20 |
| Unexpended Appropriations - Other Funds | 46,981 | 55,387 |
| Cumulative Results of Operations | | |
| Cumulative Results of Operations - Earmarked Funds (Note 19) | (4,622) | (4,688) |
| Cumulative Results of Operations - Other Funds | (216,231) | (230,269) |
| **Total Net Position** | **$ (173,854)** | **$ (179,550)** |
| Total Liabilities and Net Position | **$ 181,698** | **$ 181,994** |

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

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

For the Years Ended September 30, 2010 and 2009

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| **STRATEGIC THEMES:** | | |
| **Energy Security:** | | |
| Energy Diversity: | | |
| Program Goal Costs | $ 2,322 | $ 1,470 |
| Less: Earned Revenues (Note 20) | (6) | (18) |
| Net Cost of Energy Diversity | **2,316** | **1,452** |
| Environmental Impacts of Energy: | | |
| Program Goal Costs | 1,311 | 1,249 |
| Less: Earned Revenues (Note 20) | (31) | (79) |
| Net Cost of Environmental Impacts of Energy | **1,280** | **1,170** |
| Energy Infrastructure: | | |
| Program Goal Costs | 4,775 | 4,047 |
| Less: Earned Revenues (Note 20) | (3,840) | (3,727) |
| Net Cost of Energy Infrastructure | **935** | **320** |
| Energy Productivity Program Costs | 3,268 | 714 |
| Net Cost of Energy Security | **7,799** | **3,656** |
| **Nuclear Security:** | | |
| Nuclear Deterrent: | | |
| Program Goal Costs | 5,350 | 6,198 |
| Less: Earned Revenues (Note 20) | (3) | (1) |
| Net Cost of Nuclear Deterrent | **5,347** | **6,197** |
| Weapons of Mass Destruction Program Costs | **1,731** | **1,750** |
| Nuclear Propulsion Plants: | | |
| Program Goal Costs | 949 | 808 |
| Less: Earned Revenues (Note 20) | (13) | (14) |
| Net Cost of Nuclear Propulsion Plants | **936** | **794** |
| Net Cost of Nuclear Security | **8,014** | **8,741** |
| **Scientific Discovery and Innovation:** | | |
| Net Cost of Scientific Discovery and Innovation | 4,369 | 4,050 |
| **Environmental Responsibility:** | | |
| Environmental Cleanup: | | |
| Program Goal Costs | 7,379 | 5,772 |
| Less: Earned Revenues (Note 20) | (242) | (183) |
| Net Cost of Environmental Cleanup | **7,137** | **5,589** |
| Managing the Legacy | | |
| Program Goal Costs | 262 | 371 |
| Less: Earned Revenues (Note 20) | (130) | (193) |
| Net Cost of Managing the Legacy | **132** | **178** |
| Net Cost of Environmental Responsibility | **7,269** | **5,767** |
| Net Cost of Strategic Themes | **27,451** | **22,214** |
| **OTHER PROGRAMS:** | | |
| Reimbursable Programs: | | |
| Program Costs | 4,255 | 4,228 |
| Less: Earned Revenues (Note 20) | (4,169) | (4,111) |
| Net Cost of Reimbursable Programs | **86** | **117** |
| Other Programs | | |
| Program Costs (Note 21) | 946 | 1,173 |
| Less: Earned Revenues (Notes 20 & 21) | (522) | (324) |
| Net Cost of Other Programs | **424** | **849** |
| Costs Applied to Reduction of Legacy Environmental Liabilities (Notes 15 and 22) | (6,515) | (5,639) |
| Costs Not Assigned (Note 23) | 2,377 | 23,264 |
| Net Cost of Operations (Note 24) | **$ 23,823** | **$ 40,805** |

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

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

For the Years Ended September 30, 2010 and 2009

| ($ IN MILLIONS) | EARMARKED FUNDS (NOTE 19) | ALL OTHER FUNDS | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|
| | | FY 2010 | | |
| **CUMULATIVE RESULTS OF OPERATIONS:** | | | | |
| Beginning Balances | $ (4,688) | $ (230,269) | $ – | $ (234,957) |
| Budgetary Financing Sources: | | | | |
| Appropriations Used | $ 13 | $ 33,062 | $ – | $ 33,075 |
| Non-Exchange Revenue | 7 | 54 | – | 61 |
| Donations and Forfeitures of Cash | – | 1 | – | 1 |
| Transfers - In/(Out) Without Reimbursement | 17 | (50) | – | (33) |
| Other Financing Sources (Non-Exchange): | | | | |
| Donations and Forfeitures of Cash | 27 | 2 | – | 29 |
| Transfers - In/(Out) Without Reimbursement (Note 24) | 3 | 198 | – | 201 |
| Imputed Financing from Costs Absorbed by Others (Note 24) | 2 | 5,492 | – | 5,494 |
| Other | 488 | (907) | (482) | (901) |
| **Total Financing Sources** | **$ 557** | **$ 37,852** | **$ (482)** | **$ 37,927** |
| Net Cost of Operations | (491) | (23,814) | 482 | (23,823) |
| **Net Change** | **$ 66** | **$ 14,038** | **$ –** | **$ 14,104** |
| **Total Cumulative Results of Operations** | **$ (4,622)** | **$ (216,231)** | **$ –** | **$ (220,853)** |
| **UNEXPENDED APPROPRIATIONS:** | | | | |
| Beginning Balances | $ 20 | $ 55,387 | $ – | $ 55,407 |
| Budgetary Financing Sources: | | | | |
| Appropriations Received (Note 25) | $ 11 | $ 26,176 | $ – | $ 26,187 |
| Appropriations Transferred - In/(Out) | – | 3 | – | 3 |
| Other Adjustments | – | (1,523) | – | (1,523) |
| Appropriations Used | (13) | (33,062) | – | (33,075) |
| **Total Budgetary Financing Sources** | **$ (2)** | **$ (8,406)** | **$ –** | **$ (8,408)** |
| **Total Unexpended Appropriations** | **$ 18** | **$ 46,981** | **$ –** | **$ 46,999** |
| **Net Position** | **$ (4,604)** | **$ (169,250)** | **$ –** | **$ (173,854)** |
| | | FY 2009 | | |
| **CUMULATIVE RESULTS OF OPERATIONS:** | | | | |
| Beginning Balances | $ (5,638) | $ (215,622) | $ – | $ (221,260) |
| Budgetary Financing Sources: | | | | |
| Appropriations Used | $ 13 | $ 25,741 | $ – | $ 25,754 |
| Non-Exchange Revenue | 22 | 53 | – | 75 |
| Donations and Forfeitures of Cash | – | 15 | – | 15 |
| Transfers - In/(Out) Without Reimbursement | (179) | (61) | – | (240) |
| Other Financing Sources (Non-Exchange): | | | | |
| Donations and Forfeitures of Cash | 59 | – | – | 59 |
| Transfers - In/(Out) Without Reimbursement (Note 24) | (49) | 142 | – | 93 |
| Imputed Financing from Costs Absorbed by Others (Note 24) | 2 | 1,300 | – | 1,302 |
| Other | 518 | 33 | (501) | 50 |
| **Total Financing Sources** | **$ 386** | **$ 27,223** | **$ (501)** | **$ 27,108** |
| Net Cost of Operations | 564 | (41,870) | 501 | (40,805) |
| **Net Change** | **$ 950** | **$ (14,647)** | **$ –** | **$ (13,697)** |
| **Total Cumulative Results of Operations** | **$ (4,688)** | **$ (230,269)** | **$ –** | **$ (234,957)** |
| **UNEXPENDED APPROPRIATIONS:** | | | | |
| Beginning Balances | $ 13 | $ 11,106 | $ – | $ 11,119 |
| Budgetary Financing Sources: | | | | |
| Appropriations Received (Note 25) | $ 20 | $ 72,020 | $ – | $ 72,040 |
| Appropriations Transferred - In/(Out) | – | (1,998) | – | (1,998) |
| Appropriations Used | (13) | (25,741) | – | (25,754) |
| **Total Budgetary Financing Sources** | **$ 7** | **$ 44,281** | **$ –** | **$ 44,288** |
| **Total Unexpended Appropriations** | **$ 20** | **$ 55,387** | **$ –** | **$ 55,407** |
| **Net Position** | **$ (4,668)** | **$ (174,882)** | **$ –** | **$ (179,550)** |

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

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

For the Years Ended September 30, 2010 and 2009

| ($ IN MILLIONS) | FY 2010 BUDGETARY | FY 2010 NON-BUDGETARY CREDIT REFORM FINANCING ACCOUNTS | FY 2009 BUDGETARY | FY 2009 NON-BUDGETARY CREDIT REFORM FINANCING ACCOUNTS |
|---|---|---|---|---|
| **BUDGETARY RESOURCES:** | | | | |
| Unobligated Balance, Brought Forward, October 1 | $ 27,262 | $ 3,336 | $ 3,629 | $ – |
| Recoveries of Prior Year Unpaid Obligations | 997 | 189 | 60 | – |
| Budget Authority: | | | | |
| Appropriations (Note 25) | $ 27,065 | $ – | $ 73,202 | $ – |
| Borrowing Authority | 838 | 160 | 385 | 9,102 |
| Contract Authority | 1,135 | – | 787 | – |
| Spending Authority from Offsetting Collections: | | | | |
| Earned: | | | | |
| Collected | 8,343 | 947 | 8,069 | 468 |
| Change in Receivables from Federal Sources | 23 | – | (30) | – |
| Change in Unfilled Customer Orders: | | | | |
| Advances Received | 9 | – | 80 | – |
| Without Advance from Federal Sources | 20 | (775) | (6) | 2,868 |
| Subtotal | **$ 37,433** | **$ 332** | **$ 82,487** | **$ 12,438** |
| Nonexpenditure Transfers, Net, Actual | (87) | – | (2,056) | – |
| Temporarily not Available Pursuant to Public Law | – | – | (7) | – |
| Permanently not Available | (2,623) | (189) | (955) | – |
| Total Budgetary Resources (Note 25) | **$ 62,982** | **$ 3,668** | **$ 83,158** | **$ 12,438** |
| **STATUS OF BUDGETARY RESOURCES:** | | | | |
| Obligations Incurred: | | | | |
| Direct | $ 44,467 | $ 305 | $ 48,101 | $ 9,102 |
| Exempt from Apportionment | 3,773 | – | 3,141 | – |
| Reimbursable | 4,796 | – | 4,654 | – |
| Total Obligations Incurred (Notes 24 and 25) | **$ 53,036** | **$ 305** | **$ 55,896** | **$ 9,102** |
| Unobligated Balance: | | | | |
| Apportioned | 8,278 | 71 | 25,572 | 3 |
| Exempt from Apportionment | 53 | – | 43 | – |
| Unobligated Balance not Available (Note 25) | 1,615 | 3,292 | 1,647 | 3,333 |
| Total Status of Budgetary Resources | **$ 62,982** | **$ 3,668** | **$ 83,158** | **$ 12,438** |
| **CHANGE IN OBLIGATED BALANCE:** | | | | |
| Obligated Balance, Net: | | | | |
| Unpaid Obligations, Brought Forward, October 1 | $ 41,897 | $ 8,194 | $ 21,102 | $ – |
| Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 | (4,455) | (2,868) | (4,491) | – |
| Total Unpaid Obligated Balance, Net, October 1 | **$ 37,442** | **$ 5,326** | **$ 16,611** | **$ –** |
| Obligations Incurred (Notes 24 and 25) | 53,036 | 305 | 55,896 | 9,102 |
| Less: Gross Outlays | (42,434) | (2,167) | (35,041) | (908) |
| Less: Recoveries of Prior Year Unpaid Obligations, Actual | (997) | (189) | (60) | – |
| Change in Uncollected Customer Payments from Federal Sources | (43) | 775 | 36 | (2,868) |
| | **$ $47,004** | **$ 4,050** | **$ 37,442** | **$ 5,326** |
| Obligated Balance, Net, End of Period: | | | | |
| Unpaid Obligations (Note 25) | $ 51,502 | $ 6,143 | $ 41,897 | $ 8,194 |
| Less: Uncollected Customer Payments from Federal Sources | (4,498) | (2,093) | (4,455) | (2,868) |
| Total, Unpaid Obligated Balance, Net, End of Period | **$ 47,004** | **$ 4,050** | **$ 37,442** | **$ 5,326** |
| **NET OUTLAYS:** | | | | |
| Gross Outlays | $ 42,434 | $ 2,167 | $ 35,041 | $ 908 |
| Less: Offsetting Collections | (8,352) | (947) | (8,149) | (468) |
| Less: Distributed Offsetting Receipts (Notes 24 and 25) | (3,305) | – | (3,235) | – |
| Net Outlays (Note 25) | **$ 30,777** | **$ 1,220** | **$ 23,657** | **$ 440** |

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

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

For the Years Ended September 30, 2010 and 2009

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| **SOURCES OF COLLECTIONS:** | | |
| Cash Collections: (Note 26) | | |
| Power Marketing Administration Custodial Revenue | $ 899 | $ 694 |
| Federal Energy Regulatory Commission | 41 | 63 |
| **Total Cash Collections** | **$ 940** | **$ 757** |
| Accrual Adjustment | (13) | 14 |
| **Total Custodial Revenue** | **$ 927** | **$ 771** |
| **DISPOSITION OF REVENUE:** | | |
| Transferred to Others: | | |
| Bureau of Reclamation | (471) | (428) |
| Department of the Treasury | (351) | (321) |
| Army Corps of Engineers | (87) | (26) |
| Decrease/(Increase) in Amounts to be Transferred | (18) | 4 |
| **Net Custodial Activity** | **$ –** | **$ –** |

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

# NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies

### A. BASIS OF PRESENTATION

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the United States (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 regulating the transmission and wholesale of electricity in interstate commerce and the licensing of hydroelectric power projects.

The Department has a complex field structure comprised of operations offices, field offices, power marketing administrations (Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration), laboratories, and other facilities. The majority of the Department's environmental cleanup, energy research and development, and testing and production activities are carried out by major contractors. The contractors operate, maintain, or support the Department's government-owned facilities on a day-to-day basis and provide other special work under the direction of the Department's field organizations. The Department indemnifies these contractors against financial responsibility from nuclear accidents under the provisions of the Price-Anderson Act.

These contractors have unique contractual relationships with the Department. In most cases, their charts of accounts and accounting systems are integrated with the Department's accounting system through a home office-branch office type of arrangement. Additionally, the Department is responsible for reimbursing the allowable costs of contractor contributions to 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 accounting basis, revenues are recognized when earned and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. All material intradepartmental balances and transactions have been eliminated in the Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Consolidated Statements of Custodial Activities. The Combined Statements of Budgetary Resources are prepared on a combined basis and do not include intradepartmental eliminations.

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

### D. FUND BALANCE WITH TREASURY

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

### E. INVESTMENTS, NET

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

### F. ACCOUNTS RECEIVABLE, NET

Intragovernmental accounts receivables represent amounts due from other federal agencies and are considered to be fully collectible. The amounts due for non-intragovernmental (non-federal) receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances (see Note 5).

### G. DIRECT LOANS AND LOAN GUARANTEES

The Department has two loans that were obligated and disbursed prior to fiscal year 1992, and are presented net of an allowance for loss. All loans obligated after fiscal year 1992 are presented on a present value basis in compliance with the Federal Credit Reform Act of 1990. The present value of the loans is revalued on an annual basis (see Note 7).

Interest expense on the Federal Financing Bank (FFB) Debt is calculated in accordance with the Office of Management and Budget Circular A-11, Sections 185.32 and 185.34 using the Credit Subsidy Calculator 2 (CSC2).

### H. INVENTORY, NET

Stockpile materials are recorded at historical cost in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, except for certain nuclear materials identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value (see Note 8).

### I. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. The Department's property, plant, and equipment capitalization threshold is $50,000 except for the power marketing administrations (PMAs) and FERC, which use thresholds ranging from $5,000 to $50,000. 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 9).

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 rights –for a specified period or 50 years, whichever is less

### J. LIABILITIES

Liabilities represent amounts of monies or other resources likely to be paid by the Department as a result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent an authorized appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources (see Note 11), and there is no certainty that the appropriations will be enacted. Also, liabilities of the Department that are not contract based can be abrogated by the government acting in its sovereign capacity.

### K. EARMARKED FUNDS

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the government's general revenues (see Note 19).

### L. ACCRUED ANNUAL, SICK, AND OTHER LEAVE

**Federal Employees**: 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.

**Contractor Employees**: The Department accrues annual leave for contractor employees. Unlike leave for federal employees, this is a funded liability rather than an unfunded liability.

### M. RETIREMENT PLANS

**Federal Employees**: There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS

and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, the Department also contributes the employer's matching share for Social Security. The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management (OPM). The Department does report, as an imputed financing source (see Note 24) and a program expense, the difference between its contributions to federal employee pension and other retirement benefits and the estimated actuarial costs as computed by OPM. The PMAs make additional annual contributions to Treasury to ensure that all postretirement benefit programs provided to their employees are fully funded and such costs are both recovered through rates and properly expensed.

**Contractor Employees**: The Department is contractually responsible for reimbursing its major contractors who sponsor employee defined benefit pension plans for the costs of contractor employee retiree benefits because these are allowable costs under their contracts. Most of these contractors sponsor defined benefit pension plans under which these plans promise to pay employees specified benefits, such as a percentage of the final average pay for each year of service. The Department does not sponsor and is not the fiduciary of contractor employee defined benefit plans. Contractors are required to make contributions to their plans as required by the Internal Revenue Code, the Employee Retirement Income Security Act (ERISA), as amended, and Departmental direction. Employer contributions are calculated to ensure that plan assets are sufficient to provide for accrued benefits of contractor employees. The level of contributions is dependent on plan provisions and actuarial assumptions about the future, such as interest rates, employee turnover and mortality, age of retirement, and compensation increases. The Department's major contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits which are generally funded on a pay-as-you-go basis. Since the Department is responsible for the allowable costs of funding these contractor pension and PRB plans, it reports assets and liabilities for these plans (see Note 16).

## N. NET COST OF OPERATIONS

Program costs are summarized in the Consolidated Statements of Net Cost by the strategic goals and objectives 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 goals and objectives. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see Notes 20 and 21). 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 disruption and increasing the flexibility of the market to meet U.S. needs.
- **Environmental Impacts of Energy** – Improve the quality of the environment by reducing greenhouse gas emissions and environmental impacts to land, water, and air from energy production and use.
- **Energy Infrastructure** – Create a more flexible, more reliable, and higher capacity U.S. energy infrastructure.
- **Energy Productivity** – Cost-effectively improve the energy efficiency of the U.S. economy.

### Nuclear Security

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

### Scientific Discovery and Innovation

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

### Environmental Responsibility

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

## O. REVENUES AND OTHER FINANCING SOURCES

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

revenues and imputed financing sources. The Department also collects custodial revenues on behalf of others.

**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 the government provides value to the public or another government entity at a price (see Note 20). 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 U.S. Enrichment Corporation (see Note 4). These revenues are not considered to reduce the cost of the Department's operations and are reported on the Consolidated Statements of Changes in Net Position.

**Imputed Financing Sources**: In certain instances, program costs of the Department are paid out of the funds appropriated to other federal agencies. For example, certain costs of retirement programs are paid by OPM, and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. When costs that are directly attributable to the Department's operations are paid by other agencies, the Department recognizes these amounts on the Consolidated Statements of Net Cost. In addition, these amounts are recognized as imputed financing sources on the Consolidated Statements of Changes in Net Position (see Note 24).

**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).

## P. USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates and assumptions include present value of loan receivables, estimated lives of general property, plant and equipment, environmental cleanup and disposal liabilities, pension and other actuarial liabilities, contingencies and commitments, cost accruals, and managerial cost allocations. Actual results could differ from these estimates.

## Q. COMPARATIVE DATA

Certain fiscal year 2009 amounts have been reclassified to conform to the fiscal year 2010 presentation.

## R. ALLOCATION TRANSFERS WITH OTHER FEDERAL AGENCIES

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the 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 child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The Department allocates funds, as the parent, to the U.S. Army Corps of Engineers. The Department receives allocation transfers, as the child, from the U.S. Department of Treasury, the U.S. Department of Transportation and the U.S. Agency for International Development.

## 2. Non-Entity Assets

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Intragovernmental | | |
| Naval Petroleum Reserve Deposit Fund (Note 14) | $ 323 | $ 323 |
| Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 14) | 59 | 59 |
| Other | 7 | 8 |
| Subtotal | **$ 389** | **$ 390** |
| Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 14) | 195 | 195 |
| Inventories - Department of Defense stockpile oil (Notes 8 and 14) | 123 | 123 |
| Other | 2 | 1 |
| **Total non-entity assets** | **$ 709** | **$ 709** |
| **Total entity assets** | 180,989 | 181,285 |
| **Total assets** | **$ 181,698** | **$ 181,994** |

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 receipts collected as a result of agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s and 1980s. These receipts are invested in Treasury securities and certificates of deposit at minority-owned financial institutions pending determination by the Department as to how to distribute the fund balance. The investments are liquidated, as needed, to make payments to claimants from this fund.

## 3. Fund Balance with Treasury

| ($ IN MILLIONS) | APPROPRIATED FUNDS | REVOLVING FUNDS | SPECIAL FUNDS | OTHER FUNDS | TOTAL |
|---|---|---|---|---|---|
| | | | FY 2010 | | |
| Unobligated budgetary resources | | | | | |
| Available | $ 7,753 | $ 287 | $ 362 | $ – | $ 8,402 |
| Unavailable (Note 25) | 47 | 4,860 | – | – | 4,907 |
| Obligated balance not yet disbursed | | | | | |
| Unpaid obligations (Note 25) | 47,968 | 8,830 | 847 | – | 57,645 |
| Uncollected customer payments from Federal sources | (4,142) | (2,413) | (36) | – | (6,591) |
| Miscellaneous receipts, deposit funds and clearing accounts | – | – | – | 366 | 366 |
| Other adjustments | | | | | |
| Appropriations temporarily not available pursuant to law, and contract authority | – | (1,153) | – | – | (1,153) |
| Collections temporarily not available pursuant to public law | 7 | – | 13 | – | 20 |
| Invested balances – payable – to be transferred | – | 26 | – | – | 26 |
| Unavailable receipt accounts | – | – | 879 | – | 879 |
| Borrowing authority not yet converted to fund balance | – | (6,195) | – | – | (6,195) |
| Budgetary resources invested in Treasury securities | | | | | |
| Nuclear Waste Fund | – | – | (68) | – | (68) |
| Uranium Enrichment D&D Fund | – | – | (232) | – | (232) |
| Power marketing administrations | – | (190) | – | – | (190) |
| U.S. Enrichment Corporation Fund | – | (1,567) | – | – | (1,567) |
| **Total fund balance with Treasury** | **$ 51,633** | **$ 2,485** | **$ 1,765** | **$ 366** | **$ 56,249** |
| | | | FY 2009 | | |
| Unobligated budgetary resources | | | | | |
| Available | $ 25,064 | $ 217 | $ 337 | $ – | $ 25,618 |
| Unavailable (Note 25) | 57 | 4,923 | – | – | 4,980 |
| Obligated balance not yet disbursed | | | | | |
| Unpaid obligations (Note 25) | 38,418 | 10,641 | 1,032 | – | 50,091 |
| Uncollected customer payments from Federal sources | (4,148) | (3,144) | (31) | – | (7,323) |
| Miscellaneous receipts, deposit funds and clearing accounts | – | – | – | 367 | 367 |
| Other adjustments | | | | | |
| Appropriations temporarily not available pursuant to law, and contract authority | – | (787) | – | – | (787) |
| Collections temporarily not available pursuant to public law | 7 | – | – | – | 7 |
| Unavailable receipt accounts | – | – | 881 | – | 881 |
| Borrowing authority not yet converted to fund balance | – | (8,194) | – | – | (8,194) |
| Budgetary resources invested in Treasury securities | | | | | |
| Nuclear Waste Fund | – | – | (68) | – | (68) |
| Uranium Enrichment D&D Fund | – | – | (237) | – | (237) |
| Power marketing administrations | – | (95) | – | – | (95) |
| U.S. Enrichment Corporation Fund | – | (1,569) | – | – | (1,569) |
| **Total fund balance with Treasury** | **$ 59,398** | **$ 1,992** | **$ 1,914** | **$ 367** | **$ 63,671** |

## 4. Investments and Related Interest, Net

| ($ IN MILLIONS) | FACE | UNAMORTIZED PREMIUM (DISCOUNT) | INTEREST RECEIVABLE | INVESTMENTS, NET | UNREALIZED MARKET GAINS (LOSSES) | MARKET VALUE |
|---|---|---|---|---|---|---|
| | | | FY 2010 | | | |
| Intragovernmental Non-Marketable | | | | | | |
| Nuclear Waste Fund | $ 47,578 | $ (23,056) | $ 44 | $ 24,566 | $ 5,890 | $ 30,456 |
| Uranium Enrichment D&D Fund | 4,761 | 164 | 50 | 4,975 | 239 | 5,214 |
| U.S. Enrichment Corporation Fund | 1,567 | 8 | 26 | 1,601 | – | 1,601 |
| Power marketing administrations | 190 | 3 | 2 | 195 | – | 195 |
| Petroleum Pricing Violation Escrow Fund (Note 2) | 59 | – | – | 59 | – | 59 |
| **Subtotal** | **$ 54,155** | **$ (22,881)** | **$ 122** | **$ 31,396** | **$ 6,129** | **$ 37,525** |
| Petroleum Pricing Violation Escrow Fund (Note 2) | **195** | **–** | **–** | **195** | **–** | **195** |
| **Total investments and related interest, net** | **$ 54,350** | **$ (22,881)** | **$ 122** | **$ 31,591** | **$ 6,129** | **$ 37,720** |
| | | | FY 2009 | | | |
| Intragovernmental Non-Marketable | | | | | | |
| Nuclear Waste Fund | $ 44,643 | $ (21,944) | $ 50 | $ 22,749 | $ 3,690 | $ 26,439 |
| Uranium Enrichment D&D Fund | 4,761 | 110 | 50 | 4,921 | 206 | 5,127 |
| U.S. Enrichment Corporation Fund | 1,568 | 5 | 21 | 1,594 | 2 | 1,596 |
| Power marketing administrations | 95 | 3 | – | 98 | – | 98 |
| Petroleum Pricing Violation Escrow Fund (Note 2) | 59 | – | – | 59 | – | 59 |
| **Subtotal** | **$ 51,126** | **$ (21,826)** | **$ 121** | **$ 29,421** | **$ 3,898** | **$ 33,319** |
| Petroleum Pricing Violation Escrow Fund (Note 2) | **195** | **–** | **–** | **195** | **–** | **195** |
| **Total investments and related interest, net** | **$ 51,321** | **$ (21,826)** | **$ 121** | **$ 29,616** | **$ 3,898** | **$ 33,514** |

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 collected from 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 U.S. 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 federal government, these assets and liabilities offset each other from the standpoint of the federal government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements. Treasury securities provide the Department with authority to draw upon the U.S. Treasury to make expenditures, subject to available appropriations and OMB apportionments. When the Department requires redemption of these securities, the federal government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, by borrowing from the public, repaying less debt, or by curtailing other expenditures. This is the same way the federal government finances all other expenditures.

## 5. Accounts Receivable, Net

| ($ IN MILLIONS) | FY 2010 | | | FY 2009 | | |
|---|---|---|---|---|---|---|
| | RECEIVABLE | ALLOWANCE | NET | RECEIVABLE | ALLOWANCE | NET |
| Intragovernmental | $ 496 | $ – | $ 496 | $ 543 | $ – | $ 543 |
| | | | | | | |
| Nuclear Waste Fund | 3,407 | – | 3,407 | 3,404 | – | 3,404 |
| Power marketing administrations | 528 | (41) | 487 | 473 | (40) | 433 |
| Other | 157 | (33) | 124 | 142 | (38) | 104 |
| Subtotal | **$ 4,092** | **$ (74)** | **$ 4,018** | **$ 4,019** | **$ (78)** | **$ 3,941** |
| **Total accounts receivable** | **$ 4,588** | **$ (74)** | **$ 4,514** | **$ 4,562** | **$ (78)** | **$ 4,484** |

Intragovernmental accounts receivable primarily represent amounts due from other federal agencies for reimbursable work performed pursuant to the Economy Act, Atomic Energy Act, and other statutory authority.

Non-intragovernmental receivables primarily represent amounts due for NWF fees. NWF receivables are supported by contracts and agreements with owners and generators of spent nuclear fuel and high-level radioactive waste that contribute resources to the fund. Other receivables due from the public include reimbursable work billings and other trade receivables, and other miscellaneous receivables.

## 6. Regulatory Assets

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Intragovernmental | | |
| Refinanced and additional appropriated capital | $ 5,468 | $ 5,489 |
| | | |
| Non-operating regulatory assets | 3,452 | 3,579 |
| Investor owned exchange benefits | 569 | 625 |
| Conservation and fish and wildlife projects | 351 | 324 |
| Other regulatory assets | 233 | 218 |
| Subtotal | **$ 4,605** | **$ 4,746** |
| **Total regulatory assets** | **$ 10,073** | **$ 10,235** |

The Department's PMAs record certain amounts as assets in accordance with the Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) 980, Regulated Operations. The provisions of this standard require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise. In order to defer incurred costs under this standard, 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.

### REFINANCED AND ADDITIONAL APPROPRIATED CAPITAL

BPA is responsible for paying the U.S. Treasury for transmission and power generating assets that were funded by appropriations, including those of the U.S. Army Corps of Engineers (Corps) and Bureau of Reclamation (Reclamation). BPA defers the cost, which will be recovered through rates during the periods when the cost is scheduled to be repaid. In accordance with regulatory accounting, BPA records a regulatory asset for this deferred cost that must be repaid to the U.S. Treasury for those assets owned by the Corps and Reclamation. This regulatory asset is amortized between 68 and 75 years on a straight-line method over the service lives of the assets. The Consolidated Balance Sheets include a regulatory asset and an offsetting related debt (see Note 12).

### NON-OPERATING REGULATORY ASSETS

Prior to completion, BPA acquired all or part of the generating capability of two nuclear facilities and one hydroelectric project that were subsequently terminated or no longer provide 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 facilities' costs are recovered through BPA's rates. These assets

are amortized as the principal on the outstanding bonds is repaid.

### INVESTOR OWNED EXCHANGE BENEFITS

BPA in prior years over-collected from consumer-owned utilities and over-paid to the investor-owned utilities (IOU's) under the Residential Exchange Settlement Agreements. In each succeeding rate case, the BPA Administrator will designate the amount to be recovered from the IOUs that will be returned to qualifying consumer-owned utilities. These amounts will not reduce rates, but will be credits to qualifying consumer-owned utilities' bills, as designated in the corresponding Final Record of Decisions (RODs). BPA will recognize a refund and reduce expense in each year it is applied, until the over collected amount is returned or eliminated.

### CONSERVATION AND FISH AND WILDLIFE PROJECTS

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

### OTHER REGULATORY ASSETS

Other regulatory assets primarily include Trojan nuclear facility decommissioning and site restoration costs reflecting amounts to be recovered in future rates for funding the Trojan asset retirement obligation liability, (amortized over the life of the asset); settlements reflecting contractual settlement agreements or proposed settlements stemming from litigation, (recovered and amortized through future rates over a period as established by the BPA Administrator); spacer dampers on transmission lines, (amortized over 30 years); and capital bond premiums reflecting losses related to refinanced debt, (amortized over the life of the new debt instruments).

## 7. Direct Loans and Loan Guarantees, Net

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Program name | | |
| Pre-FCRA loans | $ 7 | $ 8 |
| FCRA Direct loans | | |
| ATVM | 2,055 | 410 |
| Title XVII | 373 | 19 |
| Total direct loans and 100% guarantee loans, net | **$ 2,435** | **$ 437** |
| FCRA Guarantee loans (guaranteed value) | | |
| Title XVII | 79 | – |
| **Total direct loans and loan guarantees, net** | **$ 2,514** | **$ 437** |

### PRE-FCRA LOANS

The Department has two loans outstanding that were issued prior to the Federal Credit Reform Act of 1990 (FCRA). These loans are presented net of an allowance for loss of $30 million as of September 30, 2010 and $34 million as of September 30, 2009.

### FCRA DIRECT LOANS AND LOAN GUARANTEES

The Department's direct loan obligations made post-fiscal year 1991, and the resulting direct loans, are governed by the FCRA. These FCRA loans are valued at the net present value of expected future cash flows, discounted at the interest rate of Treasury marketable securities. These are known as the subsidy costs, which include interest rate differentials, delinquencies, defaults, fees, and other cash flow items. The subsidy costs are intended to estimate the long-term cost to the U.S. Government of its loan programs. These costs are recognized in the year the loan is disbursed. A subsidy re-estimate is performed annually at September 30. The subsidy re-estimate takes into account all factors that may have affected the estimated cash flows. Any adjustment resulting from the re-estimate is recognized as a subsidy expense.

The net present value of the FCRA direct loans is not necessarily representative of proceeds that might be expected if these loans were sold on the open market.

Interest revenue is accrued on a monthly basis on the loan balance outstanding at the interest rate assigned to that loan at the time of disbursement, net of any non-performing interest over 90 days.

The Department operates the following FCRA direct loan and loan guarantee programs:

- Advanced Technology Vehicle Manufacturing (ATVM) Loan Program
- Title XVII Loan Guarantee Program for Innovative Technologies (Title XVII)

### ATVM

Section 136 of the Energy Independence and Security Act of 2007 established the ATVM Incentive Program which authorizes direct loans to support the development of

advanced technology vehicles and associated components in the U.S. The ATVM program provides loans to automobile and automobile part manufacturers for the cost of re-equipping, expanding, or establishing manufacturing facilities in the U.S. to produce advanced technology vehicles or qualified components, and for associated engineering integration costs. An automobile manufacturer applicant must demonstrate that the average adjusted fuel economy for its light duty fleet exceeds that of its entire fleet average for model year 2005, or if an the applicant is a new automobile manufacturer it must demonstrate that its ATVM vehicle meets or exceeds the industry adjusted average for model year 2005 for equivalent vehicles. All individual ATVM vehicles must be rated at or above 125% of the fuel economy standards for vehicles with substantially similar attributes for FY 2005. The fiscal year 2009 Continuing Resolution (CR) enacted on September 30, 2008, appropriated $7.5 billion to support a maximum of $25 billion in loans under the ATVM.

The ATVM Program issues direct loans which are funded by the FFB with interest rates that are equal to the cost of funds to the Treasury for obligations of comparable maturity. The total subsidy cost for an ATVM direct loan is comprised of default subsidy, financing subsidy, and fees. The loan and subsidy are obligated at the time the conditional commitment is issued.

In determining the credit subsidy, the Department estimates a base borrower interest rate from the budget assumption yield curve used to discount cash flows that generates a zero financing subsidy when determining the final subsidy cost at the point of obligation. This base interest rate is used for calculating the subsidy cost only. Actual interest rates that borrowers pay are not affected. During the interest rate re-estimate, the actual interest rates and the discount rates are updated and will true-up the difference in the Treasury interest rates assumed in the original subsidy cost, and the actual Treasury rates at the point of disbursement, when the borrower interest rates are set.

DOE may receive warrants in connection with some of the loans made. The warrants have no value until the periods of vesting are reached or until certain conditions precedent occur. Once warrants vest, the values of the warrants will be added to the cash flows for re-estimation of the loans with warrants.

As of September 30, 2010, approximately $8.4 billion has been obligated for four borrowers that have been approved and total disbursements under the four loans have amounted to $2.5 billion.

### TITLE XVII

The Energy Policy Act of 2005 (EPAct05) authorizes the Department to issue loan guarantees to eligible projects that "avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases" and "employ new or significantly improved technologies as compared to technologies in service in the U.S. at the time the guarantee is issued." Title XVII of EPAct05 provides broad authority for the Department to guarantee loans that support early commercial use of advanced technologies if "there is reasonable prospect of repayment of the principal and interest on the obligation by the borrower."

Title XVII specifies that the Department must receive either an appropriation for the subsidy cost or the borrower must pay that cost. No funds have been appropriated for the subsidy cost of loan guarantees under Section 1703 of Title XVII. Therefore, Section 1703 currently operates as a "self-pay" program whereby borrowers pay the calculated subsidy cost.

In addition to the original program (Section 1703), the ARRA established a new Section 1705 of Title XVII and in FY 2009, appropriated $5.965 billion to pay for the subsidy costs of loan guarantees for certain renewable energy systems, electric power transmission systems, and leading edge biofuel projects that commence construction no later than September 30, 2011. Public Law 111-47 required $2 billion of the subsidy funds to be transferred to the Department of Transportation to fund the "Cash for Clunkers" program. Public Law 111-226 required $1.5 billion of the subsidy funds to be rescinded. The Financial Institution Partnership Program (FIPP), also supported by ARRA under the 1705 Program, will provide up to $750 million in funding for credit subsidies to support approximately $8 billion in loans for conventional renewable energy generation projects with commercial financing. DOE will

## Direct Loans and 100% Loan Gurantees Obligated After FY 1991

| ($ IN MILLIONS) | LOANS RECEIVABLE, GROSS | INTEREST RECEIVABLE | ALLOWANCE FOR SUBSIDY COST (PRESENT VALUE) | VALUE OF ASSETS RELATED TO LOANS |
|---|---|---|---|---|
| **FY 2010** | | | | |
| ATVM | $ 2,467 | $ 3 | $ (415) | $ 2,055 |
| Title XVII | 464 | 1 | (92) | 373 |
| **Total loans** | **$ 2,931** | **$ 4** | **$ (507)** | **$ 2,428** |
| **FY 2009** | | | | |
| ATVM | $ 886 | $ – | $ (476) | $ 410 |
| Title XVII | 21 | – | (2) | 19 |
| **Total loans** | **$ 907** | **$ –** | **$ (478)** | **$ 429** |

## Direct Loans and 100% Loan Guarantees Disbursed (Post-1991)

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| ATVM | $ 1,581 | $ 886 |
| Title XVII | 443 | 21 |
| **Total** | **$ 2,024** | **$ 907** |

provide a guarantee for up to 80 percent of a loan. The goal of FIPP is to leverage the human and financial capital of private sector financial institutions in accelerating the loan application process, while balancing risk between DOE and private sector partners participating in the program. The loan and subsidy are obligated at the time the loan closes.

Both Section 1703 and 1705 programs are authorized to issue loan guarantees for up to 100 percent of a debt obligation, which must not exceed 80 percent of eligible project costs. In cases where the Department issues a 100 percent guarantee, the Final Rule requires that the Federal Financing Bank (FFB) provide the funding. For the purpose of determining the credit subsidy, the Department models these loan guarantees as direct loans to reflect the economic reality to the federal government as a whole. Under Title XVII, the total subsidy cost for a direct loan is comprised of default subsidy and financing subsidy (where fees offset administrative costs).

In determining the credit subsidy, the Department estimates a base borrower interest rate from the budget assumption yield curve used to discount cash flows that generate a zero financing subsidy when determining the final subsidy cost at the point of obligation. The Department then adds a spread to that interest rate estimate to reflect any spread that the FFB may charge based on the terms and conditions of the loan guarantee agreement. This base interest rate is used for calculating the subsidy cost only. Actual interest rates that borrowers pay are not affected. During the interest rate re-estimate, the actual interest rates and the discount rates are updated and will true-up the difference in the Treasury interest rates assumed in the original subsidy cost, and the actual Treasury rates at the point of disbursement, when the borrower interest rates are set.

As of September 30, 2010, conditional commitments to issue guarantees have been issued to four projects totaling $10.6 billion under the Section 1703 program. As of September 30, 2010, conditional commitments to issue guarantees have been issued to ten projects totaling $4.1 billion under the Section 1705 program and three 100% guarantees of loans totaling approximately $695 million has been obligated, of which only $464 million has been disbursed and one partial guarantee of a loan totaling approximately $98.5 million. Subsequent to September 30, 2010, DOE has issued one conditional partial guarantee of a loan totaling approximately $1.3 billion and one FFB funded guarantee for $350 million under the section 1705 program.

## Subsidy Expense for Direct Loans and 100% Loan Guarantees by Program and Component

| ($ IN MILLIONS) | INTEREST DIFFERENTIAL | DEFAULTS | FEES AND OTHER COLLECTIONS | OTHER | TOTAL |
|---|---|---|---|---|---|
| **FY 2010** | | | | | |
| Subsidy expense for new direct loans and 100% loan guarantees disbursed | | | | | |
| ATVM | $ – | $ 754 | $ (2) | $ – | $ 752 |
| Title XVII | (7) | 41 | – | – | 34 |
| **Total** | **$ (7)** | **$ 795** | **$ (2)** | **$ –** | **$ 786** |
| | **Technical Re-estimates** | | | | **Total Subsidy Expense** |
| Re-estimates | | | Total subsidy expense | | |
| ATVM | $ (828) | | ATVM | | $ (76) |
| Title XVII | 57 | | Title XVII | | 91 |
| **Total** | **$ (771)** | | **Total** | | **$ 15** |
| **FY 2009** | | | | | |
| Subsidy expense for new direct loans and 100% loan guarantees disbursed | | | | | |
| ATVM | $ – | $ 451 | $ (1) | $ – | $ 450 |
| Title XVII | – | 2 | – | – | 2 |
| **Total** | **$ –** | **$ 453** | **$ (1)** | **$ –** | **$ 452** |
| | **Technical Re-estimates** | | | | **Total Subsidy Expense** |
| Re-estimates | | | Total subsidy expense | | |
| ATVM | $ 9 | | ATVM | | $ 459 |
| Title XVII | – | | Title XVII | | 2 |
| **Total** | **$ 9** | | **Total** | | **$ 461** |

## Subsidy Rates for Direct Loans and 100% Loan Guarantees by Program and Component

| | INTEREST DIFFERENTIAL | DEFAULTS | FEES AND OTHER COLLECTIONS | OTHER | TOTAL |
|---|---|---|---|---|---|
| **FY 2010** | | | | | |
| ATVM | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Title XVII | (3.22%) | 12.94% | 0.00% | 0.43% | 10.15% |
| **FY 2009** | | | | | |
| ATVM | 0.00% | 38.38% | (0.10%) | 0.00% | 38.28% |
| Title XVII | (1.36%) | 8.93% | 0.00% | 0.00% | 7.57% |

Rates are the weighted-average of the individual loan subsidy rates for that program. The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes re-estimates.

## Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans and 100% Loan Guarantees)

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Beginning balance of the subsidy cost allowance | $ 478 | $ – |
| Add: subsidy expense for direct loans disbursed during the reporting years by component | | |
| Interest rate differential costs | (7) | – |
| Default costs (net of recoveries) | 795 | 453 |
| Fees and other collections | (2) | (1) |
| Total of the above subsidy expense components | **$ 786** | **$ 452** |
| Adjustments: | | |
| Fees received | 1 | 6 |
| Subsidy allowance amortization | 13 | 11 |
| Ending balance of subsidy cost allowance before re-estimates | **$ 1,278** | **$ 469** |
| Add or subtract subsidy re-estimates by component | | |
| Technical/default re-estimates | (771) | 9 |
| **Ending balance of subsidy cost allowance** | **$ 507** | **$ 478** |

## Guaranteed Loans Outstanding

| ($ IN MILLIONS) | OUTSTANDING PRINCIPAL OF GUARANTEED LOANS FACE VALUE | AMOUNT OF OUTSTANDING PRINCIPAL GUARANTEED |
|---|---|---|
| | **FY 2010** | |
| Title XVII | $ 98 | $ 79 |

## New Guaranteed Loans Disbursed

| ($ IN MILLIONS) | PRINCIPAL OF GUARANTEED LOANS FACE VALUE | AMOUNT OF PRINCIPAL GUARANTEED |
|---|---|---|
| | **FY 2010** | |
| Title XVII | $ 99 | $ 79 |

## Liability for Loan Guarantees, Present Value Method

| ($ IN MILLIONS) | |
|---|---|
| | **FY 2010** |
| Title XVII | $ 4 |

## Subsidy Expense for New Loan Guarantees by Program and Component

| ($ IN MILLIONS) | INTEREST SUPPLEMENTS | DEFAULTS | FEES AND OTHER COLLECTIONS | OTHER | TOTAL |
|---|---|---|---|---|---|
| | FY 2010 | | | | |
| **Subsidy expense for new loan guarantees** | | | | | |
| Title XVII | $ – | $ 4 | $ – | $ – | $ 4 |
| | INTEREST RE-ESTIMATES | TECHNICAL RE-ESTIMATES | TOTAL RE-ESTIMATES | | TOTAL LOAN GUARANTEE SUBSIDY EXPENSE |
| **Re-estimates** | | | | | |
| Title XVII | $ – | $ – | $ – | | $ 4 |

## Subsidy Rates for Loan Guarantees by Program and Component

| | INTEREST SUPPLEMENTS | DEFAULTS | FEES AND OTHER COLLECTIONS | OTHER | TOTAL |
|---|---|---|---|---|---|
| | FY 2010 | | | | |
| Title XVII | 0.0% | 3.78% | 0.0% | 0.0% | 3.78% |

Rates are the weighted-average of the individual loan subsidy rates for that program. The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the guarantee loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes re-estimates.

## Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

| ($ IN MILLIONS) | FY 2010 |
|---|---|
| Beginning balance of the loan guarantee liability | $ – |
| Add: subsidy expense for guaranteed loans disbursed during the reporting years by component | |
| Default costs (net of recoveries) | 4 |
| Total of the above subsidy expense components | $ 4 |
| Adjustments: | |
| Interest accumulation on the liability balance | – |
| Ending balance of loan guarantee liability before re-estimate | $ 4 |
| Add or subtract subsidy re-estimates by component | |
| Interest rate re-estimate | – |
| Technical/default re-estimate | – |
| **Ending balance of loan guarantee liability** | $ 4 |

## Administrative Expenses

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Direct loan program— ATVM | $ 18 | $ 10 |
| | | |
| Loan guarantee program— Title XVII | $ 38 | $ 15 |

## 8. 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, 2010 and September 30, 2009, the SPR contained crude oil with a historical cost of $21,621 million and $21,547 million, respectively. The SPR provides a response mechanism should a severe oil disruption occur. Included in the SPR is six million barrels of crude oil held for future Department of Defense (DoD) use. The fiscal year 1993 Defense Appropriations Act authorized the Department to acquire, transport, store, and prepare for ultimate drawdown of crude oil for DoD. The crude oil purchased with DoD funding is commingled with the Department's stock and is valued at its historical cost of $123 million at September 30, 2010, and September 30, 2009, (see Notes 2 and 14).

### NORTHEAST HOME HEATING OIL RESERVE

The Northeast Home Heating Oil Reserve was established in fiscal year 2000 pursuant to the Energy Policy and Conservation Act. The Reserve contains petroleum distillate in the New England and, New York Harbor geographic areas valued at historical costs of $79 million as of September 30, 2010 and September 30, 2009.

### NUCLEAR MATERIALS

Nuclear materials include weapons materials 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 16,716 metric tons (MTU) of natural uranium hexafluoride (UF6) as of September 30, 2010, the majority of which was restricted from sale into the commercial market until after March 2009. This total can be divided into two separate stockpiles. The first stockpile consists of U.S. origin natural uranium of 5,156 MTU. The second stockpile is 11,560 MTU of Russian-origin natural uranium.

The Department approved an agreement on November 10, 2009, to transfer up to a total of 1,125 MTU of uranium of DOE-owned Russian-origin natural uranium inventory to USEC through the end of calendar year 2010. As of September 30, 2010, 881 MTU had been transferred. USEC is required to utilize the funds from the sale of inventory to perform accelerated clean-up work at the Department's Portsmouth Gaseous Diffusion Plant.

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.

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

## 9. General Property, Plant, and Equipment, Net

| ($ IN MILLIONS) | ACQUISITION COSTS | ACCUMULATED DEPRECIATION | NET BOOK VALUE | ACQUISITION COSTS | ACCUMULATED DEPRECIATION | NET BOOK VALUE |
|---|---|---|---|---|---|---|
| | FY 2010 | | | FY 2009 | | |
| Land and land rights | $ 1,799 | $ (854) | $ 945 | $ 1,686 | $ (823) | $ 863 |
| Structures and facilities | 38,068 | (24,434) | 13,634 | 36,524 | (24,003) | 12,521 |
| Internal use software | 629 | (418) | 211 | 488 | (281) | 207 |
| Equipment | 18,057 | (11,919) | 6,138 | 17,122 | (11,441) | 5,681 |
| Natural resources | 98 | (13) | 85 | 94 | (12) | 82 |
| Construction work in process | 8,674 | – | 8,674 | 8,300 | – | 8,300 |
| **Total general property, plant, and equipment** | **$ 67,325** | **$ (37,638)** | **$ 29,687** | **$ 64,214** | **$ (36,560)** | **$ 27,654** |

## 10. Other Non-Intragovernmental Assets

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Purchased generating capability | $ 2,450 | $ 2,520 |
| Prepaid pension plan costs (Note 16) | 89 | 54 |
| Oil due from others | 2 | 39 |
| Prepayments and advances | 439 | 160 |
| Other | 441 | 483 |
| **Total other non-intragovernmental assets** | **$ 3,421** | **$ 3,256** |

### PURCHASED GENERATING CAPABILITY

BPA has contracted to acquire all of the generating capability of one nuclear power plant and one hydroelectric project. The contracts to acquire the generating capability of the facilities require BPA to pay the facilities operating and debt service. BPA recognizes these expenses for the projects based upon the total cash required to fund the projects. These assets are amortized as the principal on the outstanding bonds is repaid by the non-federal entities. These assets in the Consolidated Balance Sheets are related to nonfederal debt associated with the generation of assets.

### OIL DUE FROM OTHERS

The Department had a Royalty-in-Kind (RIK) exchange arrangement with the Department of the Interior's former Minerals Management Service (MMS), now the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE), to receive crude oil from Gulf of Mexico Federal offshore leases. The oil from the BOEMRE 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 earned additional oil as a premium. In fiscal year 2010, the final phase of RIK was completed.

In September 2010, the SPR commenced the West Hackberry/Bayou Choctaw exchange delivering approximately 400,000 barrels of oil to Shell Trading (US) Company. The purpose of the exchange was to relocate oil from overfilled caverns to accommodate cavern creep. At the end of September, the SPR began receiving return barrels. As of September 30, 2010, the value of the West Hackberry/Bayou Choctaw barrels due was $2 million.

### OTHER

Included in BPA's non-intragovernmental other assets are irrevocable trust fund balances for Energy Northwest asset retirement obligations that are based on the fair value of the dismantlement and restoration costs of related Energy Northwest assets. The trustee is a non-Treasury bank that certifies the funds for use when needed to retire the asset. The trust is funded by BPA ratepayers and managed by BPA in accordance with Nuclear Regulatory Commission (NRC) requirements and site certification agreements.. 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, including funding the Trojan ARP liability. Also included are unrealized gains from the derivative portfolio.

## 11. Liabilities Not Covered By Budgetary Resources

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| **INTRAGOVERNMENTAL** | | |
| Debt (Note 12) | $ 14,847 | $ 12,708 |
| Other | 13 | 14 |
| Total intragovernmental | **$ 14,860** | **$ 12,722** |
| Debt held by the public (Note 12) | 5,915 | 6,166 |
| Nuclear Waste Fund deferred revenues (Note 13) | 27,973 | 26,152 |
| Environmental cleanup and disposal liabilities (Note 15) | 245,405 | 262,752 |
| Pension and other actuarial liabilities (Note 16) | 28,405 | 24,744 |
| Capital leases (Note 17) | 54 | 107 |
| **OTHER LIABILITIES** | | |
| Environment, safety, and health compliance activities (Notes 14 and 24) | 1,710 | 1,587 |
| Accrued annual leave for Federal employees | 148 | 145 |
| Other | 55 | 57 |
| Contingencies and commitments (Note 18) | 15,448 | 13,188 |
| Total liabilities not covered by budgetary resources | **$ 339,973** | **$ 347,620** |
| Total liabilities covered by budgetary resources | 15,579 | 13,924 |
| **Total liabilities** | **$ 355,552** | **$ 361,544** |

## 12. Debt

| ($ IN MILLIONS) | BEGINNING BALANCE | NET BORROWINGS | ENDING BALANCE | BEGINNING BALANCE | NET BORROWINGS | ENDING BALANCE |
|---|---|---|---|---|---|---|
| | FY 2010 | | | FY 2009 | | |
| **INTRAGOVERNMENTAL** (Note 11) | | | | | | |
| Borrowing from Treasury | $ 2,130 | $ 471 | $ 2,601 | $ 2,186 | $ (56) | $ 2,130 |
| Borrowing from FFB | 908 | 2,023 | 2,931 | – | 908 | 908 |
| Appropriated capital | 3,966 | (149) | 3,817 | 3,682 | 284 | 3,966 |
| Refinanced and additional appropriations | 3,972 | (141) | 3,831 | 3,861 | 111 | 3,972 |
| Capitalization adjustment | 1,732 | (65) | 1,667 | 1,797 | (65) | 1,732 |
| **Subtotal** | **$ 12,708** | **$ 2,139** | **$ 14,847** | **$ 11,526** | **$ 1,182** | **$ 12,708** |
| | | | | | | |
| Non-Federal projects (Note 11) | 6,166 | (251) | 5,915 | 6,267 | (101) | 6,166 |
| **Total debt** | **$ 18,874** | **$ 1,888** | **$ 20,762** | **$ 17,793** | **$ 1,081** | **$ 18,874** |

### BORROWING FROM TREASURY

BPA is authorized by Congress to issue to Treasury and have outstanding at any one time, up to $7,700 million of interest-bearing debt with terms and conditions comparable to debt issued by U.S. Government corporations. The debt may be issued to finance BPA's capital programs, which include Corps and Reclamation direct –funded capital investments. Additionally, $750 million of the $7,700 million can be issued to finance Northwest Power Act related expense. Of the $7,700 million, $1,250 million is restricted for conservation and renewable resources. The Western Area Power Administration has authority to borrow up to $3.25 billion from Treasury for planning, constructing, financing, operating, or maintaining new or upgraded electric power transmission lines and facilities; and for delivering or facilitating the delivery of power generated by renewable energy.

### BORROWING FROM THE FFB

To finance its loan programs, the Department is required to use the FFB for the ATVM program and the 100% loan guarantees of the Title XVII program. As of September 30, 2010 and September 30, 2009, the maturity range of the debt was from August 15, 2016 to June 17, 2030 and August 15, 2016 to June 15, 2022, respectively. The interest rate range

as of September 30, 2010 and September 30, 2009 was from 2.810 percent to 4.723 percent and from 2.463 percent to 3.138 percent, respectively.

### APPROPRIATED CAPITAL

Appropriated capital owed represents the balance of appropriations provided to the Department's PMAs for construction, operation, and maintenance of power facilities that will be repaid to Treasury's General Fund and the Department of the Interior's (Interior) Reclamation Fund. The amount owed also includes accumulated interest on the net unpaid federal investment in the power projects. The federal investment in these facilities is to be repaid within 50 years from the time the facilities are placed in service or are commercially operational. Replacements of federal investments are generally expected to be repaid over their useful service lives. There is no requirement for repayment of a specific amount of federal investment on an annual basis.

Each of the PMAs, except for BPA, receives an annual appropriation to fund construction, operation, and maintenance expenses. These appropriated funds are repaid to Treasury's General Fund and Interior from the revenues generated from the sale of power and transmission services. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenues prior to any repayment of federal investment. The Department treats these appropriations as a debt owed to Treasury's General Fund and Interior, and as such, the Consolidated Statements of Changes in Net Position do not reflect these funds as appropriated capital used.

Except for the appropriation refinancing asset described in Note 6 and in the next paragraph, the Department's financial statements do not reflect the federal investment in power generating facilities owned by the 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 PMAs, except BPA, are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities (see Note 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. Repayment amounts were determined based on the date the respective facilities were placed in service using the weighted-average service lives of the associated investments, not to exceed 50 years. BPA repays amounts owed to Treasury's General Fund and Interior's Reclamation Fund.

### CAPITALIZATION ADJUSTMENT

The amount of appropriations refinanced as a result of the BPA Appropriations Refinancing Act of 1996 was $6.6 billion. After refinancing, the appropriations outstanding were $4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over the remaining period of repayment.

### NON-FEDERAL PROJECTS

As discussed in Notes 6 and 10, the non-federal projects debt primarily represents BPA's liability to pay all or part of the annual budgets of the generating capability of one operating and three non-operating nuclear power plants as well as one operating and one terminated hydroelectric project. Debt service costs are included in the annual budget of two out of three of the non-operating nuclear plants. The majority of BPA's non-federal projects debt is with Energy Northwest.

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

($ IN MILLIONS)

| FISCAL YEAR | BORROWING FROM TREASURY | BORROWING FROM FFB | APPROPRIATED CAPITAL | REFINANCED APPROPRIATIONS | CAPITALIZATION ADJUSTMENT | NON-FEDERAL PROJECTS |
|---|---|---|---|---|---|---|
| 2011 | $ 413 | $ – | $ 112 | $ 21 | $ 65 | $ 310 |
| 2012 | 265 | 104 | 29 | 25 | 65 | 468 |
| 2013 | 123 | 341 | 29 | 18 | 65 | 564 |
| 2014 | 103 | 355 | 128 | 19 | 65 | 654 |
| 2015 | 95 | 355 | 236 | 69 | 65 | 627 |
| 2016+ | 1,602 | 1,776 | 3,283 | 3,679 | 1,342 | 3,292 |
| **Total** | **$ 2,601** | **$ 2,931** | **$ 3,817** | **$ 3,831** | **$ 1,667** | **$ 5,915** |

## 13. Deferred Revenues and Other Credits

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| **Intragovernmental** | **$ 36** | **$ 31** |
| Nuclear Waste Fund (Note 11) | $ 27,973 | $ 26,152 |
| Power marketing administrations | 1,011 | 843 |
| Reimbursable work advances | 275 | 330 |
| Other | 236 | 131 |
| **Subtotal** | **$ 29,495** | **$ 27,456** |
| **Total deferred revenues and other credits** | **$ 29,531** | **$ 27,487** |

### 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. Revenues that exceed the NWF expenses are deferred.

### POWER MARKETING ADMINISTRATIONS

PMA deferred revenues and other credits primarily represent advances and unearned revenues. Primary components include 1) customer reimbursable projects that consist of advances received from BPA's customers where either the customer or BPA will own the resulting asset; 2) regulatory liabilities that reduce future rates; 3) generation interconnection agreement funds held as security for network upgrades that will be returned as credits against future transmission service; 4) unearned revenues from customers related to the third alternating current intertie capacity project; 5) derivative instruments and 6) fiber optic leasing fees that reflect unearned revenue related to the leasing of the fiber optic cable.

## 14. Other Liabilities

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| **INTRAGOVERNMENTAL** | | |
| Oil held for Department of Defense (Notes 2 and 8) | $ 123 | $ 123 |
| Petroleum Pricing Violation Escrow Fund (Note 2) | 247 | – |
| Downward re-estimates on loans outstanding | 825 | – |
| Other | 86 | 113 |
| **Total other intragovernmental liabilities** | **$ 1,281** | **$ 236** |
| Environment, safety, and health compliance activities (Notes 11 and 24) | $ 1,710 | $ 1,587 |
| Accrued payroll, benefits, and withholding taxes | 1,298 | 1,240 |
| Residential exchange | 659 | 714 |
| Naval Petroleum Reserve Deposit Fund (Note 2) | 323 | 323 |
| Petroleum Pricing Violation Escrow Fund (Note 2) | 7 | 254 |
| Asset retirement obligations | 170 | 163 |
| Other | 239 | 325 |
| **Subtotal** | **$ 4,406** | **$ 4,606** |
| **Total other liabilities** | **$ 5,687** | **$ 4,842** |

### DOWNWARD RE-ESTIMATES ON LOANS OUTSTANDING

FCRA requires that the present value of loans outstanding be updated at the end of each fiscal year. If the present value of any loan increases (i.e, the government's cost of the loan is lower than previously estimated), a downward re-estimate is recorded. The downward re-estimate results in excess subsidies collected that must be returned to Treasury's general fund in the following fiscal year.

### ENVIRONMENT, SAFETY, AND HEALTH COMPLIANCE ACTIVITIES

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

and radiological programs; nuclear safety upgrades; industrial hygiene and industrial safety; safety related maintenance; emergency preparedness programs; life safety code improvements; and transportation of radioactive and hazardous materials. The estimate covers corrective actions expected to be performed in future years for programs outside the purview of the Department's Environmental Management (EM) Program. ES&H activities within the purview of the EM program are included in the environmental liability estimate. The September 30, 2010, change in the ES&H liability is due to: (1) additional corrective actions, activities, or programs that are required to improve the facilities' state of compliance and move them toward full compliance, or conformance with all applicable ES&H laws, regulations, agreements, and the Department's orders; (2) revised cost estimates for existing ES&H activities; and (3) costs of work performed during the year.

### ACCRUED PAYROLL, BENEFITS, AND WITHHOLDING TAXES

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

### RESIDENTIAL EXCHANGE

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

### ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations (AROs) primarily represent BPA's 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.

### OTHER LIABILITIES

Other liabilities consist primarily of custodial and non-custodial deposit funds, suspense accounts, receipts due to Treasury, and contract advances.

## 15. Environmental Cleanup and Disposal Liabilities

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Environmental Management Program | $ 165,192 | $ 180,071 |
| Other legacy environmental liabilities | 56,492 | 57,734 |
| Total legacy environmental liabilities | **$ 221,684** | **$ 237,805** |
| Active and surplus facilities | 28,525 | 29,852 |
| **Total environmental cleanup and disposal liabilities** | **$ 250,209** | **$ 267,657** |
| Amount funded by current appropriations | (4,804) | (4,905) |
| **Total unfunded environmental cleanup and disposal liabilities** (Note 11) | **$ 245,405** | **$ 262,752** |
| **CHANGES IN ENVIRONMENTAL CLEANUP AND DISPOSAL LIABILITIES** | | |
| Total environmental cleanup and disposal liabilities, beginning balance | $ 267,657 | $ 266,081 |
| **Changes to environmental cleanup and disposal liability estimates** | | |
| Environmental Management Program | (7,255) | 944 |
| Other legacy environmental liabilities | (500) | 7,244 |
| Active and surplus facilities | (1,275) | 502 |
| **Total changes in estimates** (Notes 23 and 24) | **$ (9,030)** | **$ 8,690** |
| Costs applied to reduction of legacy environmental liabilities (Note 22) | (6,515) | (5,639) |
| Capital expenditures related to remediation activities | (1,903) | (1,475) |
| **Total environmental cleanup and disposal liabilities** | **$ 250,209** | **$ 267,657** |

During World War II and the Cold War, the U.S. 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 cleanup and disposal 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, some 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 or be legally required. The estimates reflect applicable decisions and current expectations as to the extent of cleanup and site and facility reuse, which include consideration of Congressional mandates, regulatory direction, and stakeholder input. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. Congressional appropriations at lower than anticipated levels or unplanned delays in project completion would cause increases in life-cycle costs.

The liabilities as of September 30, 2010, and September 30, 2009, are stated in fiscal year 2010 dollars and fiscal year 2009 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 large quantities of radioactive waste and nuclear materials, and is responsible for the cleanup of large volumes of contaminated soil and water. The fiscal year 2010 EM life-cycle cost estimate reflects a strategic vision to complete this cleanup mission. This strategy provides for a site-by-site projection of the work required to complete all EM projects, while complying with regulatory agreements, statutes, and regulations. These projections have been documented in detailed plans. Each project 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 estimates also include costs for related support activities such as landlord responsibilities, program management, 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 fiscal year 2010, progress towards improving efficiency and management of the program continued. Field offices have prepared technical estimates that describe in detail the activities, schedule, and resources required to complete the EM cleanup mission at the respective sites. In addition, EM has implemented an earned value management reporting system to continuously evaluate whether cleanup progress remains on schedule and within budget. In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the EM estimates:

- The Department has identified approximately 10,500 potential release sites from which contaminants could migrate into the environment. Although virtually all of these sites have been at least partially characterized, final remedial action and regulatory decisions have not been made for many sites. Site-specific assumptions regarding the amount and type of contamination and the remediation technologies that will be utilized were used in estimating the environmental liability related to these sites.
- Cost estimates for management of the Department's high-level waste are predicated upon assumptions as to the timing and rate of acceptance of the waste at a geologic repository. Changes in high level waste disposition plans 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 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 National Security Site.

Changes to the EM estimates during fiscal years 2010 and 2009 resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work, including changes resulting from deferral or acceleration of work; revisions in technical approach or scope, including provisions for decreases in the cost and duration of high-level waste programs and related decreases in contingency estimates; regulatory changes; cleanup activities performed; scope transfers into the EM estimates; and additions for facilities transferred from the active and surplus category discussed below.

### OTHER LEGACY ENVIRONMENTAL LIABILITIES

The Nuclear Waste Policy Act of 1982 (NWPA) established the Department's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel. The Act requires all owners and generators of high-level nuclear waste and spent nuclear fuel, including the Department, to pay their respective shares of the full cost of the program. To that end, the Act establishes a fee on owners and generators that the Department must collect and annually assess to determine its adequacy. The Department's liability reflects its share of the estimated future costs of the program based on its inventory of high-level waste and spent nuclear fuel. The Department's liability does not include the portion of the cost attributable to other owners and generators.

Changes to the high-level waste and spent nuclear fuel disposition liability during fiscal years 2010 and 2009 resulted from inflation adjustments to reflect current year constant dollars, changes in projected waste volume, changes in the Department's allocable percentage share of future costs, and actual costs incurred by the Department that were allocated to the Department's share of the liability.

Other legacy liabilities include the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites after the EM program activities have been completed. The Office of Legacy Management (LM) is responsible for the legacy activities at many of the EM closure sites as well as other sites (former uranium mills and certain sites remediated by the U.S. Army Corps of Engineers). The costs for these post-closure activities are estimated for a period of 75 years after the balance sheet date, i.e., through 2085 in fiscal year 2010 and through 2084 in fiscal year 2009. While some post-cleanup monitoring and other long-term stewardship activities past 2085 are included in the liability, there are others the Department expects to continue beyond 2085 for which the costs cannot reasonably be estimated.

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

The Low-Level Radioactive Waste Policy Amendments Act of 1985 assigned responsibility to the Department for the disposal of commercially generated low-level wastes not suitable for near-surface disposal. Although a final disposal path for this waste has not yet been determined, estimated costs for the range of disposal options being evaluated have been included in the liability.

### ACTIVE AND SURPLUS FACILITIES

This liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in the EM estimates to those active and surplus facilities with similar characteristics. Site-specific estimates are used when available. Cost estimates for active and surplus facilities are updated each year to reflect current year constant dollars; the transfer of cleanup and management responsibilities for these facilities by other programs to EM, as discussed above; changes in facility size or contamination assessments; and estimated cleanup costs for facilities. For facilities newly contaminated since fiscal year 1997, cleanup costs allocated to future periods and not included in the liability amounted to $608 million at September 30, 2010, and $627 million at September 30, 2009.

In September 2006, the Federal Accounting Standards Advisory Board (FASAB) issued Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*, which requires federal agencies to estimate and record liabilities by fiscal year 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 (see Note 14). In September 2009, FASAB issued Technical Bulletin 2009-1 which deferred for two years, the effective date of Technical Bulletin 2006-1. The Department will recognize in fiscal year 2012 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.

## 16. Pension and Other Actuarial Liabilities

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Contractor pension plans | $ 13,489 | $ 12,756 |
| Contractor postretirement benefits other than pensions | 14,804 | 11,874 |
| Contractor disability and life insurance plans | 18 | 18 |
| Federal Employees' Compensation Act | 94 | 96 |
| **Total pension and other actuarial liabilities** (Note 11) | **$ 28,405** | **$ 24,744** |

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

### CONTRACTOR PENSION PLANS

The Department follows FASB ASC 715, Compensation – Retirement Benefits, for contractor plans for which the Department has a continuing obligation to reimburse allowable costs. As of September 30, 2010, the Department reports contractor pension assets of $79 million and contractor pension liabilities of $13,489 million. The Department has a continuing obligation to reimburse allowable costs for a variety of contractor-sponsored pension plans (40 qualified and 10 nonqualified). In this regard, benefit formulas consist of final average pay (37 plans), career average pay (8 plans), and dollar per month of service (5 plans). Twenty-one of the plans cover nonunion employees only; 8 cover union employees only; and 21 cover both union and nonunion employees.

For qualified defined benefit pension plans, the Department's current funding policy is to reimburse contractors for contributions made by the contractors to defined benefit pension plans sponsored by the contractors. Contractors are required to make contributions to their plans as required by the Internal Revenue Code, the Employee Retirement Income Security Act (ERISA), as amended, and Departmental direction. For nonqualified plans, the funding policy is pay-as-you-go.

Plan assets generally include cash and equivalents, stocks, corporate bonds, government bonds, real estate, venture capital, international investments, and insurance contracts. There are three plans that have securities of the employer or related parties included in the plan assets. No assets are expected to be returned to the employers during the next fiscal year.

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

The following specific assumptions and methods were used to determine the net periodic cost. The weighted average discount rate was 5.5 percent for FY 2010 and 7.5 percent for FY 2009; the weighted average long-term rate of return on assets was 7.88 percent for FY 2010 and 7.91 percent for FY 2009; and the average rate of compensation increase was 4.6 percent for FY 2010 and 4.8 percent for FY 2009. 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 each of the contractors' plans.

The weighted average discount rates used to determine the benefit obligations as of September 30, 2010, and September 30, 2009, were 5.0 percent and 5.5 percent, respectively.

The aggregate September 30, 2010, accumulated benefit obligation and aggregate fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets are $31,033 million and $20,838 million, respectively. The aggregate September 30, 2010, projected benefit obligation and aggregate fair value of plan assets for plans with projected

benefit obligations in excess of plan assets are $36,042 million and $22,552 million, respectively.

Since the Department reports under Federal accounting requirements, newly measured net prior service costs/(credits) and net (gains)/losses are recognized immediately as components of net periodic cost rather than classified as other comprehensive income under FASB ASC 715 and later amortized and included as components of net periodic cost. All components of the net periodic cost are recognized in the Consolidated Statements of Net Costs. Service costs are recorded by program and all other net periodic costs are recorded as costs not assigned (see Note 23). If the Department classified these costs as other comprehensive income, the amortization of the net transition (asset)/obligation, the net prior service cost/(credit), and the net (gain)/loss for the defined benefit pension plans that would have been included in the net periodic cost would have been ($90) million, $87 million, and $594 million in FY 2010, and ($90) million, $94 million, and $22 million in FY 2009, respectively. Additional amortization of $3 million due to curtailments and settlements would also have been included in FY 2009. The estimated amortization of the net prior service cost/(credit), and the net (gain)/loss that would have been included in the net periodic cost in FY 2011 are $23 million, and $735 million, respectively.

### CONTRACTOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Department follows FASB ASC 715, Compensation – Retirement Benefits, for contractor plans for which the Department has a continuing obligation to reimburse allowable costs. The Department accrues the cost of PRB during the years that the employees render service. As of September 30, 2010, the Department reports contractor PRB assets of $10 million and contractor PRB liabilities of $14,804 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 (24 contractors), and Medicare Part B premium reimbursement (5 contractors). Forty-one of the contractors sponsor a point of service plan, a Preferred Provider Organization (PPO), a Health Maintenance Organization (HMO), or similar plan. Seventeen of these also have a traditional indemnity or similar plan. One additional contractor has only a traditional indemnity or similar plan.

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

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

The following specific assumptions and methods, with respect to trends in the costs of medical and dental benefit plans, were used in determining the PRB estimates. The medical trend rates for a point of service plan, an HMO, a PPO, or similar plan, grade from 10.0 percent in 2010 down to 5.0 percent in 2020 and later. The medical trend rates for a traditional indemnity plan, or similar plan, grade from 11.0 percent in 2010 down to 5.0 percent in 2022 and later. The dental trend rates at all ages grade down from 6.25 percent in 2010 to 5.0 percent in 2015 and later.

The weighted average discount rates of 5.5 percent for FY 2010 and 7.5 percent for FY 2009, and the weighted average long-term rate of return on assets of 5.55 percent for FY 2010 and for FY 2009 were used to determine the net periodic cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for each of the contractors' plans.

The weighted average discount rates used to determine the benefit obligation as of September 30, 2010, and September 30, 2009, were 5.0 percent and 5.5 percent, respectively.

The September 30, 2010, aggregate accumulated benefit obligation and aggregate fair value of plan assets for plans with accumulated benefit obligations in excess of plan assets are $14,954 million and $149 million, respectively.

Since the Department reports under Federal accounting requirements, newly measured net prior service costs/(credits) and net (gains)/losses are recognized immediately as components of net periodic cost rather than classified as other comprehensive income under FASB ASC 715 and later amortized and included as components of net periodic cost. All components of the net periodic cost are recognized in the Consolidated Statements of Net Costs. Service costs are recorded by program and all other net periodic costs are recorded as costs not assigned (see Note 23). If the Department classified these costs as other comprehensive income, the amortization of the net prior service cost/(credit) and the net (gain)/loss for the PRB plans that would have been included in the net periodic cost would have been ($135) million and $159 million in FY 2010, and ($110) million and ($94) million in FY 2009, respectively. Additional amortization of ($89) million and ($12) million due to curtailments and settlements would also have been included in FY 2010 and 2009, respectively. The estimated amortization of the net prior service cost/(credit) and the net (gain)/loss that would have been included

in the net periodic cost in FY 2011 are ($121) million and $234 million, respectively.

The FY 2010 values reflect the impact of the passage of health care reform legislation in March 2010. Changes in the law that potentially affect contractor postretirement benefit plans include an excise tax on high-cost health plans, closing of the Medicare Part D coverage gap, changes in payments to Medicare Advantage plans, elimination of lifetime benefit maximums, coverage of dependent children to age 26, and temporary federal reimbursement of certain costs under the Early Retiree Reinsurance Program. Adjustments to the liabilities reflect the contractors' best estimates given the limited guidance available on implementation of the new laws. Liabilities in future years may need to be adjusted further as additional guidance is issued under the laws.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. The law provides for a Federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit at least actuarially equivalent to the benefit established by the law. There are currently 29 contractors that have concluded that their plans are at least actuarially equivalent [including 3 that also have plans providing a Medicare Part D prescription drug plan (PDP) or Medicare Advantage plans]. There are 9 plans that do not benefit retirees over 65, 2 plans have determined they are not actuarially equivalent, and 2 plans provide a PDP or Medicare Advantage plan. Generally, the Department has reflected the impact of the subsidy as a reduction to the employers' cost of the benefits.

| | PENSION BENEFITS | | OTHER POSTRETIREMENT BENEFITS | |
|---|---|---|---|---|
| ($ IN MILLIONS) | FY 2010 | FY 2009 | FY 2010 | FY 2009 |
| **NET AMOUNT RECOGNIZED IN THE BALANCE SHEET** | | | | |
| Accumulated benefit obligation | $ 33,330 | $ 30,863 | | |
| Effect of future compensation increases | 3,457 | 3,618 | | |
| Benefit obligation | **$ 36,787** | **$ 34,481** | $ 14,962 | $ 12,026 |
| Plan assets | 23,377 | 21,768 | 168 | 163 |
| **Net amount recognized in the balance sheet (net funded status)** | **$ (13,410)** | **$ (12,713)** | **$ (14,794)** | **$ (11,863)** |
| **RECONCILIATION OF AMOUNTS RECOGNIZED IN THE BALANCE SHEET** | | | | |
| Asset (prepaid pension plan costs) (Note 10) | $ 79 | $ 43 | $ 10 | $ 11 |
| Liability | (13,489) | (12,756) | (14,804) | (11,874) |
| **Net amount recognized in the balance sheet (net funded status)** | **$ (13,410)** | **$ (12,713)** | **$ (14,794)** | **$ (11,863)** |
| **COMPONENTS OF NET PERIODIC COSTS** | | | | |
| Service costs (Note 24) | $ 846 | $ 593 | $ 290 | $ 171 |
| Interest costs | 1,817 | 1,839 | 696 | 650 |
| Expected return on plan assets | (1,776) | (1,793) | (9) | (9) |
| (Gain)/loss due to curtailments, settlements or special termination benefits | – | (1) | 1 | 1 |
| Net prior service cost/(credit) | (507) | 36 | (168) | (473) |
| Net (gain)/loss | 1,059 | 10,789 | 2,490 | 2,853 |
| **Total net periodic costs** | **$ 1,439** | **$ 11,463** | **$ 3,300** | **$ 3,193** |
| **CONTRIBUTIONS AND BENEFIT PAYMENTS** | | | | |
| Employer contributions (Note 24) | $ 728 | $ 750 | $ 385 | $ 389 |
| Participant contributions | 9 | 3 | 83 | 86 |
| Benefit payments | 1,385 | 1,372 | 476* | 487* |

* *Includes $8 million paid from plan assets for FY 2010, and $12 million paid from plan assets for FY 2009. For FY 2010, gross benefit payments were $488 million including $12 million of Federal Medicare Subsidy. This resulted in net benefit payments of $476 million for FY 2010. For FY 2009, gross benefit payments were $501 million including $14 million of Federal Medicare Subsidy. This resulted in net benefit payments of $487 million for FY 2009.*

| ($ IN MILLIONS) | PENSION BENEFITS | OTHER POSTRETIREMENT BENEFITS |
|---|---|---|
| **EXPECTED CONTRIBUTIONS FOR FISCAL YEAR ENDING SEPTEMBER 30, 2011** | | |
| Employer Contributions | $ 831 | $ 448 |
| Participant Contributions | 18 | 106 |

| ($ IN MILLIONS) | PENSION BENEFITS | OTHER POSTRETIREMENT BENEFITS | | |
|---|---|---|---|---|
| | | GROSS PAYMENT | LESS FEDERAL MEDICARE PART D SUBSIDY | NET PAYMENT |
| **ESTIMATED FUTURE BENEFIT PAYMENTS** | | | | |
| Fiscal Year 2011 | $ 1,584 | $ 600 | $ 24 | $ 577 |
| Fiscal Year 2012 | 1,673 | 665 | 27 | 638 |
| Fiscal Year 2013 | 1,765 | 742 | 30 | 712 |
| Fiscal Year 2014 | 1,871 | 817 | 33 | 784 |
| Fiscal Year 2015 | 1,987 | 892 | 37 | 855 |
| Fiscal Year 2016 to 2020 | 11,461 | 5,583 | 265 | 5,318 |

The following chart shows the average target allocation for the 40 pension benefit plans and six other postretirement benefit plans with assets. The weighted average actual FY 2010 allocations of assets are also shown.

| ASSET CATEGORY | PENSION BENEFITS | | OTHER POSTRETIREMENT BENEFITS | |
|---|---|---|---|---|
| | TARGET ALLOCATION | PERCENT OF PLAN ASSETS AT END FY 2010 | TARGET ALLOCATION | PERCENT OF PLAN ASSETS AT END FY 2010 |
| Cash and Equivalents | 1.10% | 2.60% | 0.50% | 0.40% |
| US Government Bonds | 11.00% | 11.70% | 5.60% | 5.00% |
| State and Municipal Government Bonds | 0.70% | 0.40% | 0.00% | 0.00% |
| Foreign Government Bonds | 0.60% | 0.80% | 0.10% | 0.10% |
| High-yield Corporate Bonds | 3.30% | 7.90% | 0.00% | 0.00% |
| Corporate Bonds other than high-yield | 8.30% | 5.80% | 3.40% | 4.30% |
| Small Cap Domestic Equities | 4.90% | 4.80% | 0.30% | 0.30% |
| Mid Cap Domestic Equities | 6.70% | 7.30% | 2.90% | 2.60% |
| Large Cap Domestic Equities | 27.20% | 24.80% | 2.50% | 2.50% |
| International Equities | 19.40% | 19.90% | 4.50% | 4.60% |
| Real Estate Investment Funds | 2.80% | 2.20% | 0.00% | 0.00% |
| Other Real Estate | 0.20% | 0.30% | 0.00% | 0.00% |
| Mortgage-Backed Securities | 2.00% | 2.70% | 0.80% | 0.80% |
| Asset-Backed Commercial Paper | 0.00% | 0.30% | 0.00% | 0.00% |
| Bonds/Notes Issued by Structured Investment Vehicle or Other Special-Purpose Entities | 0.10% | 0.00% | 0.00% | 0.00% |
| Derivatives, including Collateralized Debt Obligations and Credit Default Swaps | 0.00% | (0.10%) | 0.00% | 0.00% |
| Private Investment Funds, including Hedge Funds | 4.60% | 5.20% | 0.00% | 0.00% |
| Insurance Contracts (general accounts) | 0.40% | 0.40% | 71.40% | 71.40% |
| Insurance Contracts (separate accounts) | 0.00% | 0.10% | 7.30% | 7.30% |
| Employer Securities | 0.30% | 0.20% | 0.00% | 0.00% |
| Aggregate Bond Index, Long Bond Index | 1.00% | 1.00% | 0.00% | 0.00% |
| Other | 5.40% | 1.70% | 0.70% | 0.70% |
| **Total** | **100.00%** | **100.00%** | **100.00%** | **100.00%** |

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 following chart shows the allocation of the assets for the 40 pension benefit plans with assets among the levels in the fair value hierarchy.

| ($ IN MILLIONS) | | QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS | SIGNIFICANT OBSERVABLE INPUTS | SIGNIFICANT UNOBSERVABLE INPUTS |
|---|---|---|---|---|
| **Asset Class** | **Total** | **(Level 1)** | **(Level 2)** | **(Level 3)** |
| Cash and Equivalents | $ 614 | $ 377 | $ 117 | $ 120 |
| US Government Bonds | 2,727 | 1,340 | 1,387 | – |
| State and Municipal Government Bonds | 84 | 34 | 50 | – |
| Foreign Government Bonds | 197 | 130 | 67 | – |
| High-yield Corporate Bonds | 1,841 | 257 | 1,582 | 2 |
| Corporate Bonds other than high-yield | 1,359 | 490 | 869 | – |
| Small Cap Domestic Equities | 1,114 | 1,013 | 101 | – |
| Mid Cap Domestic Equities | 1,702 | 1,325 | 377 | – |
| Large Cap Domestic Equities | 5,796 | 4,314 | 1,482 | – |
| International Equities | 4,650 | 3,348 | 1,302 | – |
| Real Estate Investment Funds | 509 | 129 | 137 | 243 |
| Other Real Estate | 70 | – | – | 70 |
| Mortgage-Backed Securities | 620 | 163 | 457 | – |
| Asset-Backed Commercial Paper | 81 | 62 | 19 | – |
| Derivatives | (20) | – | (21) | 1 |
| Private Investment Funds | 1,210 | 389 | – | 821 |
| Insurance Contracts (general account) | 99 | 4 | 1 | 94 |
| Insurance Contracts (separate account) | 32 | – | 32 | – |
| Employer Securities | 56 | 56 | – | – |
| Aggregate Bond Index, Long Bond Index | 244 | 244 | – | – |
| Other | 392 | 2 | 381 | 9 |
| **Total Assets** | **$ 23,377** | **$ 13,677** | **$ 8,340** | **$ 1,360** |

The following chart shows the reconciliation of the Level 3 assets for FY 2010 for the 40 pension benefit plans with assets.

| ($ IN MILLIONS) | CASH AND EQUIVALENTS | CORPORATE BONDS OTHER THAN HIGH-YIELD | REAL ESTATE INVESTMENT FUNDS | OTHER REAL ESTATE | DERIVATIVES | PRIVATE INVESTMENT FUNDS | INSURANCE CONTRACTS (GENERAL ACCOUNT) | OTHER | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Beginning Balance | $ 67 | $ 7 | $ 228 | $ 35 | $ – | $ 602 | $ 94 | $ 9 | $ 1,042 |
| Actual return on plan assets: | | | | | | | | | |
| Relating to assets still held at the reporting date | – | – | (15) | (1) | – | 87 | – | – | 71 |
| Relating to assets sold during the period | – | – | – | – | – | 1 | – | – | 1 |
| Purchases, sales, and settlements | 53 | (5) | 61 | 14 | 1 | 115 | – | – | 239 |
| Transfers in and/or out of Level 3 | – | – | (34) | 24 | – | 4 | – | – | (6) |
| Other | – | – | 3 | (2) | – | 12 | – | – | 13 |
| **Ending Balance** | **$ 120** | **$ 2** | **$ 243** | **$ 70** | **$ 1** | **$ 821** | **$ 94** | **$ 9** | **$ 1,360** |

Pension assets included in Level 1 of the fair value hierarchy are valued daily based on quoted prices in active markets. Assets included in Level 2 are valued using significant observable inputs other than quoted prices in active markets. US Government Bonds and Corporate Bonds included in Level 2 assets are generally part of collective investment funds valued at the net asset values of the funds based on the quoted prices of the underlying securities in active markets. Other bonds in these categories are valued based on interest rates and yield curves observable at commonly quoted intervals or

at bid evaluation prices for securities traded on OTC markets as provided by independent pricing vendors. Domestic and International Equities included in Level 2 assets are generally part of collective investment funds valued at the net asset values of the funds based on the quoted prices of the underlying securities in active markets. Assets included in Level 3 are valued using significant unobservable inputs. Private Investment Funds and Real Estate Funds included in Level 3 assets are generally priced by the fund general partners, verified by independent third-party appraisers, and audited by independent auditing firms. The actual market values are generally only determinable by negotiations between independent parties pursuant to sales transactions. Assets held in Life Insurance Company General Accounts under Level 3 are generally credited guaranteed interest rates under the contracts or are valued based on the values of the underlying asset holdings of the accounts.

The $168 million of assets in the six other postretirement benefit plans include $120 million of investments in insurance contracts of which $118 million is valued using significant unobservable inputs (Level 3). There was no change in the balance of the Level 3 insurance contracts during FY 2010. The remaining assets in the other postretirement benefit plans are invested in asset classes similar to the assets of the pension plans. None of the other assets in the other postretirement benefit plans were valued using unobservable inputs.

Other Postretirement Benefit assets included in Level 1 of the fair value hierarchy are valued daily based on quoted prices in active markets. International Equities in mutual funds employ fair value pricing in accordance with SEC requirements to reflect market events where the exchange on which they are traded is closed prior to the close of US mutual funds. Assets held in Life Insurance Company General and Separate Accounts under Levels 2 and 3 of the fair value hierarchy are generally credited guaranteed interest rates based on customized fixed income indices.

## 17. Capital Leases

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| **SUMMARY OF ASSETS UNDER CAPITAL LEASE:** | | |
| Power line equipment | $ 326 | $ 153 |
| Buildings and improvements | 24 | 26 |
| ADP equipment | 338 | 319 |
| Contruction work in progress | 61 | 148 |
| Other assets | 104 | 138 |
| **Total capital lease assets** | **$ 853** | **$ 784** |
| Less accumulated depreciation | (216) | (151) |
| **Net assets under capital leases** | **$ 637** | **$ 633** |

| FISCAL YEAR | POWER LINE EQUIPMENT | OTHER | TOTAL |
|---|---|---|---|
| **FUTURE PAYMENTS DUE** | | | |
| 2011 | $ 26 | $ 38 | $ 64 |
| 2012 | 25 | 16 | 41 |
| 2013 | 25 | 2 | 27 |
| 2014 | 115 | – | 115 |
| 2015 | 220 | – | 220 |
| 2016+ | 344 | – | 344 |
| **Total future lease payments** | **$ 755** | **$ 56** | **$ 811** |
| Less imputed interest | (266) | (2) | (268) |
| Less executory costs | (3) | – | (3) |
| **Capital lease liability** | **$ 486** | **$ 54** | **$ 540** |
| Lease liabilities covered by budgetary resources | | | $ 486 |
| Lease liabilities not covered by budgetary resources (Note 11) | | | 54 |
| **Capital lease liability** | | | **$ 540** |

## 18. Contingencies and Commitments

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Unfunded contingencies | | |
| Spent nuclear fuel litigation | $ 15,382 | $ 13,147 |
| Other | 66 | 41 |
| Subtotal (Note 11) | $ 15,448 | $ 13,188 |
| Funded contingencies | | |
| Other | 33 | 34 |
| **Total contingencies and commitments** | **$ 15,481** | **$ 13,222** |

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the federal government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where the loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government. The following are significant contingencies:

- **Spent Nuclear Fuel Litigation** — In accordance with the NWPA, the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the NWF, the Department agreed to begin disposal of spent nuclear fuel (SNF) by January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, it has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation claiming damages for partial breach of contract has ensued as a result of this delay.

  To date, twelve suits have been settled involving utilities that collectively produce about 47 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 $776 million through September 30, 2010. In addition, six cases have been resolved by final judgments: a judgment of $35 million and a judgment of $30 million that were not appealed and paid by the Judgment Fund in fiscal year 2006 and 2010 respectively; and four final judgments awarding no damages affirmed by the appellate court.

  The Department's spent nuclear fuel litigation liability is updated to include the effects of final judgments and settlements as well as payments to date from the Judgment Fund. Additional payments under these settled and adjudicated cases may be made if the utilities incur additional costs before the Department permanently disposes of the spent nuclear fuel. The Department believes its assumptions and methodology provide a reasonable basis for the contingent liability estimate.

  Fifty 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 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 thirty nine 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. Accordingly, based on these settlement estimates, the total liability estimate is $16.2 billion. After deducting the amount paid as of September 30, 2010, under these settlements and as a result of final judgments, a total of $841 million, the remaining liability is estimated to be approximately $15.4 billion. Under current law, any damages or settlements in this litigation will be paid out of the Judgment Fund. The Department's contingent liability estimate for SNF litigation is reported net of amounts paid to date from the Judgment Fund.

  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 and that the government cannot assert the unavoidable delays defense, under which, if it were applicable, the government would not be liable for any damages. Furthermore, in fiscal year 2009 the President and the Secretary announced that the repository at Yucca Mountain will not be opened and that a Blue Ribbon Commission would be established to evaluate alternatives. The Blue Ribbon Commission was established in January 2010. Future determinations on how the Department will meet its obligations under the standard contracts could materially decrease or increase the spent nuclear fuel litigation liability.

- **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; Portsmouth (Piketon), Ohio; Mound, Ohio; and Brookhaven, New York. Collectively, in these cases, damages in excess of $137 billion are sought.

These cases are being vigorously defended. Trials have been held in the Rocky Flats litigation and the Hanford litigation. In the Rocky Flats litigation, the jury returned a substantial verdict in favor of the plaintiffs. The court has entered judgment on the verdict. However, on appeal to the Court of Appeals for the 10th Circuit, the court ruled that the trial court erred on significant points of the law, and ordered the district court to vacate its judgment and conduct further proceedings. In the Hanford litigation, following rulings by the court of appeals, seven of twelve "bellwether" plaintiffs' actions were resolved in favor of the defendants, relatively small judgments entered in favor of two "bellwether" plaintiffs were affirmed, and three "bellwether" plaintiffs' actions were remanded to the district court for further proceedings. The District court is now proceeding to resolve the remaining actions. The court has established mediation "tracks" for some of the thyroid cancer cases and, has ordered trials for the first 30 of the non-cancer cases. The mediation process is under way, and the trials are expected to occur in 2011.

Additionally, some cases have been dismissed by trial courts based on legal rulings and appealed to the courts of appeal.

- **Hanford Site Natural Resources Damages** — The Confederated Tribes of the Yakama Nation filed suit in September 2002 against DOE and the Department of Defense alleging natural resources damages (NRD) in the 1100 area of the Hanford site. The Yakama have since amended their complaint to add the 100 and 300 areas to the suit, alleging additional natural resources damages. In addition, the States of Washington and Oregon, as well as the Confederated Tribes of the Umatilla and the Nez Perce tribe, have joined the suit. The case is in pre-trial phase. The district court has denied the government's motion to dismiss two of the plaintiffs' claims on the ground that they are not ripe, but has stayed any proceedings on one of those claims. The case remains stayed while settlement negotiations continue. Potential losses to the Department cannot be estimated at this time.

- **Cleanup and Waste Disposal at West Valley** — The State of New York filed a complaint for a declaratory judgment and monetary relief, raising claims under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), the West Valley Demonstration Project Act (WVDPA), 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 a stay of the litigation while the parties attempted to resolve the CERCLA and WVDPA claims, including by means of formal mediation. The parties have recently agreed upon a tentative settlement of these claims and the State of New York will provide the public with a 30 day comment period prior to filing with the Court. The tentative settlement includes claims under the WVDPA for which Congress previously allocated a 90% share for the federal government in 1980. Additionally, the settlement only determines cost allocation and not actual clean-up costs, as those decisions will be made pursuant to separate processes.

  On July 1, 2010, the parties filed respective motions to approve and enter the Consent Decree which the court later approved. The Consent Decree makes no decisions with respect to the actual cleanup actions for the West Valley Demonstration Project (WVDP) and/or the Western New York Nuclear Services Center (Center). Instead, the Consent Decree commits the United States and New York to follow a complex cost allocation formula for all future actions at the WVDP and the Center, based entirely on the final actions selected by the parties via the appropriate public process. The Consent Decree did not resolve a claim for liability of the high-level radioactive waste disposal fee pursuant to NWPA. The State of New York intends to litigate this claim and the United States will file a Motion to Dismiss on multiple grounds. While we are confident that our Motion to Dismiss will prevail, it is extremely difficult to estimate the possible financial risks to the Department.

- **Refunds to Utility Companies** — The Bonneville Power Administration (BPA) and the Western Area Power Administration (WAPA) were parties to proceedings at the Federal Energy Regulatory Commission (FERC) that sought refunds for sales into markets operated by the California Independent System Operator (ISO) and the California Power Exchange (PX) during the California energy crisis of 2000-2001. BPA along with a number of other governmental utilities challenged FERC's refund authority over governmental utilities. In BPA v. FERC, 422 F.3d 908 (9th Cir. 2005) the Court found that governmental utilities, like BPA and WAPA, were not subject to FERC's statutory refund authority. As a consequence of the Court's decision, three California investor-owned utilities along with the State of California filed breach of contract claims in the U.S. Court of Federal Claims against BPA and WAPA. The complaints, filed in March of 2007, alleged that BPA and WAPA were contractually obligated to pay refunds on transactions where the agencies received amounts in excess of mitigated market clearing prices established by FERC. The plaintiffs' contractual breach is premised upon a FERC finding that it retroactively reset the prices under the ISO and PX tariffs when it established these mitigated market clearing prices. BPA and WAPA have separately appealed to the Ninth Circuit Court the FERC finding that it retroactively reset the tariff prices. The plaintiffs' claims for relief exceed $300 million. The trial on the liability portion of plaintiff's contractual breach claim commenced in July

2010 and concluded August 2010. Post trial briefs are due to be filed during fall 2010 and closing argument is scheduled for late January 2011. The damages phase of the case will be tried only after the Court rules on the liability portion. No date has been scheduled for the damages phase.

- **Easement on government land to create a wind farm** — Plaintiff MNS Wind Company filed a complaint in the U.S. Court of Federal Claims alleging that the Department unlawfully terminated an agreement that would have granted MNS an easement on government land to construct turbines for the purpose of creating a wind farm at the Nevada National Security Site. On May 15, 2009, the Court issued its opinion denying defendant's motion for summary judgment, granting plaintiff's motion for partial summary judgment and finding the government liable, leaving the issue of damages yet unaddressed. The government filed a motion for reconsideration on liability or, in the alternative, summary judgment on damages, which the court denied on June 25, 2010. In the order denying the motions, the court encouraged the parties to resume settlement discussions. The court issued an order providing that all discovery must be completed by December 15, 2010. The plaintiff seeks $270 million in damages, plus attorney fees; however, the Department believes any damages ultimately awarded would be significantly less than the amount the plaintiff seeks.

- **Paducah and Portsmouth Natural Resource Damages** – As a result of releases of hazardous substances at the Paducah and Portsmouth Sites, the States of Ohio and Kentucky have potential claims against DOE under CERCLA for damages to natural resource (e.g., ground water) caused by such releases. DOE has had preliminary discussions with Ohio about a possible settlement of its claims for natural resource damages at the Portsmouth site. Kentucky has indicated that it desires a "tolling" agreement with respect to potential claims for natural resource damages at the Paducah site. A tolling agreement would suspend the statute of limitations for the filing of the state's claims for a mutually agreeable period of time. The Department will continue its discussions with the states about their potential claims for natural resource damages. Although the Department will be liable for at least some natural resource damages at the sites, it is unable to prepare an estimate of such damages and has not included a provision for damages in the consolidated financial statements.

- **Litigation arising from the Administration's Decision to Abandon the Yucca Mountain Repository Licensing** — Actions were filed relating to the Department's decision to withdraw with prejudice its pending application before the Nuclear Regulatory Commission (NRC) for a construction authorization to build a repository at Yucca Mountain, Nevada. One of these actions was filed with the NRC challenging the Department's motion to withdraw with prejudice the license application for construction of Yucca Mountain. The other six actions were filed in the U.S. Court of Appeals for the District of Columbia.

Four petitions for review were filed in the U.S. Court of Appeals for the District of Columbia Circuit relating to the Department's withdrawal motion filed with the NRC, which the court later consolidated for future litigation. The petitioners allege they suffer harm so long as high level nuclear waste is stored at DOE facilities located in the States of South Carolina and Washington (the Savannah River and Hanford facilities, respectively). They allege that, if a permanent geologic repository at Yucca Mountain, Nevada, were constructed and operated, the waste stored in South Carolina and Washington would eventually be transported to, and disposed of in, the Yucca Mountain repository.

The NRC's hearing tribunal, the Atomic Safety and Licensing Board, issued an order that denied DOE's motion to withdraw its license application. In June of 2010, the Commission, the body with final authority over NRC decision-making invited briefing from the Department and others on whether it should review and reverse, or uphold, the Board's decision. That briefing is complete. An unfavorable ruling by the Commission would require the Department, together with the Department of Justice, to consider further review. The Department might be required to resume the licensing process before the NRC, which could require significant funds and hiring of personnel.

In the D.C. Circuit actions, the government's response brief was due July 28, 2010, but that same day, the court granted the government's motion to vacate the briefing schedule until resolution of the administrative litigation pending before the NRC. Accordingly, the government did not file its brief and this litigation will be stayed until after the NRC rules in the administrative proceeding described above. If the court issues an adverse ruling in this case, the Department might be required to resume the licensing process before the NRC, which could require significant funds and hiring of personnel to ensure compliance with an unfavorable court ruling.

Two additional matters related to the Yucca Mountain license withdrawal seek to review, remand or vacate the Department's decision not to suspend the utility quarterly payments into the Nuclear Waste Fund until there is a final program to implement spent nuclear waste disposal and not to undertake a prompt review of the fee adequacy in light of the termination of the Yucca Mountain licensing. The parties have filed their preliminary briefs, final briefs are due October 18, 2010 and oral argument is set for December 6, 2010. An adverse decision in this matter could disallow the Department from collecting utility nuclear waste disposal fee payments for the Nuclear Waste Fund. Additionally, an adverse ruling could lead to additional litigation as those nuclear utilities not parties to the litigation could sue the Department for failure to collect the

nuclear waste disposal fee as required by section 302 of the Nuclear Waste Policy Act.

- **Purchase Power and Transmission Commitments and Irrigation Assistance** — The PMAs have entered into commitments to sell expected generation for future dates. When the PMAs forecast a resource shortage based on expected obligations and the historical record, they take a variety of steps to cover the shortage. If appropriate, the PMAs will enter into long-term commitments to purchase power for future delivery. The PMAs record expenses associated with these purchases in the periods that power is received.

  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. In establishing power rates, particular statutory provisions guide the assumptions that BPA makes as to the amount and timing of such distributions. Accordingly, these distributions are not considered to be regular operating costs of the power program and are treated as distributions from cumulative results of operations (expense) when paid. Future irrigation assistance payments are scheduled over a maximum of 66 years since the time the irrigation facilities were completed and placed in service. BPA is required by the Grand Coulee Dam - Third Power Plant Act to demonstrate that reimbursable costs will be returned to the Treasury from BPA within the period prescribed by law. BPA is required to make a similar demonstration for the costs of irrigation projects to the extent the costs have been determined to be beyond the irrigators' ability to repay. These requirements are met by conducting power repayment studies (including schedules of distributions at the proposed rates) to demonstrate repayment of principal within the allowable repayment period. Irrigation assistance excludes $40.3 million for Teton Dam, which failed prior to completion and for which BPA has no obligation to recover these costs.

  The following table summarizes future purchase power and transmission commitments and irrigation assistance. The table includes firm purchase power agreements of known cost that are currently in place to assist in meeting expected future obligations under long-term power sales contracts.

| FISCAL YEAR ($ IN MILLIONS) | PURCHASE POWER AND TRANSMISSION | IRRIGATON ASSISTANCE |
|---|---|---|
| 2011 | $ 235 | $ – |
| 2012 | 226 | 1 |
| 2013 | 192 | 138 |
| 2014 | 116 | 63 |
| 2015 | 70 | 85 |
| 2016+ | 220 | 2,674 |
| **Total** | **$ 1,059** | **$ 2,961** |

## INTEGRATED FISH AND WILDLIFE PROGRAM

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 consistent with the Pacific Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program. BPA is financially responsible for expenditures and other costs arising from conformance with the Endangered Species Act (ESA) and certain biological opinions (BiOp) prepared by the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Fish and Wildlife Service in furtherance of the ESA including the 2008 NOAA BiOp regarding the effects of the federal hydropower system on listed salmon and steelhead.

In May 2008, BPA, the Corps of Engineers, and the Bureau of Reclamation signed 10-year agreements with four Northwest tribes, the Columbia River Inter-Tribal Fish Commission, the State of Idaho and the State of Montana. The Shoshone-Bannock Tribes signed their agreement in November 2008. These agreements that are collectively referred to as the Columbia Basin Fish Accords (Fish Accords) provide for BPA to fund up to approximately $994 million over 10 years, enabling the tribes and states to contribute directly to actions described in the NOAA BiOp, as well as continue existing programs and to implement new priority fish projects. In September 2009, BPA, the Corps of Engineers and the Bureau of Reclamation signed an agreement with the State of Washington to provide funds to improve the Columbia River estuary habitat expressly focused on implementation of the NOAA BiOp. This agreement adds $16.2 million to the $31.5 million that BPA had planned for BiOp implementation for a new total commitment of $47.7 million for estuary habitat through 2018. Based on the agreements above, BPA has approximately $1.04 billion in total commitments for the NOAA BiOp and Fish Accords through 2018. As of Sept. 30, 2010, BPA has recorded approximately $171.7 million of its total commitment on the Accords.

In 2009, the U.S. District Court of Oregon requested the Administration present a position on the 2008 NOAA BiOp. The Administration concluded that with the Adaptive Management Implementation Plan (AMIP) the BiOp is biologically and legally sound. However, the Court found that it could not consider the AMIP unless it was incorporated into the BiOp.

In May, 2010 four federal agencies, including BPA, completed the voluntary remand of the 2008 BiOp allowed by the Court and a 2010 Supplemental BiOp was filed, (which included the AMIP and updated science). The Court will decide whether the plan meets the requirements of the Endangered Species Act. The costs of implementing the new contingency actions in the 2010 Supplemental BiOp, if fish runs experience a severe decline, have not been estimated.

## 19. Earmarked Funds

| FY 2010 | | | | | | |
|---|---|---|---|---|---|---|
| ($ IN MILLIONS) | NUCLEAR WASTE FUND | D&D FUND | USEC | PMAs | OTHER | TOTAL |
| **BALANCE SHEET** | | | | | | |
| **ASSETS** | | | | | | |
| Fund balance with Treasury | $ 4 | $ 5 | $ – | $ 1,677 | $ 1,068 | $ 2,754 |
| Investments and related interest, net | 24,566 | 4,975 | 1,601 | 195 | – | 31,337 |
| Accounts receivable, net | 3,419 | – | – | 528 | 18 | 3,965 |
| Direct loans and loan guarantees, net | – | – | – | 1 | – | 1 |
| Inventory, net | – | – | – | 103 | 88 | 191 |
| General property plant and equipment, net | – | – | – | 7,610 | 22 | 7,632 |
| Regulatory assets | – | – | – | 10,073 | – | 10,073 |
| Other assets | 1 | – | – | 2,982 | – | 2,983 |
| **Total Assets** | **$ 27,990** | **$ 4,980** | **$ 1,601** | **$ 23,169** | **$ 1,196** | **$ 58,936** |
| **LIABILITIES AND NET POSITION** | | | | | | |
| Accounts payable | $ 6 | $ 125 | $ – | $ 614 | $ 16 | $ 761 |
| Debt | – | – | – | 17,831 | – | 17,831 |
| Deferred revenues and other credits | 27,973 | – | – | 1,098 | 5 | 29,076 |
| Environmental cleanup and disposal liabilities | – | 14,308 | – | 6 | – | 14,314 |
| Pensions and other actuarial liabilities | 10 | – | – | 58 | – | 68 |
| Capital leases | – | – | – | 485 | – | 485 |
| Other liabilities | 1 | 10 | – | 949 | 16 | 976 |
| Contingencies and commitments | – | – | – | 29 | – | 29 |
| Unexpended appropriations | – | – | – | 6 | 12 | 18 |
| Cumulative results of operations | – | (9,463) | 1,601 | 2,093 | 1,147 | (4,622) |
| **Total Liabilities and Net Position** | **$ 27,990** | **$ 4,980** | **$ 1,601** | **$ 23,169** | **$ 1,196** | **$ 58,936** |
| **STATEMENT OF NET COSTS** | | | | | | |
| Program costs | $ 99 | $ (135) | $ – | $ 4,245 | $ 100 | $ 4,309 |
| Less earned revenues | (130) | (242) | – | (4,269) | (26) | (4,667) |
| **Net program costs** | **$ (31)** | **$ (377)** | **$ –** | **$ (24)** | **$ 74** | **$ (358)** |
| Costs not assigned | (2) | 864 | – | (13) | – | 849 |
| **Net cost of operations** | **$ (33)** | **$ 487** | **$ –** | **$ (37)** | **$ 74** | **$ 491** |
| **STATEMENT OF CHANGES IN NET POSITION** | | | | | | |
| Cumulative results of operations, beginning balance | $ – | $ (9,463) | $ 1,594 | $ 2,036 | $ 1,145 | $ (4,688) |
| Appropriations used | – | – | – | 3 | 10 | 13 |
| Non exchange revenue | – | – | 7 | – | – | 7 |
| Donations and forfeitures of cash | – | – | – | 27 | – | 27 |
| Transfers - in/(out) without reimbursement | (33) | 25 | – | (23) | 51 | 20 |
| Imputed financing | 1 | – | – | 1 | – | 2 |
| Other | (1) | 462 | – | 12 | 15 | 488 |
| Net cost of operations | 33 | (487) | – | 37 | (74) | (491) |
| **Cumulative results of operations, ending balance** | **$ –** | **$ (9,463)** | **$ 1,601** | **$ 2,093** | **$ 1,147** | **$ (4,622)** |
| | | | | | | |
| Unexpended appropriations, beginning balance | $ – | $ – | $ – | $ 9 | $ 11 | $ 20 |
| Appropriations received | – | – | – | – | 11 | 11 |
| Appropriations used | – | – | – | (3) | (10) | (13) |
| **Unexpended appropriations, ending balance** | **$ –** | **$ –** | **$ –** | **$ 6** | **$ 12** | **$ 18** |

| FY 2009 | | | | | | |
|---|---|---|---|---|---|---|
| ($ IN MILLIONS) | NUCLEAR WASTE FUND | D&D FUND | USEC | PMAs | OTHER | TOTAL |
| **BALANCE SHEET** | | | | | | |
| **ASSETS** | | | | | | |
| Fund balance with Treasury | $ 10 | $ 10 | $ – | $ 1,946 | $ 1,074 | $ 3,040 |
| Investments and related interest, net | 22,749 | 4,921 | 1,594 | 98 | – | 29,362 |
| Accounts receivable, net | 3,418 | – | – | 507 | – | 3,925 |
| Direct loans and loan guarantees, net | – | – | – | 1 | – | 1 |
| Inventory, net | – | – | – | 96 | 85 | 181 |
| General property plant and equipment, net | 6 | – | – | 7,092 | 20 | 7,118 |
| Regulatory assets | – | – | – | 10,235 | – | 10,235 |
| Other assets | 2 | – | – | 3,027 | – | 3,029 |
| **Total Assets** | **$ 26,185** | **$ 4,931** | **$ 1,594** | **$ 23,002** | **$ 1,179** | **$ 56,891** |
| **LIABILITIES AND NET POSITION** | | | | | | |
| Accounts payable | $ 16 | $ 96 | $ – | $ 419 | $ 15 | $ 546 |
| Debt | – | – | – | 17,966 | – | 17,966 |
| Deferred revenues and other credits | 26,152 | – | – | 946 | 6 | 27,104 |
| Environmental cleanup and disposal liabilities | – | 14,290 | – | 19 | – | 14,309 |
| Pensions and other actuarial liabilities | 9 | – | – | 59 | – | 68 |
| Capital leases | – | – | – | 461 | – | 461 |
| Other liabilities | 8 | 8 | – | 1,058 | 2 | 1,076 |
| Contingencies and commitments | – | – | – | 29 | – | 29 |
| Unexpended appropriations | – | – | – | 9 | 11 | 20 |
| Cumulative results of operations | – | (9,463) | 1,594 | 2,036 | 1,145 | (4,688) |
| **Total Liabilities and Net Position** | **$ 26,185** | **$ 4,931** | **$ 1,594** | **$ 23,002** | **$ 1,179** | **$ 56,891** |
| **STATEMENT OF NET COSTS** | | | | | | |
| Program costs | $ 141 | $ (10) | $ – | $ 4,209 | $ 72 | $ 4,412 |
| Less earned revenues | (193) | (183) | – | (4,174) | (5) | (4,555) |
| **Net program costs** | **$ (52)** | **$ (193)** | **$ –** | **$ 35** | **$ 67** | **$ (143)** |
| Costs not assigned | – | (422) | – | – | 1 | (421) |
| **Net cost of operations** | **$ (52)** | **$ (615)** | **$ –** | **$ 35** | **$ 68** | **$ (564)** |
| **STATEMENT OF CHANGES IN NET POSITION** | | | | | | |
| Cumulative results of operations, beginning balance | $ – | $ (10,555) | $ 1,571 | $ 2,231 | $ 1,115 | $ (5,638) |
| Appropriations used | – | – | – | 2 | 11 | 13 |
| Non exchange revenue | – | – | 22 | – | – | 22 |
| Donations and forfeitures of cash | – | – | – | 59 | – | 59 |
| Transfers - in/(out) without reimbursement | (54) | 15 | – | (237) | 48 | (228) |
| Imputed financing | 2 | – | – | – | – | 2 |
| Other | – | 462 | 1 | 16 | 39 | 518 |
| Net cost of operations | 52 | 615 | – | (35) | (68) | 564 |
| **Cumulative results of operations, ending balance** | **$ –** | **$ (9,463)** | **$ 1,594** | **$ 2,036** | **$ 1,145** | **$ (4,688)** |
| | | | | | | |
| Unexpended appropriations, beginning balance | $ – | $ – | $ – | $ – | $ 13 | $ 13 |
| Appropriations received | – | – | – | 11 | 9 | 20 |
| Appropriations used | – | – | – | (2) | (11) | (13) |
| **Unexpended appropriations, ending balance** | **$ –** | **$ –** | **$ –** | **$ 9** | **$ 11** | **$ 20** |

### NUCLEAR WASTE FUND

The NWPA requires the 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.

### U.S. ENRICHMENT CORPORATION

Upon privatization of USEC on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC fund. These funds are invested in Treasury securities.

### POWER MARKETING ADMINISTRATIONS

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

## 20. Earned Revenues

| ($ IN MILLIONS) | INTRA-GOVERN-MENTAL | PUBLIC | DEFERRED REVENUE ADJUSTMENT | TOTAL |
|---|---|---|---|---|
| | | FY 2010 | | |
| Energy diversity | $ – | $ (6) | $ – | $ (6) |
| Environmental impacts of energy | | | | |
| Great Plains Gasification Plant | – | (9) | – | (9) |
| Isotope Sales | – | (22) | – | (22) |
| Energy infrastructure | (149) | (3,691) | – | (3,840) |
| Nuclear deterrent | – | (3) | – | (3) |
| Nuclear propulsion plants | (13) | – | – | (13) |
| Environmental cleanup | (169) | (73) | – | (242) |
| Managing the legacy | (1,245) | (706) | 1,821 | (130) |
| Reimbursable programs | (3,507) | (662) | – | (4,169) |
| Other programs | | | | |
| FERC (Note 21) | – | (303) | – | (303) |
| Loan programs (Note 21) | (94) | (78) | 13 | (159) |
| Other (Note 21) | (2) | (58) | – | (60) |
| **Total earned revenues** | **$ (5,179)** | **$ (5,611)** | **$ 1,834** | **$ (8,956)** |
| | | FY 2009 | | |
| Energy diversity | $ – | $ (18) | $ – | $ (18) |
| Environmental impacts of energy | | | | |
| Great Plains Gasification Plant | – | (59) | – | (59) |
| Isotope Sales | – | (20) | – | (20) |
| Energy infrastructure | (57) | (3,670) | – | (3,727) |
| Nuclear deterrent | – | (1) | – | (1) |
| Nuclear propulsion plants | (14) | – | – | (14) |
| Environmental cleanup | (183) | – | – | (183) |
| Managing the legacy | (1,104) | (734) | 1,645 | (193) |
| Reimbursable programs | (3,466) | (645) | – | (4,111) |
| Other programs | | | | |
| FERC (Note 21) | – | (288) | – | (288) |
| Loan programs (Note 21) | (10) | (8) | 10 | (8) |
| Other (Note 21) | (1) | (27) | – | (28) |
| **Total earned revenues** | **$ (4,835)** | **$ (5,470)** | **$ 1,655** | **$ (8,650)** |

### GREAT PLAINS GASIFICATION PLANT

These revenues primarily resulted from receipts stemming from the 1988 Great Plains Gasification asset purchase agreement. Under the terms of the asset purchase agreement, the Department received the last revenue sharing payment in 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 PMAs market electricity generated primarily by federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations, interest on the capital investment repayment, borrowings from Treasury, operation and maintenance costs as well as other payment obligations. Revenues collected by the Southeastern, Southwestern, and Western Area Power Administrations on behalf of other agencies are reported as custodial activity (see Note 26).

### NUCLEAR PROPULSION PLANTS

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

### MANAGING THE LEGACY — URANIUM ENRICHMENT DECONTAMINATION AND DECOMMISSIONING FUND

The Department assessed fees to domestic utilities to pay for the costs for decontamination and decommissioning the department's gaseous diffusion facilities used for uranium enrichment services. Accumulated funds in excess of those needed to pay current program costs are invested in Treasury securities. Interest earned on these investments totaled $169 million and $183 million for September 30, 2010 and September 30, 2009, respectively. Gains on the transfer of Uranium to USEC in exchange for environmental clean-up services totaled $73 million for September 30, 2010.

### ENVIRONMENTAL CLEANUP — 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 $756 million and $771 million were assessed as of September 30, 2010, and September 30, 2009, respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled $1,197 million and $1,067 million as of September 30, 2010, and September 30, 2009, 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.

### 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 $3,676 million and $3,611 million as of September 30, 2010, and September 30, 2009, 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 21).

### LOAN PROGRAMS

The loan program is required to collect administrative fees for the Title XVII loan program from the borrowers. Those fees are recognized as earned when an expense is accrued. Fees of $25 million and $8 million were earned as of September 30, 2010 and September 30, 2009, respectively. The program also earns interest on the loans made to borrowers and on the cash balances held with Treasury. Interest on cash balances of $94 million and $10 million and on loans from the borrower of $53 million and $0.3 million were earned as of September 30, 2010 and September 30, 2009, respectively. Amortization of the subsidy (see Note 7) is an adjustment made to the earned revenue and was $13 million and $11 million as of September 30, 2010 and September 30, 2009, respectively.

## 21. Supporting Schedule of Net Cost for Other Programs

| ($ IN MILLIONS) | FY 2010 | | FY 2009 | |
|---|---|---|---|---|
| Federal Energy Regulatory Commission | | | | |
| Program costs | $ 303 | | $ 288 | |
| Less earned revenues (Note 20) | (303) | | (288) | |
| | | $ – | | $ – |
| Loan programs | | | | |
| Program costs | 209 | | 486 | |
| Less earned revenues (Note 20) | (159) | | (8) | |
| | | **$ 50** | | **$ 478** |
| Inspector General | | 48 | | 48 |
| Environment, safety and health | | 67 | | 68 |
| Other defense activities | | 259 | | 242 |
| **Other programs** | | | | |
| Program costs | $ 60 | | $ 41 | |
| Less earned revenues (Note 20) | (60) | | (28) | |
| | | **$ –** | | **$ 13** |
| **Total net cost for other programs** | | **$ 424** | | **$ 849** |

### LOAN PROGRAMS

The reduction in the program costs is primarily due to the $824 million downward re-estimate of the loans. The downward re-estimate results in an adjustment to the current and prior year subsidy costs.

## 22. 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.

## 23. Costs Not Assigned

| ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Spent nuclear fuel contingency (Note 18) | | |
| Current year Judgment Fund payments (Note 24) | $ 275 | $ 208 |
| Change in estimates (Note 24) | 2,235 | 812 |
| Current year spent nuclear fuel contingency costs | **$ 2,510** | **$ 1,020** |
| Change in environmental liability estimates (Notes 15 and 24) | (9,030) | 8,690 |
| Changes in contractor pension and PRB estimates (Note 24) | 3,605 | 13,887 |
| Change in unfunded safety and health liabilities (Notes 14 and 24) | 123 | (79) |
| Change in occupational illness program (Note 24) | | |
| Subtitle B | 4,430 | 727 |
| Subtitle E | 666 | 272 |
| Other | 73 | (1,253) |
| **Total costs not assigned** | **$ 2,377** | **$ 23,264** |

### CHANGES IN CONTRACTOR PENSION AND PRB ESTIMATES

The changes in contractor pension and PRB estimates are comprised of all the components of contractor pension and PRB net periodic costs except for service costs [i.e., interest costs; expected return on plan assets; (gain)/loss due to curtailments, settlements, or special termination benefits; net prior service cost/( credit); and net (gain)/loss including impacts of changes in actuarial assumptions]. Service costs are not included since they are recorded by program (see Notes 16 and 24).

### COMPENSATION PROGRAM FOR OCCUPATIONAL ILLNESSES

The Energy Employees Occupational Illness Compensation Program Act (EEOICPA) authorized compensation for certain illnesses suffered by employees of 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 amendment grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at the Department's facilities. The amendment also makes it possible for uranium workers, as defined under Section 5 of the Radiation Exposure Compensation Act, to receive compensation under Subtitle E for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act. The estimate of liabilities has increased significantly since last year primarily due to an increased emergence of cancer SEC claims, higher medical costs, and to a lesser extent a lower interest rate used to discount losses

As of September 30, 2005, the law makes payments under these programs the responsibility of the Department of Labor. Therefore, the liability is recorded by the Department of Labor and changes in the total liability are recognized by the Department as an imputed cost and an imputed financing source.

## 24. Reconciliation of Net Cost of Operations to Budget

| ($ IN MILLIONS) | FY 2010 | | FY 2009 | |
|---|---|---|---|---|
| **RESOURCES USED TO FINANCE ACTIVITIES** | | | | |
| Obligations incurred (Note 25) | $ 53,341 | | $ 64,998 | |
| Less spending authority from offsetting collections and recoveries | (9,753) | | (11,509) | |
| Less offsetting receipts (Note 25) | (3,305) | | (3,235) | |
| Net obligations | | **$ 40,283** | | **$ 50,254** |
| Imputed financing from costs absorbed by others | | | | |
| Change in occupational illnesses liability (Note 23) | $ 5,096 | | $ 999 | |
| OPM imputed costs | 123 | | 95 | |
| Payments made from Treasury's Judgment Fund (Note 23) | 275 | | 208 | |
| Total imputed costs absorbed by others | | **5,494** | | **1,302** |
| Transfers-in/(out) without reimbursement | | 201 | | 93 |
| Nuclear Waste Fund offsetting receipts, deferred | | 2,860 | | 2,387 |
| Other | | 6 | | 50 |
| Total resources used to finance activities | | **$ 48,844** | | **$ 54,086** |
| **RESOURCES USED TO FINANCE ACTIVITIES NOT PART OF NET COST OF OPERATIONS** | | | | |
| Change in budgetary resources obligated for orders but not yet provided | $ (7,819) | | $ (25,966) | |
| Resources that finance the acquisition of assets | (7,159) | | (5,358) | |
| Credit program collection and receipts that increase liabilities | 804 | | 458 | |
| Resources that fund expenses recognized in prior periods | (6,507) | | (5,748) | |
| Other resources and adjustments | (50) | | 197 | |
| Total resources used to finance items not part of Net Cost of Operations | | **$ (20,731)** | | **$ (36,417)** |
| **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 23) | $ 3,605 | | $ 13,887 | |
| Current year pension and PRB service costs (Note 16) | 1,136 | | 764 | |
| Current year pension and PRB employer contributions (Note 16) | (1,113) | | (1,139) | |
| Total pension and PRB plans | **$ 3,628** | | **$ 13,512** | |
| Change in environmental liability estimates (Notes 15 and 23) | (9,030) | | 8,690 | |
| Change in spent nuclear fuel contingency (Note 23) | 2,235 | | 812 | |
| Change in unfunded safety and health liabilities (Notes 11, 14 and 23) | 123 | | (79) | |
| Change in other unfunded liabilities | (603) | | 238 | |
| Depreciation of property, plant and equipment | 1,765 | | 1,626 | |
| Amortization of premiums and discounts on Treasury investments | (1,039) | | (843) | |
| Revaluation of assets and liabilities for loans | 13 | | 11 | |
| Other amortization | 166 | | 164 | |
| Other | (1,548) | | (995) | |
| Total net cost of items that do not require or generate resources in current period | | **$ (4,290)** | | **$ 23,136** |
| **Net Cost of Operations** | | **$ 23,823** | | **$ 40,805** |

### 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 and interest collected are reported as offsetting receipts on the Combined Statements of Budgetary Resources. Therefore, a reconciling amount is reported for the portion of the offsetting receipts for which revenues are not recognized in the current period.

## 25. Combined Statements of Budgetary Resources

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

| DETAILS OF OBLIGATIONS INCURRED ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Direct | | |
| Category A (by quarter) | $ 11,904 | $ 5,928 |
| Category B (by project) | 32,868 | 51,275 |
| **Sub-total direct obligations incurred** | **$ 44,772** | **$ 57,203** |
| Exempt from apportionment | 3,773 | 3,141 |
| Reimbursable | | |
| Category A (by quarter) | $ 25 | $ – |
| Category B (by project) | 4,771 | 4,654 |
| **Sub-total reimbursable obligations incurred** | **$ 4,796** | **$ 4,654** |
| **Total obligations incurred** (Note 24) | **$ 53,341** | **$ 64,998** |

| UNOBLIGATED BALANCES NOT AVAILABLE ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Loan funds reserved for future defaults | $ 3,292 | $ 3,333 |
| U.S. Enrichment Corporation Fund | 1,567 | 1,569 |
| Prior year deobligations in excess of apportioned amount | 44 | 36 |
| Energy Supply carryover to be transferred | – | 23 |
| Reimbursable work/collections in excess of amount anticipated | – | 18 |
| Expired appropriations and other amounts not apportioned | 4 | 1 |
| **Total unobligated balances not available** (Note 3) | **$ 4,907** | **$ 4,980** |

| DETAILS OF UNPAID OBLIGATIONS ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Undelivered orders | $ 49,594 | $ 42,799 |
| Accounts payable and other liabilities | 8,051 | 7,292 |
| **Total unpaid obligations** (Note 3) | **$ 57,645** | **$ 50,091** |

| RECONCILIATION TO APPROPRIATIONS RECEIVED ON THE STATEMENTS OF CHANGES IN NET POSITION ($ IN MILLIONS) | FY 2010 | FY 2009 |
|---|---|---|
| Appropriations received on the Combined Statements of Budgetary Resources | $ 27,065 | $ 73,202 |
| Less: | | |
| Special and trust fund appropriated receipts | (862) | (955) |
| Appropriated capital owed | (13) | (58) |
| Appropriations made available from previous year | – | (149) |
| Other | (3) | – |
| **Appropriations received on the Statements of Changes in Net Position** | **$ 26,187** | **$ 72,040** |

| RECONCILIATION TO THE BUDGET (FY 2009): ($ IN MILLIONS) | BUDGETARY RESOURCES | OBLIGATIONS INCURRED | DISTRIBUTED OFFSETTING RECEIPTS | NET OUTLAYS |
|---|---|---|---|---|
| Combined Statements of Budgetary Resources as published | $ 95,596 | $ 64,998 | $ (3,235) | $ 24,097 |
| **OMB ADJUSTMENTS MADE TO EXCLUDE:** | | | | |
| U.S. Enrichment Corporation | (1,569) | – | – | 27 |
| Financing disbursements | – | – | – | (440) |
| Other | (7) | 1 | (1) | (1) |
| **Budget of the United States Government** | **$ 94,020** | **$ 64,999** | **$ (3,236)** | **$ 23,683** |

The fiscal year 2009 *Combined Statements of Budgetary Resources* are reconciled to the President's Budget that was published in February 2010. The President's Budget containing actual fiscal year 2010 balances is expected to be published and available on the OMB web site, **www.whitehouse.gov/omb/budget**, in February 2011. 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.

### BORROWING AUTHORITY:

The Department's borrowing authority reflected in the *Combined Statements of Budgetary Resources* represents the amount of borrowing authority for the current fiscal year's obligations, which may or may not have been converted to cash. The borrowing authority available at September 30, 2010 and September 30, 2009, is $6.14 billion and $8.15 billion for the Department's loan program, $5.19 billion and $5.57 billion for BPA, and $3.16 billion and $3.25 billion for WAPA, respectively. The amounts available are authority that has not been converted to cash.

## 26. Custodial Activities

### POWER MARKETING ADMINISTRATIONS

The Southeastern, Southwestern, and Western Area Power Administrations are responsible for collecting and remitting to Treasury and the Department of the Interior revenues attributable to the hydroelectric power projects owned and operated by the Department of Defense, the Corps; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. These revenues are reported as custodial activities of the Department.

### FEDERAL ENERGY REGULATORY COMMISSION

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

# CONSOLIDATING SCHEDULES

## U.S. Department of Energy Consolidating Schedules – Balance Sheets

As of September 30, 2010 and 2009 *(See independent auditors' report)*

| ($ IN MILLIONS) | FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| | | | FY 2010 | | |
| **ASSETS:** | | | | | |
| Intragovernmental Assets: | | | | | |
| Fund Balance with Treasury | $ 65 | $ 1,677 | $ 54,507 | $ – | $ 56,249 |
| Investments, Net | – | 195 | 31,201 | – | 31,396 |
| Accounts Receivable, Net | 3 | 41 | 1,463 | (1,011) | 496 |
| Regulatory Assets | – | 5,468 | – | – | 5,468 |
| Other Assets | – | – | 104 | (43) | 61 |
| Total Intragovernmental Assets | **$ 68** | **$ 7,381** | **$ 87,275** | **$ (1,054)** | **$ 93,670** |
| Investments, Net | – | – | 195 | – | 195 |
| Accounts Receivable, Net | 36 | 487 | 3,495 | – | 4,018 |
| Direct Loan and Loan Guarantees, Net | – | 1 | 2,434 | – | 2,435 |
| Inventory, Net: | | | | | |
| Strategic Petroleum and Northeast Home Heating Oil Reserve | – | – | 21,700 | – | 21,700 |
| Nuclear Materials | – | – | 21,454 | – | 21,454 |
| Other Inventory | – | 103 | 410 | – | 513 |
| General Property, Plant, and Equipment, Net | 8 | 7,610 | 22,069 | – | 29,687 |
| Regulatory Assets | – | 4,605 | – | – | 4,605 |
| Other Non-Intragovernmental Assets | – | 2,982 | 439 | – | 3,421 |
| **Total Assets** | **$ 112** | **$ 23,169** | **$ 159,471** | **$ (1,054)** | **$ 181,698** |
| **LIABILITIES:** | | | | | |
| Intragovernmental Liabilities: | | | | | |
| Accounts Payable | $ 2 | $ 59 | $ 226 | $ (186) | $ 101 |
| Debt | – | 11,916 | 2,931 | – | 14,847 |
| Deferred Revenues and Other Credits | – | 2 | 76 | (42) | 36 |
| Other Liabilities | 21 | 32 | 2,054 | (826) | 1,281 |
| Total Intragovernmental Liabilities | **$ 23** | **$ 12,009** | **$ 5,287** | **$ (1,054)** | **$ 16,265** |
| Accounts Payable | 12 | 555 | 4,265 | – | 4,832 |
| Loan Guarantee Liability | – | – | 4 | – | 4 |
| Debt Held by the Public | – | 5,915 | – | – | 5,915 |
| Deferred Revenues and Other Credits | – | 1,096 | 28,399 | – | 29,495 |
| Environmental Cleanup and Disposal Liabilities | – | 6 | 250,203 | – | 250,209 |
| Pension and Other Actuarial Liabilities | 2 | 58 | 28,345 | – | 28,405 |
| Obligations Under Capital Leases | – | 485 | 55 | – | 540 |
| Other Non-Intragovernmental Liabilities | 52 | 917 | 3,437 | – | 4,406 |
| Contingencies and Commitments | – | 29 | 15,452 | – | 15,481 |
| **Total Liabilities** | **$ 89** | **$ 21,070** | **$ 335,447** | **$ (1,054)** | **$ 355,552** |
| **NET POSITION:** | | | | | |
| Unexpended Appropriations | | | | | |
| Unexpended Appropriations- Earmarked Funds | $ – | $ 6 | $ 12 | $ – | $ 18 |
| Unexpended Appropriations- Other Funds | 32 | – | 46,949 | – | 46,981 |
| Cumulative Results of Operations | | | | | |
| Cumulative Results of Operations - Earmarked Funds | – | 2,093 | (6,715) | – | (4,622) |
| Cumulative Results of Operations - Other Funds | (9) | – | (216,222) | – | (216,231) |
| **Total Net Position** | **$ 23** | **$ 2,099** | **$ (175,976)** | **$ –** | **$ (173,854)** |
| **Total Liabilities and Net Position** | **$ 112** | **$ 23,169** | **$ 159,471** | **$ (1,054)** | **$ 181,698** |

| FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|
| | | FY 2009 | | |
| | | | | |
| | | | | |
| $ 64 | $ 1,946 | $ 61,661 | $ – | $ 63,671 |
| – | 98 | 29,323 | – | 29,421 |
| – | 74 | 666 | (197) | 543 |
| – | 5,489 | – | – | 5,489 |
| – | – | 111 | (55) | 56 |
| **$ 64** | **$ 7,607** | **$ 91,761** | **$ (252)** | **$ 99,180** |
| – | – | 195 | – | 195 |
| 23 | 433 | 3,485 | – | 3,941 |
| – | 1 | 436 | – | 437 |
| | | | | |
| – | – | 21,626 | – | 21,626 |
| – | – | 20,459 | – | 20,459 |
| – | 96 | 404 | – | 500 |
| 5 | 7,092 | 20,557 | – | 27,654 |
| – | 4,746 | – | – | 4,746 |
| – | 3,027 | 229 | – | 3,256 |
| **$ 92** | **$ 23,002** | **$ 159,152** | **$ (252)** | **$ 181,994** |
| | | | | |
| | | | | |
| $ 4 | $ 12 | $ 243 | $ (197) | $ 62 |
| – | 11,800 | 908 | – | 12,708 |
| – | 1 | 85 | (55) | 31 |
| 9 | 63 | 164 | – | 236 |
| **$ 13** | **$ 11,876** | **$ 1,400** | **$ (252)** | **$ 13,037** |
| 14 | 407 | 3,667 | – | 4,088 |
| – | – | – | – | – |
| – | 6,166 | – | – | 6,166 |
| – | 945 | 26,511 | – | 27,456 |
| – | 19 | 267,638 | – | 267,657 |
| – | 59 | 24,685 | – | 24,744 |
| – | 461 | 107 | – | 568 |
| 49 | 995 | 3,562 | – | 4,606 |
| – | 29 | 13,193 | – | 13,222 |
| **$ 76** | **$ 20,957** | **$ 340,763** | **$ (252)** | **$ 361,544** |
| | | | | |
| | | | | |
| $ – | $ 9 | $ 11 | $ – | $ 20 |
| 20 | – | 55,367 | – | 55,387 |
| | | | | |
| – | 2,036 | (6,724) | – | (4,688) |
| (4) | – | (230,265) | – | (230,269) |
| **$ 16** | **$ 2,045** | **$ (181,611)** | **$ –** | **$ (179,550)** |
| **$ 92** | **$ 23,002** | **$ 159,152** | **$ (252)** | **$ 181,994** |

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

For the Years Ended September 30, 2010 and 2009 *(See independent auditors' report)*

| ($ IN MILLIONS) | FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| | | FY 2010 | | | |
| **STRATEGIC THEMES:** | | | | | |
| **Energy Security:** | | | | | |
| Energy Diversity: | | | | | |
| Program Costs | $ – | $ – | $ 2,322 | $ – | $ 2,322 |
| Less: Earned Revenues | – | – | (6) | – | (6) |
| **Net Cost of Energy Diversity** | **–** | **–** | **2,316** | **–** | **2,316** |
| **Environmental Impacts of Energy:** | | | | | |
| Program Costs | – | – | 1,330 | (19) | 1,311 |
| Less: Earned Revenues | – | – | (31) | – | (31) |
| **Net Cost of Environmental Impacts of Energy** | **–** | **–** | **1,299** | **(19)** | **1,280** |
| **Energy Infrastructure:** | | | | | |
| Program Costs | – | 3,954 | 878 | (57) | 4,775 |
| Less: Earned Revenues | – | (3,882) | (15) | 57 | (3,840) |
| Net Cost of Energy Infrastructure | **–** | **72** | **863** | **–** | **935** |
| Energy Productivity Program Costs | – | | 3,268 | – | 3,268 |
| Net Cost of Energy Security | **–** | **72** | **7,746** | **(19)** | **7,799** |
| **Nuclear Security:** | | | | | |
| Nuclear Deterrent | | | | | |
| Program Costs | – | – | 5,350 | – | 5,350 |
| Less: Earned Revenues | – | – | (3) | – | (3) |
| Net Cost of Nuclear Deterrent | **–** | **–** | **5,347** | **–** | **5,347** |
| Weapons of Mass Destruction Program Costs | **–** | **–** | **1,731** | **–** | **1,731** |
| **Nuclear Propulsion Plants:** | | | | | |
| Program Costs | – | – | 949 | – | 949 |
| Less: Earned Revenues | – | – | (13) | – | (13) |
| Net Cost of Nuclear Propulsion Plants | **–** | **–** | **936** | **–** | **936** |
| Net Cost of Nuclear Security | **–** | **–** | **8,014** | **–** | **8,014** |
| **Scientific Discovery and Innovation:** | | | | | |
| Net Cost of Scientific Discovery and Innovation | – | – | 4,369 | – | 4,369 |
| **Environmental Responsibility:** | | | | | |
| Environmental Cleanup: | | | | | |
| Program Costs | – | – | 7,842 | (463) | 7,379 |
| Less: Earned Revenues | – | – | (242) | – | (242) |
| Net Cost of Environmental Cleanup | **–** | **–** | **7,600** | **(463)** | **7,137** |
| **Managing the Legacy:** | | | | | |
| Program Costs | – | – | 262 | – | 262 |
| Less: Earned Revenues | – | – | (130) | – | (130) |
| Net Cost of Managing the Legacy | **–** | **–** | **132** | **–** | **132** |
| Net Cost of Environmental Responsibility | **–** | **–** | **7,732** | **(463)** | **7,269** |
| Net Cost of Strategic Themes | **–** | **72** | **27,861** | **(482)** | **27,451** |
| **OTHER PROGRAMS:** | | | | | |
| **Reimbursable Programs:** | | | | | |
| Program Costs | – | 291 | 3,968 | (4) | 4,255 |
| Less: Earned Revenues | – | (387) | (3,786) | 4 | (4,169) |
| Net Cost of Reimbursable Programs | **–** | **(96)** | **182** | **–** | **86** |
| **Other Programs:** | | | | | |
| Program Costs | 303 | – | 804 | (161) | 946 |
| Less: Earned Revenues | (303) | – | (380) | 161 | (522) |
| Net Cost of Other Programs | **–** | **–** | **424** | **–** | **424** |
| Costs Applied to Reduction of Legacy Environmental Liabilities | – | – | (6,515) | – | (6,515) |
| Costs Not Assigned | – | (13) | 2,390 | – | 2,377 |
| **Net Cost of Operations** | **$ –** | **$ (37)** | **$ 24,342** | **$ (482)** | **$ 23,823** |

| FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|
| | | FY 2009 | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| $ – | $ – | $ 1,470 | $ – | $ 1,470 |
| – | – | (18) | – | (18) |
| **–** | **–** | **1,452** | **–** | **1,452** |
| | | | | |
| – | – | 1,287 | (38) | 1,249 |
| – | – | (79) | – | (79) |
| **–** | **–** | **1,208** | **(38)** | **1,170** |
| | | | | |
| – | 3,894 | 214 | (61) | 4,047 |
| – | (3,778) | (10) | 61 | (3,727) |
| **–** | **116** | **204** | **–** | **320** |
| – | – | 714 | – | 714 |
| **–** | **116** | **3,578** | **(38)** | **3,656** |
| | | | | |
| | | | | |
| – | – | 6,198 | – | 6,198 |
| – | – | (1) | – | (1) |
| **–** | **–** | **6,197** | | **6,197** |
| **–** | **–** | **1,750** | **–** | **1,750** |
| | | | | |
| – | – | 808 | – | 808 |
| – | – | (14) | – | (14) |
| **–** | **–** | **794** | **–** | **794** |
| **–** | **–** | **8,741** | **–** | **8,741** |
| | | | | |
| – | – | 4,050 | – | 4,050 |
| | | | | |
| | | | | |
| – | – | 6,235 | (463) | 5,772 |
| – | – | (183) | – | (183) |
| **–** | **–** | **6,052** | **(463)** | **5,589** |
| | | | | |
| – | – | 371 | – | 371 |
| – | – | (193) | – | (193) |
| **–** | **–** | **178** | **–** | **178** |
| **–** | **–** | **6,230** | **(463)** | **5,767** |
| **–** | **116** | **22,599** | **(501)** | **22,214** |
| | | | | |
| | | | | |
| | | | | |
| – | 315 | 3,913 | – | 4,228 |
| – | (396) | (3,715) | – | (4,111) |
| **–** | **(81)** | **198** | **–** | **117** |
| | | | | |
| 288 | – | 1,034 | (149) | 1,173 |
| (288) | – | (185) | 149 | (324) |
| **–** | **–** | **849** | **–** | **849** |
| – | – | (5,639) | – | (5,639) |
| – | – | 23,264 | – | 23,264 |
| **$ –** | **$ 35** | **$ 41,271** | **$ (501)** | **$ 40,805** |

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

For the Years Ended September 30, 2010 and 2009 *(See independent auditors' report)*

| ($ IN MILLIONS) | FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| | | | FY 2010 | | |
| **CUMULATIVE RESULTS OF OPERATIONS:** | | | | | |
| Beginning Balances | $ (4) | $ 2,036 | $ (236,989) | $ – | $ (234,957) |
| Budgetary Financing Sources: | | | | | |
| Appropriations Used | $ (12) | $ 3 | $ 33,084 | $ – | $ 33,075 |
| Non-Exchange Revenue | – | – | 61 | – | 61 |
| Donations and Forfeitures of Cash | – | – | 1 | – | 1 |
| Transfers - In/(Out) Without Reimbursement | – | (229) | 196 | – | (33) |
| Other Financing Sources (Non-Exchange): | | | | | |
| Donations and Forfeitures of Cash | – | 27 | 2 | – | 29 |
| Transfers - In/(Out) Without Reimbursement | 3 | 206 | (8) | – | 201 |
| Imputed Financing from Costs Absorbed by Others | 16 | 1 | 5,477 | – | 5,494 |
| Other | (12) | 12 | (419) | (482) | (901) |
| Total Financing Sources | **$ (5)** | **$ 20** | **$ 38,394** | **$ (482)** | **$ 37,927** |
| Net Cost of Operations | – | 37 | (24,342) | 482 | (23,823) |
| Net Change | **$ (5)** | **$ 57** | **$ 14,052** | **$ –** | **$ 14,104** |
| **Total Cumulative Results of Operations** | **$ (9)** | **$ 2,093** | **$ (222,937)** | **$ –** | **$ (220,853)** |
| **UNEXPENDED APPROPRIATIONS:** | | | | | |
| Beginning Balances | $ 20 | $ 9 | $ 55,378 | $ – | $ 55,407 |
| Budgetary Financing Sources: | | | | | |
| Appropriations Received | $ – | $ – | $ 26,187 | $ – | $ 26,187 |
| Appropriations Transferred - In/(Out) | – | – | 3 | – | 3 |
| Other Adjustments | – | – | (1,523) | – | (1,523) |
| Appropriations Used | 12 | (3) | (33,084) | – | (33,075) |
| Total Budgetary Financing Sources | **$ 12** | **$ (3)** | **$ (8,417)** | **$ –** | **$ (8,408)** |
| Total Unexpended Appropriations | **$ 32** | **$ 6** | **$ 46,961** | **$ –** | **$ 46,999** |
| **Net Position** | **$ 23** | **$ 2,099** | **$ (175,976)** | **$ –** | **$ (173,854)** |

| FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|
| | | FY 2009 | | |
| | | | | |
| $ (10) | $ 2,231 | $ (223,481) | $ – | $ (221,260) |
| | | | | |
| $ 4 | $ 2 | $ 25,748 | $ – | $ 25,754 |
| – | – | 75 | – | 75 |
| – | – | 15 | – | 15 |
| – | (190) | (50) | – | (240) |
| | | | | |
| – | 59 | – | – | 59 |
| (11) | (47) | 151 | – | 93 |
| 13 | – | 1,289 | – | 1,302 |
| – | 16 | 535 | (501) | 50 |
| **$ 6** | **$ (160)** | **$ 27,763** | **$ (501)** | **$ 27,108** |
| – | (35) | (41,271) | 501 | (40,805) |
| **$ 6** | **$ (195)** | **$ (13,508)** | **$ –** | **$ (13,697)** |
| **$ (4)** | **$ 2,036** | **$ (236,989)** | **$ –** | **$ (234,957)** |
| | | | | |
| $ 24 | $ – | $ 11,095 | $ – | $ 11,119 |
| | | | | |
| $ – | $ 11 | $ 72,029 | $ – | $ 72,040 |
| – | – | (1,998) | – | (1,998) |
| – | – | – | – | – |
| (4) | (2) | (25,748) | – | (25,754) |
| **$ (4)** | **$ 9** | **$ 44,283** | **$ –** | **$ 44,288** |
| **$ 20** | **$ 9** | **$ 55,378** | **$ –** | **$ 55,407** |
| **$ 16** | **$ 2,045** | **$ (181,611)** | **$ –** | **$ (179,550)** |

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

For the Years Ended September 30, 2010 and 2009 *(See independent auditors' report)*

| ($ IN MILLIONS) | FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | COMBINED |
|---|---|---|---|---|
| | | FY 2010 | | |
| **BUDGETARY RESOURCES** | | | | |
| Unobligated Balance, Brought Forward, October 1 | $ 8 | $ 446 | $ 30,144 | $ 30,598 |
| Recoveries of Prior Year Unpaid Obligations | 2 | – | 1,184 | 1,186 |
| Budget Authority: | | | | |
| Appropriations | $ – | $ 153 | $ 26,912 | $ 27,065 |
| Borrowing Authority | – | 838 | 160 | 998 |
| Contract Authority | – | 1,135 | – | 1,135 |
| Spending Authority from Offsetting Collections: | | | | |
| Earned: | | | | |
| Collected | 298 | 3,972 | 5,020 | 9,290 |
| Change in Receivables from Federal Sources | – | 45 | (22) | 23 |
| Change in Unfilled Customer Orders: | | | | |
| Advances Received | – | (23) | 32 | 9 |
| Without Advance from Federal Sources | – | 3 | (758) | (755) |
| Subtotal | **$ 298** | **$ 6,123** | **$ 31,344** | **$ 37,765** |
| Nonexpenditure Transfers, Net, Actual | – | (90) | 3 | (87) |
| Temporarily not Available Pursuant to Public Law | – | – | – | – |
| Permanently not Available | – | (1,102) | (1,710) | (2,812) |
| Total Budgetary Resources | **$ 308** | **$ 5,377** | **$ 60,965** | **$ 66,650** |
| **STATUS OF BUDGETARY RESOURCES** | | | | |
| Obligations Incurred: | | | | |
| Direct | $ 296 | $ 533 | $ 43,943 | $ 44,772 |
| Exempt from Apportionment | – | 3,691 | 82 | 3,773 |
| Reimbursable | – | 665 | 4,131 | 4,796 |
| Total Obligations Incurred | **$ 296** | **$ 4,889** | **$ 48,156** | **$ 53,341** |
| Unobligated Balance: | | | | |
| Apportioned | 12 | 466 | 7,871 | 8,349 |
| Exempt from Apportionment | – | 21 | 32 | 53 |
| Unobligated Balance not Available | – | 1 | 4,906 | 4,907 |
| Total Status of Budgetary Resources | **$ 308** | **$ 5,377** | **$ 60,965** | **$ 66,650** |
| **CHANGE IN OBLIGATED BALANCE** | | | | |
| Obligated Balance, Net: | | | | |
| Unpaid Obligations, Brought Forward, October 1 | $ 40 | $ 2,691 | $ 47,360 | $ 50,091 |
| Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1 | – | (309) | (7,014) | (7,323) |
| Total Unpaid Obligated Balance, Net, October 1 | **$ 40** | **$ 2,382** | **$ 40,346** | **$ 42,768** |
| Obligations Incurred | 296 | 4,889 | 48,156 | 53,341 |
| Less: Gross Outlays | (288) | (4,682) | (39,631) | (44,601) |
| Less: Recoveries of Prior Year Unpaid Obligations, Actual | (2) | – | (1,184) | (1,186) |
| Change in Uncollected Customer Payments from Federal Sources | – | (48) | 780 | 732 |
| | **$ 46** | **$ 2,541** | **$ 48,467** | **$ 51,054** |
| Obligated Balance, Net, End of Period: | | | | |
| Unpaid Obligations | $ 46 | $ 2,898 | $ 54,701 | $ 57,645 |
| Less: Uncollected Customer Payments from Federal Sources | – | (357) | (6,234) | (6,591) |
| Total, Unpaid Obligated Balance, Net, End of Period | **$ 46** | **$ 2,541** | **$ 48,467** | **$ 51,054** |
| **NET OUTLAYS** | | | | |
| Gross Outlays | $ 288 | $ 4,682 | $ 39,631 | $ 44,601 |
| Less: Offsetting Collections | (298) | (3,949) | (5,052) | (9,299) |
| Less: Distributed Offsetting Receipts | (34) | (628) | (2,643) | (3,305) |
| Net Outlays | **$ (44)** | **$ 105** | **$ 31,936** | **$ 31,997** |

| FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | COMBINED |
|---|---|---|---|
| | FY 2009 | | |
| | | | |
| $ 16 | $ 379 | $ 3,234 | $ 3,629 |
| 1 | – | 59 | 60 |
| | | | |
| $ 3 | $ 290 | $ 72,909 | $ 73,202 |
| – | 385 | 9,102 | 9,487 |
| – | 787 | – | 787 |
| | | | |
| | | | |
| 273 | 3,792 | 4,472 | 8,537 |
| – | (39) | 9 | (30) |
| | | | |
| – | 19 | 61 | 80 |
| – | (1) | 2,863 | 2,862 |
| **$ 276** | **$ 5,233** | **$ 89,416** | **$ 94,925** |
| – | (59) | (1,997) | (2,056) |
| – | – | (7) | (7) |
| – | (955) | – | (955) |
| **$ 293** | **$ 4,598** | **$ 90,705** | **$ 95,596** |
| | | | |
| | | | |
| $ 285 | $ 356 | $ 56,562 | $ 57,203 |
| – | 3,002 | 139 | 3,141 |
| – | 794 | 3,860 | 4,654 |
| **$ 285** | **$ 4,152** | **$ 60,561** | **$ 64,998** |
| | | | |
| 8 | 418 | 25,149 | 25,575 |
| – | 27 | 16 | 43 |
| – | 1 | 4,979 | 4,980 |
| **$ 293** | **$ 4,598** | **$ 90,705** | **$ 95,596** |
| | | | |
| | | | |
| $ 33 | $ 2,803 | $ 18,266 | $ 21,102 |
| – | (348) | (4,143) | (4,491) |
| **$ 33** | **$ 2,455** | **$ 14,123** | **$ 16,611** |
| 285 | 4,152 | 60,561 | 64,998 |
| (277) | (4,265) | (31,407) | (35,949) |
| (1) | – | (59) | (60) |
| – | 40 | (2,872) | (2,832) |
| **$ 40** | **$ 2,382** | **$ 40,346** | **$ 42,768** |
| | | | |
| $ 40 | $ 2,691 | $ 47,360 | $ 50,091 |
| – | (309) | (7,014) | (7,323) |
| **$ 40** | **$ 2,382** | **$ 40,346** | **$ 42,768** |
| | | | |
| $ 277 | $ 4,265 | $ 31,407 | $ 35,949 |
| (273) | (3,811) | (4,533) | (8,617) |
| (51) | (556) | (2,628) | (3,235) |
| **$ (47)** | **$ (102)** | **$ 24,246** | **$ 24,097** |

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

For the Years Ended September 30, 2010 and 2009 *(See independent auditors' report)*

| ($ IN MILLIONS) | FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| | | FY 2010 | | | |
| **SOURCES OF COLLECTIONS:** | | | | | |
| Cash Collections: | | | | | |
| Power Marketing Administration Custodial Revenue | $ – | $ 899 | $ – | $ – | $ 899 |
| Federal Energy Regulatory Commission | 41 | – | – | – | 41 |
| Total Cash Collections | **$ 41** | **$ 899** | **$ –** | **$ –** | **$ 940** |
| Accrual Adjustment | 14 | (27) | – | – | (13) |
| Total Custodial Revenue | **$ 55** | **$ 872** | **$ –** | **$ –** | **$ 927** |
| **DISPOSITION OF REVENUE:** | | | | | |
| Transferred to Others: | | | | | |
| Bureau of Reclamation | (1) | (470) | – | – | (471) |
| Department of the Treasury | (35) | (316) | – | – | (351) |
| Army Corps of Engineers | (4) | (83) | – | – | (87) |
| Decrease/(Increase) in Amounts to be Transferred | (15) | (3) | – | – | (18) |
| Net Custodial Activity | $ – | $ – | $ – | $ – | $ – |

| FEDERAL ENERGY REGULATORY COMMISSION | POWER MARKETING ADMINISTRATIONS | ALL OTHER DOE PROGRAMS | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|
| FY 2009 | | | | |
| | | | | |
| | | | | |
| $ – | $ 694 | $ – | $ – | $ 694 |
| 63 | – | – | – | 63 |
| **$ 63** | **$ 694** | **$ –** | **$ –** | **$ 757** |
| 6 | 8 | – | – | 14 |
| **$ 69** | **$ 702** | **$ –** | **$ –** | **$ 771** |
| | | | | |
| | | | | |
| (8) | (420) | – | – | (428) |
| (45) | (276) | – | – | (321) |
| (7) | (19) | – | – | (26) |
| (9) | 13 | – | – | 4 |
| **$ –** | **$ –** | **$ –** | **$ –** | **$ –** |

# REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

**Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years 2010 through 2006**

***UNAUDITED — See Accompanying Auditors' Report***

| | |
|---|---|
| Energy Security | Scientific Discovery and Innovation |
| Nuclear Security | Environmental Responsibility |

| (IN MILLIONS) | DIRECT COST | DEPRECIATION & OTHER | TOTAL | DIRECT COST | DEPRECIATION & OTHER | TOTAL |
|---|---|---|---|---|---|---|
| | FY 2010 | | | FY 2009 | | |
| **BASIC** | | | | | | |
| Energy Diversity: | | | | | | |
| Energy Efficiency | $ 1.1 | $ 0.1 | $ 1.2 | $ 3.9 | $ 0.7 | $ 4.6 |
| Fossil Energy | 0.1 | – | 0.1 | 9.9 | 3.0 | 12.9 |
| Environmental Impacts of Energy: | | | | | | |
| Fossil Energy | 3.9 | 1.0 | 4.9 | 3.3 | 1.0 | 4.3 |
| Nuclear Energy | | | – | | | – |
| Energy Infrastructure: | | | | | | |
| Power Marketing Administration* | | | – | | | – |
| Weapons of Mass Destruction: | 30.4 | 2.6 | 33.0 | 133.3 | 9.5 | 142.8 |
| Scientific Breakthroughs & Foundations of Science: | 2,317.3 | 474.5 | 2,791.8 | 2,928.6 | 543.0 | 3,471.6 |
| Total Basic | $ 2,352.8 | $ 478.2 | $ 2,831.0 | $ 3,079.0 | $ 557.2 | $ 3,636.2 |
| **APPLIED** | | | | | | |
| Energy Diversity: | | | | | | |
| Energy Efficiency | $ 340.9 | $ 28.1 | $ 369.0 | $ 284.2 | $ 34.8 | $ 319.0 |
| Fossil Energy | 6.4 | 1.8 | 8.2 | 12.7 | 3.9 | 16.6 |
| Environmental Impacts of Energy: | | | | | | |
| Fossil Energy | 170.1 | 43.8 | 213.9 | 111.6 | 36.6 | 148.2 |
| Nuclear Energy | 165.0 | 61.5 | 226.5 | 56.8 | 25.3 | 82.2 |
| Energy Infrastructure | | | | | | |
| Energy Efficiency | – | – | – | – | – | – |
| Electric Transmission & Distribution | 51.1 | 2.8 | 53.9 | 56.9 | 3.8 | 60.7 |
| Power Marketing Administration* | 3.5 | – | 3.5 | 7.2 | – | 7.2 |
| Energy Productivity: | | | | | | |
| Energy Efficiency | 37.6 | 2.4 | 40.0 | 27.3 | 2.7 | 30.0 |
| Nuclear Deterrent: | 1,370.9 | 180.2 | 1,551.1 | 1,291.7 | 98.3 | 1,390.0 |
| Weapons of Mass Destruction: | 143.9 | 12.4 | 156.3 | 30.2 | 2.1 | 32.3 |
| Scientific Breakthroughs & Foundations of Science: | | | – | | | – |
| Environmental Cleanup: | 10.2 | 1.7 | 11.9 | 11.3 | 1.7 | 13.0 |
| Managing the Legacy: | 0.2 | 0.1 | 0.3 | 1.7 | 0.1 | 1.8 |
| **Total Applied** | $ 2299.8 | $ 334.8 | $ 2,634.6 | $ 1,891.8 | $ 209.2 | $ 2,101.0 |
| **DEVELOPMENT** | | | | | | |
| Energy Diversity: | | | | | | |
| Energy Efficiency | $ 303.2 | $ 22.3 | $ 325.5 | $ 239.9 | $ 26.9 | $ 266.8 |
| Fossil Energy | 8.0 | 2.3 | 10.3 | 4.3 | 1.3 | 5.6 |
| Environmental Impacts of Energy: | | | | | | |
| Fossil Energy | 212.7 | 54.7 | 267.4 | 145.6 | 48.1 | 193.7 |
| Nuclear Energy | – | – | – | 1.3 | 0.6 | 1.9 |
| Energy Infrastructure: | | | | | | |
| Energy Efficiency | 61.3 | 3.6 | 64.9 | 24.7 | 2.7 | 27.4 |
| Electric Transmission & Distribution | – | – | – | 33.9 | 1.5 | 35.4 |
| Power Marketing Administration* | – | – | – | 0.9 | – | 0.9 |
| Energy Productivity: | | | | | | |
| Energy Efficiency | 54.8 | 4.2 | 59.0 | 47.3 | 4.6 | 51.9 |
| Nuclear Deterrent: | 431.1 | 271.1 | 702.2 | 710.8 | 232.5 | 943.3 |
| Weapons of Mass Destruction: | 85.8 | 9.9 | 95.7 | 76.6 | 6.8 | 83.4 |
| Nuclear Propulsion Plants: | 821.0 | 69.6 | 890.6 | 728.1 | 60.6 | 788.7 |
| Environmental Cleanup: | 19.9 | 3.3 | 23.2 | 21.9 | 3.3 | 25.2 |
| Total Development | $ 1,997.8 | $ 441.0 | $ 2,438.8 | 2,035.3 | 388.9 | 2,424.2 |
| **Total R&D** | $ 6,650.4 | $ 1,254.0 | $ 7,904.4 | $ 7,006.1 | $ 1,155.3 | $ 8,161.4 |

** Full R&D investments for the Power Marketing Administrations are included under direct costs of the Energy Infrastructure Goal.*

| DIRECT COST | DEPRECIATION & OTHER | TOTAL | DIRECT COST | DEPRECIATION & OTHER | TOTAL | DIRECT COST | DEPRECIATION & OTHER | TOTAL |
|---|---|---|---|---|---|---|---|---|
| FY 2008 | | | FY 2007 | | | FY 2006 | | |
| | | | | | | | | |
| | | | | | | | | |
| $ 5.2 | $ 0.2 | $ 5.4 | $ 0.4 | $ – | $ 0.4 | $ 1.3 | $ 0.1 | $ 1.4 |
| 4.2 | 1.4 | 5.6 | – | – | – | – | – | – |
| | | | | | | | | |
| 5.2 | 1.8 | 7.0 | 4.4 | 1.3 | 5.7 | 4.3 | 0.8 | 5.1 |
| – | – | – | – | – | – | 0.6 | 2.3 | 2.9 |
| | | | | | | | | |
| – | – | – | – | – | – | – | – | – |
| 25.7 | 1.6 | 27.3 | 11.1 | 1.0 | 12.1 | 6.8 | 0.8 | 7.6 |
| 2,874.0 | 618.4 | 3,492.4 | 2,753.9 | 667.1 | 3,421.0 | 2,671.5 | 601.1 | 3,272.6 |
| **$ 2,914.3** | **$ 623.4** | **$ 3,537.7** | **$ 2,769.8** | **$ 669.4** | **$ 3,439.2** | **$ 2,684.5** | **$ 605.1** | **$ 3,289.6** |
| | | | | | | | | |
| | | | | | | | | |
| $ 256.7 | $ 9.8 | $ 266.5 | $ 169.2 | $ 9.5 | $ 178.7 | $ 169.5 | $ 12.5 | $ 182.0 |
| 3.3 | 1.1 | 4.4 | – | – | – | 32.1 | 7.5 | 39.6 |
| | | | | | | | | |
| 158.9 | 53.7 | 212.6 | 136.8 | 41.7 | 178.5 | 198.1 | 20.6 | 218.7 |
| 48.1 | 13.4 | 61.5 | 71.1 | 15.7 | 86.8 | 84.3 | 33.1 | 117.4 |
| | | | | | | | | |
| 0.9 | – | 0.9 | 9.9 | 0.7 | 10.6 | 31.8 | 1.8 | 33.6 |
| 19.6 | 0.8 | 20.4 | 12.9 | 1.3 | 14.2 | 66.8 | 3.8 | 70.6 |
| 4.9 | – | 4.9 | 8.6 | – | 8.6 | 10.4 | – | 10.4 |
| | | | | | | | | |
| 44.2 | 2.1 | 46.3 | 22.9 | 1.2 | 24.1 | 20.3 | 1.4 | 21.7 |
| 1,965.2 | 253.3 | 2,218.5 | 1,799.3 | 165.7 | 1,965.0 | 1,955.6 | 183.1 | 2,138.7 |
| 122.9 | 8.1 | 131.0 | 121.5 | 11.2 | 132.7 | 113.8 | 13.8 | 127.6 |
| – | – | – | – | – | – | – | – | – |
| 4.5 | 0.6 | 5.1 | 9.6 | 1.5 | 11.1 | 0.9 | – | 0.9 |
| 8.3 | 0.5 | 8.8 | 172.8 | 1.9 | 174.7 | 259.3 | 3.1 | 262.4 |
| **$ 2,637.5** | **$ 343.4** | **$ 2,980.9** | **$ 2,534.6** | **$ 250.4** | **$ 2,785.0** | **$ 2,942.9** | **$ 280.7** | **$ 3,223.6** |
| | | | | | | | | |
| | | | | | | | | |
| $ 197.4 | $ 9.1 | $ 206.5 | $ 145.4 | $ 9.0 | $ 154.4 | $ 205.7 | $ 12.0 | $ 217.7 |
| 1.3 | 0.5 | 1.8 | – | – | – | 48.2 | 11.3 | 59.5 |
| | | | | | | | | |
| 82.4 | 29.0 | 111.4 | 127.7 | 36.6 | 164.3 | 95.8 | 19.9 | 115.7 |
| 5.1 | 2.6 | 7.7 | 9.1 | 1.0 | 10.1 | 1.3 | 0.3 | 1.6 |
| | | | | | | | | |
| 0.4 | – | 0.4 | 19.5 | 0.8 | 20.3 | 28.7 | 1.7 | 30.4 |
| 17.2 | 0.8 | 18.0 | 17.0 | 1.7 | 18.7 | 26.0 | 1.6 | 27.6 |
| – | – | – | 2.5 | – | 2.5 | 1.1 | – | 1.1 |
| | | | | | | | | |
| 34.3 | 1.6 | 35.9 | 22.9 | 1.2 | 24.1 | 20.7 | 1.4 | 22.1 |
| 778.5 | 412.2 | 1,190.7 | 595.4 | 195.3 | 790.7 | 467.4 | 117.3 | 584.7 |
| 69.3 | 6.0 | 75.3 | 66.1 | 6.7 | 72.8 | 84.7 | 5.1 | 89.8 |
| 693.2 | 42.8 | 736.0 | 708.9 | 54.0 | 762.9 | 681.5 | 42.9 | 724.4 |
| 33.3 | 4.4 | 37.7 | 22.4 | 3.5 | 25.9 | 2.1 | 0.1 | 2.2 |
| **1,912.4** | **509.0** | **2,421.4** | **$ 1,736.9** | **$ 309.8** | **$ 2,046.7** | **$ 1,663.2** | **$ 213.6** | **$ 1,876.8** |
| | | | | | | | | |
| **$ 7,464.2** | **$ 1,475.8** | **$ 8,940.0** | **$ 7,041.3** | **$ 1,229.6** | **$ 8,270.9** | **$ 7,290.6** | **$ 1,099.4** | **$ 8,390.0** |

## Investment in Research and Development

The Department's research and development programs are classified into the following categories: Basic Research, Applied Research, and Development. Research and Development (R&D) program offices facilitate the creation, advancement, and deployment of the new technologies and support the Department's mission to power and secure America's future.

## Priority 1: Science, Discovery and Innovation

*(Basic)*

The **Office of Science** supports research activities in the following areas: **Advanced Scientific Computing** relevant to the complex challenges faced by the Department and providing world class supercomputer and networking facilities for scientists; **Basic Energy Sciences** including work in the natural sciences that emphasizes fundamental research in materials science, chemistry, geosciences, and physical biosciences; **Biological and Environmental** which provides the foundational science for alternative fuels, advanced climate predictions, terrestrial carbon sequestration, subsurface bio-geo-processes, and radiobiology at a range of scales from the molecular to the global Earth; **Fusion Energy Sciences** activities including broad-based fundamental research efforts aimed at producing the knowledge needed for a fusion energy source, and to be a world leader in plasma physics and high energy density physics research; **High Energy Physics** activities directed at understanding the nature of matter and energy; **Nuclear Physics** activities directed at understanding the fundamental forces and particles of nature as manifested in nuclear matter; and **Small Business Innovation/ Technology Transfer** support for energy related technologies.

Recent R&D outcomes are as follows:

- The **Linac Coherent Light Source** at the SLAC National Accelerator Laboratory – the world's first hard x-ray free electron laser facility – became operational in June 2010;
- In March of 2010, DOE's **Energy Sciences Network** completed the first milestone in constructing its Advanced Network Initiative testbed by installing Infinera's dense wavelength-division multiplexing equipment;
- DOE made significant improvements to the newly released version of the **Community Earth System Model**, a national model that is co-sponsored by DOE and the National Science Foundation;
- Significant advances were achieved in FY 2010 by the DOE **Bioenergy Research Centers** toward the characterization, modeling, and design of biological systems targeting mission needs in bioenergy production;
- An international team of scientists from Russia and the United States, including two DOE national laboratories and two universities, discovered **element 117**, the newest super heavy element;
- Scientists at Thomas Jefferson National Accelerator Facility created a new type of computer cluster using 200 **graphical processing units**;
- Researchers continued the search for the Higgs boson with the **Tevatron Collider experiments at Fermilab**.

## Priority 2: Economic Prosperity/ Priority 3: Clean, Secure Energy

*(Basic, Applied, and Development)*

The **Office of Energy Efficiency and Renewable Energy** (EERE) invests in high-risk, high-value research and development, as well as deployment and promotion activities that would not be sufficiently conducted by the private sector. EERE works with public and private sector decision makers, partners, and other stakeholders to develop programs and policies to facilitate the technologies and practices through efficiency mechanisms such as appliance efficiency standards, building codes, federal fleet initiatives, energy education activities, and financial assistance grants. Programs activities include: **Hydrogen Technology**, **Biomass & Biorefinery Systems R&D**, **Solar Energy**, **Wind Energy**, **Geothermal Technology**, **Water Power**, **Vehicle Technologies**, **Building Technologies**, **Industrial Technologies**, **Federal Energy Management Program**, and **Weatherization & Intergovernmental Activities**.

Recent R&D outcomes are as follows:

- **Solar Photovoltaics** R&D program demonstrated manufacturable 23.4% efficient cells and manufactured the first 100 kilowatts of U.S.-produced T-5 product for commercial rooftops. Targets of 17-20 cents per kilowatthour for residential and 12-16 cents per kilowatthour for commercial PV systems have been exceeded;
- **Concentrating Solar Power** R&D program developed next generation polymeric reflective coatings for troughs and towers that critically enable reduced solar field cost and enhanced performance necessary to achieve targets;
- **Wind Energy** program completed dynamometer testing and calibration of a wind turbine gearbox that will provide invaluable operational data for the Gearbox Reliability Collaborative effort.

The **Office of Fossil Energy** (FE) **gas hydrates** research and development program focuses on the two major technical constraints to production: detection and quantification of methane hydrate deposits prior to drilling and the demonstration of methane production from hydrates at commercial volumes. Recent research and field trials address these two issues.

The FE coal **research, development, and demonstration program** consists of key integrated strategies needed for carbon capture and storage (CCS) to become a viable option for reducing greenhouse gases in the Unites States and globally. This program advances power generation technology for reasonable-cost CCS, including Advanced Turbines, Gasification Technology, Fuel Cells, Fuels, and Carbon Sequestration (which includes researching ways to separate and permanently store greenhouse gas from stationary sources through its Regional Carbon Sequestration Program). The **Advanced Research** program is comprised of a set of cross-cutting, long-term research projects that can potentially contribute to aspects of the coal research portfolio. Commercial-scale projects are operated through the **Clean Coal Power Initiative**, a cost-shared commercial demonstration program for advanced cost-reduction technologies for new and retrofit CCS applications and through **FutureGen**, which will demonstrate the capability to integrate electricity generation from coal with carbon capture, compression, transportation, and geologic storage. FE research supports concepts for various technologies for central systems; research and development in the area of Carbon Sequestration to lower the costs of $CO_2$ capture, provide fundamental scientific information on engineered geological sequestration approaches, and develop advanced instrumentation to measure and validate geologically sequestered carbon; and develop hydrogen separation membranes.

The **Office of Nuclear Energy** (NE) leads federal efforts to research and develop new nuclear technologies. NE organizes its R&D activities along four main objectives that address challenges to expanding the use of nuclear power: (1) develop technologies and other solutions that can improve the reliability, sustain the safety, and extend the life of current reactors; (2) develop improvements in the affordability of new reactors to enable nuclear energy to help meet the administration's energy security and climate change goals; (3) develop sustainable nuclear fuel cycles; and (4) understanding and minimization of risks of nuclear proliferation and terrorism. NE's **Fuel Cycle Research & Development** program develops options to current practices to enable the safe, secure, economic, and sustainable expansion of nuclear energy while reducing proliferation risks. The program's focus is on long-term, science-based R&D technologies with the potential to produce transformational changes to the way in which the nuclear fuel cycle, and particularly nuclear waste, is managed.

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

A **Technology Innovation** office within the Bonneville Power Administration is used to focus and manage technology initiatives, as well as to help guide the development of a robust research and development portfolio, drawing from staff that are already engaged in BPA's dispersed research and development work. Current projects fall under categories of energy efficiency and interactability, renewable resource/wind integration, and transmission operations and control. An example is the Development and Demonstration of Advanced Lighting Technologies project, where the objective is to demonstrate the applicability of advanced, high-efficiency lighting technologies that can be controlled through energy management systems, lighting based control systems, and/or demand response control systems that utilize Internet protocol based remote control and command to allow the reduction of lighting loads.

## Priority 4: National Security

*(Basic, Applied, and Development)*

The nation has not deployed a new nuclear weapon in over 20 years, nor conducted an underground nuclear test since 1992. Instead, scientists at the **National Nuclear Security Administration** (NNSA) maintain the warheads in the **stockpile** well beyond their originally intended life by using sophisticated supercomputers, facilities, and computer codes that test and predict the safety, security, and reliability of U.S. weapons in NNSA laboratories.

The NNSA **Proliferation Detection** program provides technical expertise and leadership toward the development of next-generation nuclear detection technologies and methods to detect foreign nuclear materials and weapons production. This program develops the tools, technologies, and techniques used to detect, locate, and analyze the global proliferation of nuclear weapons technology with special emphasis on technology to detect the illicit diversion of special nuclear materials and support for U.S. commitments to international treaties such as the Nonproliferation Treaty. The **Nuclear Detonation Detection** program develops and builds the nation's operational space-based sensors to detect and report world-wide nuclear detonations; produces and delivers advanced technology that enables operation of the nation's ground-based nuclear

detection networks; and develops tools, technologies, and related science for collecting and analyzing forensic information related to nuclear detonations. The **Naval Reactors** program's research and development efforts support new reactor plant development, new technologies for future fleet application, and continued, reliable operation of the nuclear fleet.

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

# REQUIRED SUPPLEMENTARY INFORMATION (RSI)

***UNAUDITED — See Accompanying Auditors' Report***

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 FY. 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 | $4,098 million |
| Capital Equipment | 138 million |
| Total | $4,236 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, and other methods.

As of September 30, 2010, an amount of $4,098 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) are not applicable to property items with an acquisition cost of less than $100,000, except in situations where maintenance is needed to address worker and public health and safety concerns.

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

An amount of $138 million of deferred maintenance was estimated to be needed as of September 30, 2010, to return capital equipment assets to acceptable operating condition.

## Budgetary Resources by Major Account for Recovery Act (RA) and Non-Recovery Act Accounts

As of September 30, 2010

| ($ IN MILLIONS) | RECOVERY ACT ACCOUNTS | | | | |
|---|---|---|---|---|---|
| | INNOVATIVE TECH LG, RA 019-20-0208 | FOSSIL ENERGY R&D, RA 019-20-0213 | SCIENCE, RA 019-20-0222 | DEPARTMENTAL ADMIN, RA 019-60-0228 | DEFENSE ENVIRON CLEANUP, RA 019-10-0251 |
| **BUDGETARY RESOURCES** | | | | | |
| Unobligated Balance, Brought Forward, Oct 1 | $ 3,915 | $ 3,287 | $ 223 | $ 22 | $ 76 |
| Recoveries of Prior Year Unpaid Obligations | – | 35 | 11 | – | 669 |
| Budget Authority | – | – | – | – | – |
| Nonexpenditure Transfers, Net | – | (19) | 36 | 102 | (10) |
| Authority not Available | (1,500) | – | – | – | – |
| Total Budgetary Resources | $ 2,415 | $ 3,303 | $ 270 | $ 124 | $ 735 |
| **STATUS OF BUDGETARY RESOURCES** | | | | | |
| Obligations Incurred | $ 35 | $ 3,303 | $ 270 | $ 30 | $ 735 |
| Unobligated Balances Available | 2,380 | – | – | 91 | – |
| Unobligated Balances not Available | – | – | – | 3 | – |
| Total Status of Budgetary Resources | $ 2,415 | $ 3,303 | $ 270 | $ 124 | $ 735 |
| **CHANGE IN OBLIGATED BALANCE** | | | | | |
| Obligated Balance, Brought Forward, Oct 1 | $ 43 | $ 110 | $ 1,337 | $ 17 | $ 4,505 |
| Obligations Incurred | 35 | 3,303 | 270 | 30 | 735 |
| Less: Gross Outlays | (49) | (94) | (599) | (25) | (1,930) |
| Obligated Balance Transferred, Net | – | – | – | – | – |
| Less: Recoveries of PY Obligations, Actual | – | (35) | (11) | – | (669) |
| Change in Uncollected Customer Payments, Federal | – | – | – | – | – |
| Obligated Balance, Net, End of Period | $ 29 | $ 3,284 | $ 997 | $ 22 | $ 2,641 |
| **NET OUTLAYS** | $ 49 | $ 94 | $ 599 | $ 25 | $ 1,930 |

| | NON-DEF ENVIRON CLEANUP, RA 019-20-0315 | ELECTRIC DELIVERY & ENERGY RELIABILITY, RA 019-20-0318 | ENERGY EFFICIENCY & RENEWABLE ENERGY, RA 019-20-0321 | ENERGY TRANSFORMATION ACCELERATION, RA 019-20-0336 | BONNEVILLE POWER ADMINISTRATION FUND, RA 019-50-4045 |
|---|---|---|---|---|---|
| **BUDGETARY RESOURCES** | | | | | |
| Unobligated Balance, Brought Forward, Oct 1 | $ 81 | $ 4,385 | $ 6,724 | $ 386 | $ – |
| Recoveries of Prior Year Unpaid Obligations | 14 | 5 | 20 | – | – |
| Budget Authority | – | – | – | – | 236 |
| Nonexpenditure Transfers, Net | – | (8) | (105) | (2) | – |
| Authority not Available | – | – | – | – | – |
| Total Budgetary Resources | $ 95 | $ 4,382 | $ 6,639 | $ 384 | $ 236 |
| **STATUS OF BUDGETARY RESOURCES** | | | | | |
| Obligations Incurred | $ 95 | $ 4,382 | $ 6,638 | $ 384 | $ 236 |
| Unobligated Balances Available | – | – | 1 | – | – |
| Unobligated Balances not Available | – | – | – | – | – |
| Total Status of Budgetary Resources | $ 95 | $ 4,382 | $ 6,639 | $ 384 | $ 236 |
| **CHANGE IN OBLIGATED BALANCE** | | | | | |
| Obligated Balance, Brought Forward, Oct 1 | $ 342 | $ 99 | $ 9,838 | $ 2 | $ – |
| Obligations Incurred | 95 | 4,382 | 6,638 | 384 | 236 |
| Less: Gross Outlays | (196) | (461) | (3,683) | (34) | (236) |
| Obligated Balance Transferred, Net | – | – | – | – | – |
| Less: Recoveries of PY Obligations, Actual | (14) | (5) | (20) | – | – |
| Change in Uncollected Customer Payments, Federal | – | – | – | – | – |
| Obligated Balance, Net, End of Period | $ 227 | $ 4,015 | $ 12,773 | $ 352 | $ – |
| **NET OUTLAYS** | $ 196 | $ 461 | $ 3,683 | $ 34 | $ 236 |

| | WAPA, BORROWING AUTHORITY, RA 019-50-4404 | URANIUM ENRICHMENT D&D FUND, RA 019-20-5231 | OTHER RECOVERY ACT ACCOUNTS | INNOVATIVE TECH DIRECT LOAN FIN ACCT, RA NON-BUDGETARY 019-20-4455 & 4457 | SUBTOTAL OF RECOVERY ACT ACCOUNTS |
|---|---|---|---|---|---|
| **BUDGETARY RESOURCES** | | | | | |
| Unobligated Balance, Brought Forward, Oct 1 | $ – | $ 42 | $ 21 | $ 40 | $ 19,202 |
| Recoveries of Prior Year Unpaid Obligations | – | 142 | 1 | – | 897 |
| Budget Authority | 140 | – | – | 198 | 574 |
| Nonexpenditure Transfers, Net | – | (1) | 7 | – | – |
| Authority not Available | – | – | – | – | (1,500) |
| Total Budgetary Resources | $ 140 | $ 183 | $ 29 | $ 238 | $ 19,173 |
| **STATUS OF BUDGETARY RESOURCES** | | | | | |
| Obligations Incurred | $ 140 | $ 183 | $ 16 | $ 180 | $ 16,627 |
| Unobligated Balances Available | – | – | 13 | 2 | 2,487 |
| Unobligated Balances not Available | – | – | – | 56 | 59 |
| Total Status of Budgetary Resources | $ 140 | $ 183 | $ 29 | $ 238 | $ 19,173 |
| **CHANGE IN OBLIGATED BALANCE** | | | | | |
| Obligated Balance, Brought Forward, Oct 1 | $ – | $ 304 | $ 11 | $ 475 | $ 17,083 |
| Obligations Incurred | 140 | 183 | 16 | 180 | 16,627 |
| Less: Gross Outlays | (67) | (150) | (18) | (462) | (8,004) |
| Obligated Balance Transferred, Net | – | – | – | – | – |
| Less: Recoveries of PY Obligations, Actual | – | (142) | (1) | – | (897) |
| Change in Uncollected Customer Payments, Federal | – | – | – | 17 | 17 |
| Obligated Balance, Net, End of Period | $ 73 | $ 195 | $ 8 | $ 210 | $ 24,826 |
| **NET OUTLAYS** | $ 67 | $ 150 | $ 19 | $ 407 | $ 7,950 |

| NON-RECOVERY ACT ACCOUNTS | | | | |
|---|---|---|---|---|
| FOSSIL ENERGY R&D 019-20-0213 | SCIENCE 019-20-0222 | WEAPONS ACTIVITIES 019-05-0240 | OTHER DEFENSE ACTIVITIES 019-10-0243 | DEFENSE ENVIRON CLEANUP 019-10-0251 |
| $ 773 | $ 31 | $ 101 | $ 27 | $ 26 |
| 22 | 3 | 10 | 3 | 1 |
| 689 | 5,505 | 7,635 | 2,582 | 5,643 |
| (13) | 51 | – | – | (2) |
| – | – | – | – | – |
| **$ 1,471** | **$ 5,590** | **$ 7,746** | **$ 2,612** | **$ 5,668** |
| $ 1,308 | $ 5,541 | $ 7,608 | $ 2,578 | $ 5,633 |
| 159 | 48 | 130 | 33 | 35 |
| 4 | 1 | 8 | 1 | – |
| **$ 1,471** | **$ 5,590** | **$ 7,746** | **$ 2,612** | **$ 5,668** |
| $ 952 | $ 3,362 | $ 2,972 | $ 646 | $ 2,118 |
| 1,308 | 5,541 | 7,608 | 2,578 | 5,633 |
| (619) | (5,064) | (7,672) | (2,754) | (5,380) |
| – | 21 | – | – | – |
| (22) | (3) | (10) | (3) | (1) |
| (7) | (4) | 233 | (267) | – |
| **$ 1,612** | **$ 3,853** | **$ 3,131** | **$ 200** | **$ 2,370** |
| $ 610 | $ 4,468 | $ 6,189 | $ 1,287 | $ 5,380 |

| DEFENSE NUCLEAR NONPROLIFERATION 019-05-0309 | ENERGY EFFICIENCY & RENEWABLE ENERGY 019-20-0321 | ADV TECH VEHICLES MANUFACT LP 019-20-0322 | BONNEVILLE POWER ADMINISTRATION FUND 019-50-4045 | CONSTRUCTION, REHAB, OPERATION & MAINTENANCE, WAPA 019-50-5068 |
|---|---|---|---|---|
| $ 59 | $ 348 | $ 4,221 | $ 27 | $ 252 |
| 3 | 7 | 6 | – | – |
| 2,138 | 2,374 | 32 | 4,640 | 789 |
| (6) | (23) | – | (90) | – |
| (1) | – | – | (1,102) | – |
| **$ 2,193** | **$ 2,706** | **$ 4,259** | **$ 3,475** | **$ 1,041** |
| $ 2,109 | $ 2,542 | $ 30 | $ 3,454 | $ 735 |
| 84 | 162 | 4,228 | 21 | 306 |
| – | 2 | 1 | – | – |
| **$ 2,193** | **$ 2,706** | **$ 4,259** | **$ 3,475** | **$ 1,041** |
| $ 1,517 | $ 1,679 | $ 2,832 | $ 2,019 | $ 242 |
| 2,109 | 2,542 | 30 | 3,454 | 735 |
| (1,669) | (1,811) | (775) | (3,291) | (768) |
| – | 93 | – | – | – |
| (3) | (7) | (6) | – | – |
| – | 28 | – | (42) | (5) |
| **$ 1,954** | **$ 2,524** | **$ 2,081** | **$ 2,140** | **$ 204** |
| $ 1,667 | $ 1,651 | $ 775 | $ 290 | $ 93 |

| UNITED STATES ENRICHMENT CORPORATION FUND 486-00-4054 | OTHER NON-RECOVERY ACT BUDGETARY ACCOUNTS | SUBTOTAL OF NON-RECOVERY ACT BUDGETARY ACCOUNTS | ADV TECH VEHICLES MANUFACT DIRECT LOAN FIN ACCT NON-BUDGETARY 019-20-4579 | COMBINED STATEMENT OF BUDGETARY RESOURCES TOTAL |
|---|---|---|---|---|
| $ 1,569 | $ 666 | $ 8,100 | $ 3,296 | $ 30,598 |
| – | 46 | 101 | 188 | 1,186 |
| (2) | 5,032 | 37,057 | 134 | 37,765 |
| – | (4) | (87) | – | (87) |
| – | (21) | (1,124) | (188) | (2,812) |
| **$ 1,567** | **$ 5,719** | **$ 44,047** | **$ 3,430** | **$ 66,650** |
| $ – | $ 5,051 | $ 36,589 | $ 125 | $ 53,341 |
| – | 640 | 5,846 | 69 | 8,402 |
| 1,567 | 28 | 1,612 | 3,236 | 4,907 |
| **$ 1,567** | **$ 5,719** | **$ 44,047** | **$ 3,430** | **$ 66,650** |
| $ – | $ 2,495 | $ 20,834 | $ 4,851 | $ 42,768 |
| – | 5,051 | 36,589 | 125 | 53,341 |
| – | (5,087) | (34,890) | (1,707) | (44,601) |
| – | (114) | – | – | – |
| – | (46) | (101) | (188) | (1,186) |
| – | 21 | (43) | 758 | 732 |
| **$ –** | **$ 2,320** | **$ 22,389** | **$ 3,839** | **$ 51,054** |
| $ 2 | $ 821 | $ 23,233 | $ 814 | $ 31,997 |

**Department of Energy**
Washington, DC 20585

November 12, 2010

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Report on the Department of Energy's Fiscal Year 2010 Consolidated Financial Statements

This is to inform you that the audit of the Department of Energy's (Department) Fiscal Year (FY) 2010 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 (OIG) 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, 2010.

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 the review, auditors also considered the Department's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. The audit revealed the following issue related to unclassified network and information systems security that, while not classified as a material weakness, was considered to be a significant deficiency:

- Unclassified Network and Information Systems Security: While the Department has made progress in addressing previously identified cyber security weaknesses, network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems continue to exist. Management recognized the critical importance of protecting its corporate financial systems and data and was taking steps to improve the management and implementation of its cyber security program.

The audit 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 deficiency, the Department concurred and agreed to take corrective actions.

KPMG is responsible for the attached auditor's report and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding KPMG's performance under the terms of the contract. Our review was not intended to enable us to express, and accordingly we do not express, an opinion on the Department's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or the Department's compliance with laws and regulations. Our monitoring review disclosed no instances where KPMG did not comply with applicable auditing standards.

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

Attachment

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

Audit Report: OAS-FS-11-01

**KPMG LLP**
2001 M Street, NW
Washington, DC 20036-3389

## 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, 2010 and 2009, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2010 audit, we also considered the Department's internal control 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, a Power Marketing Administration of the Department, whose Department-related financial data is included in the accompanying consolidated financial statements, was audited by other auditors whose report has been furnished to us and was considered in forming our overall opinion on the Department's consolidated financial statements.

**SUMMARY**

As stated in our opinion on the consolidated financial statements, based upon our audits and the report of the other auditors, we concluded that the Department's consolidated financial statements as of and for the years ended September 30, 2010 and 2009, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our opinion emphasizes that: (1) the cost estimates supporting the Department's environmental remediation liabilities are based upon assumptions regarding funding and other future actions and decisions, many of which are beyond the Department's control; and (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.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies, related to unclassified network and information systems security, that we consider to be a significant deficiency, as defined in the Internal Control Over Financial Reporting section of this report.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report.

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



KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

The following sections discuss our opinion on the Department's consolidated financial statements; 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; and management's and our responsibilities.

**OPINION ON THE FINANCIAL STATEMENTS**

We have audited the accompanying consolidated balance sheets of the United States Department of Energy as of September 30, 2010 and 2009, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources for the years then ended.

We did not audit the financial statements of Bonneville Power Administration as of and for the years ended September 30, 2010 and 2009, whose Department-related financial data reflect total assets constituting 10.7 percent and 10.7 percent and total net costs constituting (0.2) percent and (0.1) percent, respectively, of the related consolidated totals. Those financial statements were audited by the other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Bonneville Power Administration, is based solely upon the report of the other auditors.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Energy as of September 30, 2010 and 2009, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 15 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of $250 billion and $268 billion as of September 30, 2010 and 2009, 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 18 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 $15 billion and $13 billion as of September 30, 2010 and 2009, respectively.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Consolidating Schedules section of the Department's 2010 *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 activity of the Department's components individually. The September 30, 2010 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, based upon our audits and the report of the other

auditors, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

The information in the Message from the Secretary and the Other Accompanying Information section of the Department's 2010 *Agency Financial Report* is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis.

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

In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- ***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 increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. The Department should fully implement policies and procedures to improve its network and information systems security.

Exhibit II presents the status of prior year significant deficiencies.

We noted certain additional matters involving internal control over financial reporting and internal control over financial management systems that we will report to management in separate letters.

**COMPLIANCE AND OTHER MATTERS**

The results of 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 or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended. This report also includes our consideration of the results of the other auditors' testing of compliance and other matters that are reported on separately by the other auditors. However, this report, insofar as it relates to the results of the other auditors' testing, is based solely on the report of the other auditors.

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

**RESPONSIBILITIES**

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

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2010 and 2009 consolidated financial statements of the Department based on our audits and the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits and the report of the other auditors' provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2010 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 but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting. Furthermore, we did not test all controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the Department's fiscal year 2010 consolidated financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Department. However, providing an

opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

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

This report is intended solely for the information and use of the Department's management, the Department's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2010

**Independent Auditors' Report**
**Exhibit I – Significant Deficiency**

## Unclassified Network and Information Systems Security

The Department uses a series of interconnected unclassified networks and information systems. Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented corrective actions to address many of the identified weaknesses at the sites whose security controls we, and the Department's Office of Health, Safety and Security, reviewed in prior years. However, we continued to identify similar weaknesses in security controls at the sites we reviewed in fiscal year 2010. The Department recognizes the need to enhance its unclassified cyber security program and has categorized unclassified cyber security as a leadership challenge in its *Federal Managers' Financial Integrity Act* assurance statement for fiscal year 2010. Improvements are still needed in the areas of system and application access and related access privileges, password management, configuration management, and restriction of network services.

Our fiscal year 2010 audit disclosed information system security deficiencies consistent with our findings in prior years. Specifically, we noted weaknesses within layered security controls for network servers, desktop systems, and business applications. We identified multiple instances of blank or easily guessed administrator or user passwords on network systems that could permit unauthorized access to those systems and their data. We also found weak access controls for shared directories and files, in which unauthorized users could potentially gain access to sensitive data, including personally identifiable information, or modify configuration settings.

In the area of configuration and vulnerability management, we identified deficiencies in the patch management process for timely and secure installation of critical software patches, with numerous instances in which security patches had not been applied to correct known vulnerabilities more than three months after the patches became available. We also identified instances where sites had not correctly configured their vulnerability scanning software to ensure known vulnerabilities were identified and remediated in a timely manner, or had not fully implemented an effective vulnerability and patch management program as a result of having insufficient vulnerability scanning licenses to scan all systems.

While many of these cyber security deficiencies were corrected immediately after we identified and reported them to site management, weaknesses in the process for identifying, monitoring, and remediating such deficiencies have continued from prior years. In several instances, the sites had not fully implemented procedures designed to ensure that minimum cyber security requirements were met. Furthermore, even when policies and procedures were established, implementation of those policies and procedures were sometimes inconsistent and sites had not always validated, through testing or other means, that the procedures were operating effectively.

The Department's Office of Inspector General (OIG) reported on these deficiencies in its evaluation report on *The Department's Unclassified Cyber Security Program - 2010*, dated October 2010. The OIG noted that identified weaknesses occurred, in part, because Departmental elements had not always ensured that cyber security requirements were effectively implemented. Consistent with prior year findings, the OIG reported that the National Nuclear Security Administration (NNSA) had begun, but not fully implemented, a program for management oversight and periodic evaluation of the cyber security practices of its Federal sites offices and associated field sites. The OIG also identified deficiencies in configuration management processes at several sites in which, contrary to the Department's policies and procedures, systems were

placed into operation prior to completing required system security plans or following incomplete testing of security controls.

The identified vulnerabilities and control weaknesses in unclassified network and information systems increase the possibility 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, confidentiality and availability of data in the Department's financial applications.

During fiscal year 2010, the Department has taken positive steps to enhance its unclassified cyber security program, including establishing a Computer Security Governance Council at the Under Secretary level to oversee its cyber security reform efforts, refining cyber security policies and procedures, and initiating the implementation of an automated tool to aid in cyber security and performance reporting.

**Recommendation:**

While some progress has been made, continued efforts are needed to strengthen the management review process to include better monitoring of field sites to ensure the adequacy of cyber security program performance, fully implement government-wide security configuration standards that establish minimum baseline security controls, and employ the use of automated tools compatible with the baseline standards in the resolution of the vulnerabilities and control weaknesses described above.

Therefore, we recommend that the Department's Chief Information Officer (CIO), in conjunction with NNSA and other cognizant program officials, fully implement policies and procedures to ensure that the Federal cyber security standards are met, that networks and information systems are adequately protected against unauthorized access, and that an adequate performance monitoring program is implemented, such as the use of periodic evaluations by Headquarters management, to ensure the effectiveness of sites' cyber security program implementation. Detailed recommendations to address the issues discussed above have been separately reported to the program offices and the Office of the CIO (OCIO).

**Management's Response:**

The Department has taken numerous steps to improve the management and implementation of cyber security in this past fiscal year. These steps include the formation of the Information Management Governance Council, which is comprised of the Department's most senior leadership, and the Department's transition to a mission centric, risk-based approach for the management of the Department's Cyber Security Program. The Department recognizes the critical importance of protecting its corporate financial systems and data, and is committed to improving its cyber security posture by taking proactive steps to assess new threats and maintain secure system configurations. We are revising our cyber security strategic plan, architecture framework, and training and awareness programs. The Department is also assessing its overall incident management capabilities to improve coordination and collaboration.

However, without additional identifying data with which to connect the IG's cyber security findings to specific financial systems and deficiencies in financial reporting, it is difficult to correlate these deficiencies. Such correlation would enable the CIO to determine whether they materially or even consequentially impact the Department's financial statements and the integrity of its financial reporting.

We share the IG's goal to improve our cyber security programs and to better protect the missions of DOE. To better facilitate the process for achieving this goal, we request that the IG share additional details with the CIO in order to facilitate timely improvement and enhancement of our cyber security posture.

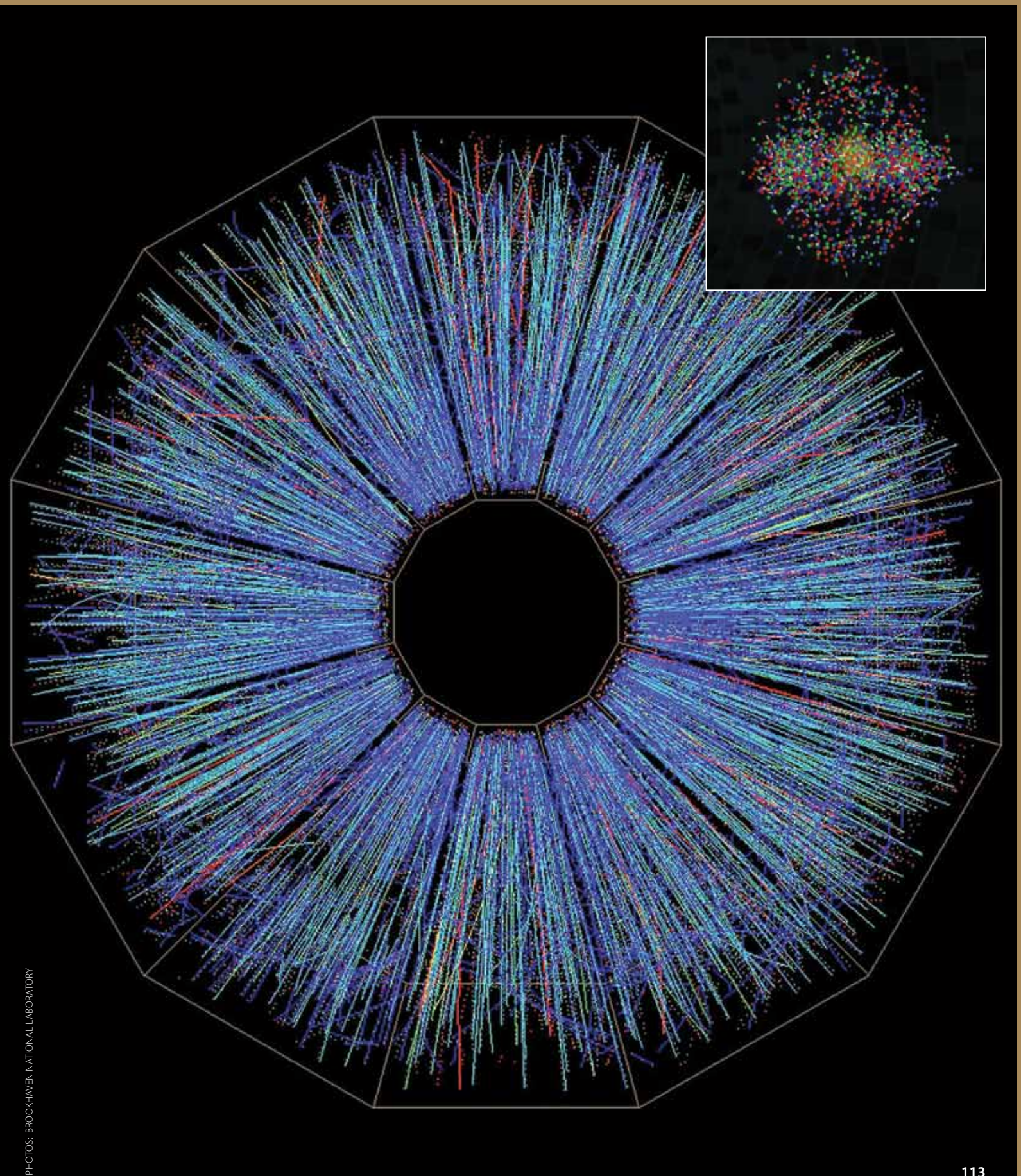
**Auditor Comments:**

As noted in management's response, the Department had taken steps to improve management and implementation of its cyber security program over the past year. However, we take exception to management's comments that the OIG did not provide adequate information to the Department to support the vulnerabilities identified above. Specifically, as with prior years, we provided each of the sites reviewed with extensive information regarding identified weaknesses. In addition, numerous discussions were held with Department and contractor officials to help understand the risk management process, review the vulnerabilities identified, and determine potential mitigating controls. Furthermore, each of the findings issued were provided to Headquarters and field site officials, including the respective Under Secretary organizations, OCIO and NNSA. Going forward, we will continue to work with management to improve the Department's cyber security program and better protect the missions of the Department.

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

| **Fiscal Year 2009 Audit Findings (with parenthetical disclosure of year first reported)** | **Status at September 30, 2010** |
|---|---|
| Unclassified Information Systems Security – Considered a Significant Deficiency (1999) | Not fully implemented – Unclassified network and information systems security issues continue to be reported in Exhibit I as a significant deficiency. |
| Accounting of Property, Plant, and Equipment – Considered a Significant Deficiency (2009) | Significant actions implemented – No longer considered a significant deficiency. |

# OTHER ACCOMPANYING INFORMATION



PHOTOS: BROOKHAVEN NATIONAL LABORATORY

# Inspector General's Management Challenges

On an annual basis, the Office of Inspector General identifies what it considers to be the most significant management challenges facing the Department of Energy. This effort is designed to assess the agency's progress in addressing previously identified challenges and to consider emerging issues. The identified challenges represent risks inherent in the Department's wide ranging and complex operations as well as those related to problems with specific management processes.

Since its creation in 1977, the Department's priorities have evolved, reflecting current energy and security needs of the Nation. Most recently, the implementation and execution of programs supported by the American Recovery and Reinvestment Act of 2009 have been at the forefront of Departmental operations. Signed into law by the President on February 17, 2009, the Recovery Act provided the Department with $36.7 billion in funding for the acceleration of a number of critical efforts, including investments in energy efficiency, renewable energy, transportation, carbon capture and storage, and a "smart" electric grid. In addition, Recovery Act funding was to be used to accelerate the cleanup of Cold War legacy nuclear sites and to support technological and scientific innovation, primarily in energy related areas.

On a related front, given the extent to which this massive funding increase has impacted the Department's portfolio, our Management Challenges Report for Fiscal Year 2010 categorized "Recovery Act Implementation" as a specific management challenge. Many of the initial obstacles associated with the Recovery Act have now become integrated within existing management challenges as the Department moves from implementation to execution of the legislation's goals and priorities. As such, Recovery Act implementation has been removed as a specific management challenge, but will remain a focus area for many of the management challenges outlined in this report.

The Department has undertaken a significant effort to address long-standing contract administration problems. We recognize the extent of this effort and have decided to modify the previously identified challenge of Contract Administration to more fully reflect the expanded number of grants and cooperative agreements administered by the Department under the Recovery Act. As a result, the Contract Administration challenge area has been re-designated as Contract and Financial Assistance Management to better reflect the current status of Departmental operations as we see it.

With these considerations in mind and given the persistent nature of the previously identified management challenges, the Office of Inspector General's management challenge list for Fiscal Year 2011 includes the following:

- Contract and Financial Assistance Award Management
- Cyber Security
- Energy Supply
- Environmental Cleanup
- Human Capital Management
- Safeguards and Security
- Stockpile Stewardship

As noted in past reports, it should be recognized that many of these challenges are not amenable to immediate resolution and must, therefore, be addressed through a concerted effort over time. This should not be interpreted as suggesting that the Department has failed to work to address deficiencies in program execution. Instead, the following challenges represent critical, ongoing mission activities that will, undoubtedly, present unique challenges for the foreseeable future.

As in the past, we have also developed a "watch list," which consists of significant issues that do not meet the threshold of being classified as management challenges, yet warrant continued attention by Department management. For Fiscal Year 2011, the watch list includes: Infrastructure Modernization, Nuclear Waste Disposal, and Worker and Community Safety.

## Contract and Financial Assistance Award Management

The largest civilian contracting agency in the Federal government, the Department awards contracts to industrial companies, academic institutions, and non-profit organizations that operate a broad range of Department facilities. In fact, a substantial portion of the Department's operations are carried out through contracts. With the addition of Recovery Act funding and initiatives, successful contract administration within the Department has taken on even greater importance. In addition to contracting, the Department administers and manages an array of grants and cooperative agreements, the number of which has increased sharply as a result of Recovery Act programs. Given the number of contracts handled by the Department and the complexity and importance of the Department's numerous multi-million dollar projects, combined with new challenges created by the Recovery Act, we believe that the area of Contract and Financial Assistance Management is a significant management challenge.

## Cyber Security

Given the importance and sensitivity of the Department's activities, along with the vast array of data it processes and maintains, cyber security has become a crucial aspect of the Department's overall security posture. Although the Department has implemented numerous counter measures in recent years, security challenges and threats to the Department's information

systems continue and are constantly evolving. Adversaries routinely attempt to compromise the information technology assets of the Department. As such, it is critical that cyber security protective measures keep pace with the growing threat. As a result of these inherent risks and the sensitivity of much of the Department's work, we have identified Cyber Security as a continuing and significant management challenge.

## Energy Supply

Fundamental concerns related to the availability of energy supply in the U.S. have had a dramatic impact on consumers and the U.S. economy in recent years, with implications for our national security. Through its role in areas of scientific discovery and innovation, the national laboratory complex, and the Loan Guarantee Program, there is an expectation that the Department will play a leadership role in ensuring that the Nation's energy needs are met through the development, implementation, and execution of sound energy policy. Providing the leadership to ensure reliable, affordable, and environmentally sound energy supply represents a significant management challenge for the Department. Addressing these issues will require both short-term and long-term solutions. For example, the Department is tasked with helping to modernize our national energy infrastructure; invest in clean energy technologies such as hydropower, wind, solar, and cellulosic biomass; and promote conservation in our homes and businesses. Along with provisions of the Energy Policy Act of 2005, the Recovery Act has had a significant impact on the Department's involvement and prioritization of these issues.

## Environmental Cleanup

Since its establishment, the Department has had an important environmental mission. With the end of the Cold War, this mission took on even greater importance as the agency began to dispose of large volumes of radioactive waste resulting from more than 50 years of nuclear defense and energy research work. This effort involves 2 million acres of land located in 35 states and employs more than 30,000 Federal and contractor employees, including scientists, engineers, and hazardous waste technicians. The disposal and cleanup costs associated with these efforts are projected to be in the hundreds of billions of dollars and will continue well into the foreseeable future. As outlined in other challenge areas, the Recovery Act has infused considerable funding in this vital area. As has been the case in previous years, Environmental Cleanup remains a management challenge that warrants attention on the part of Departmental management.

## Human Capital Management

For a number of years, strategic management of human capital has been recognized by various government authorities and oversight organizations as one of the Government's most significant challenges. In the past, officials have recognized 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 to review and evaluate specific critical skill needs. These actions led to our removal, in FY 2009, of the human capital focus area from our management challenges. With the increased workload associated with the implementation and execution of the Recovery Act, the Department must address the challenge of maintaining a highly skilled workforce with the technical knowledge to perform its new and expanded mission. As such, in FY 2010, human capital management was once again added to our management challenges list. We continue to believe that this challenge represents a critical area that will affect nearly all major program elements. As a result, human capital management will continue to be a key challenge area that will, at a minimum, require considerable attention for the ter of the Recovery Act program design and execution.

## 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 inexorably linked to national security. While the Department has shifted its focus over time as the needs of the Nation have changed, special emphasis on safeguards and security has remained a vital aspect of the Department's mission. The Department plays a vital role in the Nation's security by ensuring the safety of the country's nuclear weapons, advancing nuclear non-proliferation, and providing safe and efficient nuclear power plants for the United States Navy. In order to faithfully execute its mission, the Department employs numerous security personnel, protects various classified materials and other sensitive property, and develops policies designed to safeguard national security and other critical assets. Ensuring that these safeguards are both efficient and effective require continuing focus to address this critical challenge.

## Stockpile Stewardship

The Department is responsible for the maintenance, certification, and reliability of the Nation's nuclear weapons stockpile. To help ensure that our nuclear weapons continue to serve their essential deterrence role, the Department conducts stockpile surveillance and engineering analyses, refurbishes selected nuclear systems, and sustains the ability to restore the manufacturing infrastructure for the production of replacement weapons. Along these lines, a recent FY 2011 continuing resolution passed by Congress provides for a $624 million funding increase for the purpose of beginning the planned modernization of the Department's nuclear weapons complex. While we recognize that the Department has taken action in recent years to further enhance the safety and reliability of the Nation's nuclear weapons stockpile, additional, sustained action is necessary if the Department is to extend the life of aging warheads and sustain a viable weapon stockpile.

# Summary of Financial Statement Audit and Management Assurances

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

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

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

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

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

# Financial Management Systems Plan

## iManage

iManage is the Department's solution for managing enterprise-wide corporate business systems and information. The primary objectives of iManage are to improve financial and business system and processing efficiencies, enhance decision making capabilities, deploy collaboration and social networking tools, and expand transparent electronic government in support of Presidential priorities. The iManage strategic theme is "Connecting our People", "Simplifying our Work", and "Liberating our Data."

iManage is a collaborative effort to modernize, consolidate, streamline, and integrate financial, budgetary, procurement, personnel, program and performance information. The program is supported at the core by a portal/central data warehouse that links common data elements from each of the Department's business systems and supports both external and internal reporting. The major system components that comprise iManage are:

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

iManage also includes travel and payroll processing. Travel processing services are provided by General Services Administration eTravel Services using a system called GovTrip. Payroll processing services are outsourced to the Defense Finance and Accounting Service.

iManage 1.0 was primarily focused on the modernization, integration and implementation of the Department's corporate financial and business systems. Significant accomplishments have been made in this area and additional work is in progress to complete the modernization of all business systems. iManage 2.0 is now shifting much of the focus to the value of providing products and services to support the Department's strategic vision, mission and decision-making, and interactive peer-to-peer participation. iManage must also address future workforce needs, specifically, decreased learning curve and improved access to training; increased access to experts and peers; more work using the web and remote access; and improved access to systems and information.

## Current Systems

iManage Data Warehouse (IDW)iPortal - IDW is a central data warehouse linking common data elements from multiple DOE/iManage corporate business applications providing reporting and decision-making capabilities to DOE executives, managers, and staff. iPortal is the iManage "face" to its customers/users. It provides access to iManage applications, personalized dashboards, messaging, discussion boards, collaboration capabilities, news, reporting, web conferencing, graphing and data exchange capabilities to DOE executives, managers and staff. The IDW/iPortal has been the Department's primary source of data collection, integration, and reporting for the American Recovery and Reinvestment Act. The iManage program has continued to place emphasis on user adoption in FY 2010 which has resulted in a recurring monthly user base of nearly 2,000. The iPortal is also supporting the Department's push for more transparency using business intelligence tools and dashboards.

*Standard Accounting and Reporting System* – STARS provides the Department with a modern, comprehensive and responsive financial management system that provides the foundation for linking budget formulation, budget execution, financial accounting, financial reporting, cost accounting and performance measurement. The financial management component is integrated with the other major corporate business systems, procurement, funds distribution, travel, and human resources. The STARS application software was successfully upgraded to Oracle version 11.5.10 in FY 2010.

*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 staff. 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. An initiative was started in FY 2010 to automate the performance appraisal process for the Department's Senior Executive Service members. Plans are also being made to begin a similar initiative for the Department's General Service employees.

*Strategic Integrated Procurement Enterprise System* – STRIPES is the procurement and contracts management component of iManage, automating all procurement and contract activities required or directly associated with planning, awarding and administering various unclassified acquisition and financial assistance instruments. STRIPES replaced and consolidated federal corporate, regional and local procurement-related systems across the Department. STRIPES was deployed to all remaining Departmental sites in FY 2010 except for the Western Area Power Administration and the Southwestern Power Administration, which are planned for FY 2011. STRIPES also completed a successful upgrade to Compusearch PRISM version 6.3 in FY 2010, with plans to upgrade to version 6.5 in early FY 2011.

## Systems Underway

iBudget – iBudget will standardize budget formulation process/templates, automatically publish the budget documents, streamline budget execution processes, integrate budget and performance data, and consolidate corporate budget data. In FY 2010, the Department continued the agreement with the Treasury to use their web-based multi-agency application, Budget Formulation Execution Manager, offered as a shared service under the Budget Formulation and Execution Line of Business. Deployment of the budget formulation module is planned for FY 2011.

The funds distribution process was reviewed using Lean Six Sigma to analyze all of the steps required to control and distribute funding with a goal of identifying short and long-term actions to reduce the cycle time. As a result of this activity, several steps have begun to improve Funds Distribution System and the processes supporting the distribution of funds.

# Improper Payments Information Act Reporting

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

The Administration is committed to reducing payment errors and eliminating waste, fraud and abuse in Federal programs. As a result, the President has issued several directives focused on preventing and reducing improper payments, including the Executive Order 13520 on Reducing Improper Payments, a memorandum on intensifying and expanding payment recapture audits, and a memorandum to enhance payment accuracy by creating a "Do Not Pay" List. Most recently, the President signed into law the Improper Payment Elimination and Recovery Act of 2010 (IPERA).

## Improper Payments

Improper payments are monitored by the Department on an annual basis to ensure our error rates remain at minimal levels. The Departmental erroneous payment rate has remained below one percent since the inception of our tracking program in FY 2002.

There are three categories of errors: Documentation and Administrative Errors, Authentication and Medical Necessity Errors, and Verification Errors. Due to the nature of the Department's mission, all errors would be considered documentation and administrative errors.

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

| PAYMENT TYPE | OUTLAYS | IMPROPER OUTLAYS* | % OF IMPROPER OUTLAYS | OUTLAYS | IMPROPER OUTLAYS* | % OF IMPROPER OUTLAYS | OUTLAYS | IMPROPER OUTLAYS | % OF IMPROPER OUTLAYS | OUTLAYS | IMPROPER OUTLAYS | % OF IMPROPER OUTLAYS | OUTLAYS | IMPROPER OUTLAYS | % OF IMPROPER OUTLAYS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY 2009 | | | FY 2010 | | | FY 2011 | | | FY 2012 | | | FY 2013 | | |
| Vendor/ Contracts | $ 17,394 | $ 12.1 | 0.07 | $ 23,177 | $ 9.1 | 0.04 | $ 20,660 | $ 8.1 | 0.04 | $ 19,917 | $ 7.8 | 0.04 | $ 19,396 | $ 7.6 | 0.04 |
| Payroll | 7,268 | 1.4 | 0.02 | 7,281 | 1.6 | 0.02 | 6,996 | 1.5 | 0.02 | 6,744 | 1.5 | 0.02 | 6,568 | 1.4 | 0.02 |
| Travel | 313 | 0.5 | 0.16 | 371 | 0.4 | 0.11 | 354 | 0.4 | 0.11 | 341 | 0.4 | 0.11 | 332 | 0.4 | 0.11 |
| Other | 423 | 0.1 | 0.02 | 399 | 0.0 | 0.01 | 394 | 0.0 | 0.01 | 380 | 0.0 | 0.01 | 370 | 0.0 | 0.01 |
| **Total** | **$ 25,398** | **$ 14.1** | **0.06** | **$ 31,228** | **$ 11.1** | **0.04** | **$ 28,404** | **$ 10.1** | **0.04** | **$ 27,382** | **$ 9.7** | **0.04** | **$ 26,666** | **$ 9.5** | **0.04** |

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

*(Note: To be consistent with prior year reporting, Grants payments have been excluded. The Department plans to evaluate and incorporate Grants in future reports. The Payroll category includes only Major contractor payroll. With approval from OMB, Federal Payroll data processed through the Defense Finance and Accounting Service has been excluded).*

## Recovery Auditing

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

The Department has tracked improper payments identified and recovered through various endeavors:

| METHOD OF IDENTIFICATION | PERCENTAGE RECOVERED |
|---|---|
| Statistical Sample under IPIA | 42.0% |
| Post-payment review | 22.4% |
| Recovery Audits | 12.5% |
| Self-reported Overpayments | 19.7% |
| Other | 3.3% |

### Recovery Auditing ($ in millions)

| AMOUNT SUBJECT TO REVIEW | ACTUAL AMOUNT REVIEWED AND REPORTED | AMOUNTS IDENTIFIED FOR RECOVERY | AMOUNTS RECOVERED | CUMULATIVE AMOUNTS IDENTIFIED FOR RECOVERY | AMOUNTS RECOVERED | CUMULATIVE AMOUNTS IDENTIFIED FOR RECOVERY | CUMULATIVE AMOUNTS RECOVERED |
|---|---|---|---|---|---|---|---|
| FY 2009 | | | | FY 2004 – FY 2008 | | FY 2004 – FY 2009 | |
| $21,928 | $9,139 | $11 | $11 | $65 | $57 | $77 | $68 |

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

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

## Inspector General Audit Reports

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

During FY 2010, the Department took final action on 32 IG reports with the agreed-upon actions including final action on six IG operational, financial and pre-award audit reports with funds put to better use. At the end of the period, 109 reports awaited final action.

## Status of Final Action on IG Audit Reports for FY 2010

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

| AUDIT REPORTS | NUMBER OF REPORTS | AGREED-UPON FUNDS TO BETTER USE ($ IN MILLIONS) |
|---|---|---|
| Pending final action at start of FY 2010 | 95 | $ 13.2 |
| With actions agreed upon | 46 | $ 29.1 |
| Total pending final action | 141 | $ 42.3 |
| Achieving final action | 32 | $ 25.1 |
| Requiring final action at end of FY 2009 | 109 | $ 17.3 |

## Inspector General's Contract Audit Reports

During FY 2010, there were no IG contract audit reports pending final action.

## Contract Audit Reports Statistical Table FY 2010

The total number of IG Contract Audit Reports (Contract and Financial Assistance) and the dollar value of disallowed costs:

| CONTRACT AUDIT REPORTS | NUMBER OF REPORTS | DISALLOWED COSTS* ($ IN MILLIONS) |
|---|---|---|
| Pending final action at start of FY 2010 | 0 | $ 0 |
| With actions agreed upon | 0 | |
| Total pending final action: | 0 | |
| Achieving final action | 0 | |
| Recoveries | 0 | |
| Reinstatements | 0 | |
| Requiring final action at end of FY 2010 | 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 GAO audits are a major component of the Department's audit follow-up program. At the beginning of FY 2010 there were 45 GAO audit reports awaiting final action. During FY 2010, the Department received 43 additional final GAO audit reports, of which 18 required tracking of corrective actions and 25 did not because the reports did not include actions to be taken by the Department. The Department completed agreed-upon corrective actions on 12 audit reports during FY 2010, leaving 51 GAO reports awaiting final action at year-end.

# Glossary of Acronyms

| | |
|---|---|
| **AFR** | Agency Financial Report |
| **AMIP** | Adaptive Management Implementation Plan |
| **AFCI** | Advanced Fuel Cycle Initiative |
| **APR** | Annual Performance Report |
| **ARO** | Asset Retirement Obligations |
| **ARRA** | American Recovery and Reinvestment Act |
| **ATVM** | Advanced Technology Vehicle Manufacturing |
| **BiOp** | Biological Opinion |
| **BPA** | Bonneville Power Administration |
| **CAP** | Corrective Action Plan |
| **CCPI** | Clean Coal Power Initiative |
| **CCS** | Carbon Capture and Storage |
| **CERCLA** | Comprehensive Environmental Response, Compensation, and Liability Act |
| **CGS** | Columbia Generating Station |
| **CHRIS** | Corporate Human Resources Information System |
| **CIP** | Corporate Implementation Plan |
| **CO2** | Carbon Dioxide |
| **Corps** | U. S. Army Corps of Engineers |
| **CR** | Continuing Resolution |
| **CSRS** | Civil Service Retirement System |
| **CWIP** | Construction Work in Process |
| **D&D** | Decontamination and Decommissioning |
| **DOD** | Department of Defense |
| **DOE** | Department of Energy |
| **EEOICPA** | Energy Employees Occupational Illness Compensation Program Act |
| **EERE** | Office of Energy Efficiency and Renewable Energy |
| **EFRCs** | Energy Frontier Research Centers |
| **EM** | Environmental Management |
| **EPAct05** | Energy Policy Act of 2005 |
| **ERISA** | Employee Retirement Income Security Act |
| **ES&H** | Environment, Safety, and Health |
| **ESA** | Endangered Species Act |
| **FASAB** | Federal Accounting Standards Advisory Board |
| **FASB ASC** | Financial Accounting Standards Board's Accounting Standards Codification |
| **FCRA** | Federal Credit Reform Act of 1990 |
| **FCR&D** | Fuel Cycle Research and Development |
| **FCRPS** | Federal Columbia River Power System |
| **FE** | Office of Fossil Energy |
| **FERC** | Federal Energy Regulatory Commission |
| **FERS** | Federal Employees Retirement System |
| **FFB** | Federal Financing Bank |
| **FFMIA** | Federal Financial Management Improvement Act |
| **FISMA** | Federal Information Security Management Act |
| **FMFIA** | Federal Managers' Financial Integrity Act |
| **FOA** | Funding Opportunity Announcement |
| **FY** | Fiscal Year |
| **GAO** | Government Accountability Office |
| **GMRA** | Government Management Reform Act |
| **GNEP** | Global Nuclear Energy Partnership |
| **GSP** | Graded Security Protection |
| **HEP** | Office of High Energy Physics |
| **HEV** | Hybrid-Electric Vehicles |
| **HMO** | Health Maintenance Organization |
| **HR** | Human Resource |
| **HSS** | Office of Health, Safety and Security |
| **HWMA** | Hazardous Waste Management Act |
| **iBudget** | iManage Budget |
| **IDW** | iManage Data Warehouse |
| **IG** | Inspector General |
| **IGCC** | Superclean Integrated Gasification Combined Cycle |
| **IOU** | Investor Owned Utility |
| **IPIA** | Improper Payments Information Act |
| **ISO** | California Independent System Operator |
| **LCLS** | Linac Coherent Light Source |
| **LEU** | Low Enriched Uranium |
| **LM** | Office of Legacy Management |
| **M&O** | Management and Operating |
| **MMS** | Mineral Management Service |
| **MT** | Metric Tons |
| **MTU** | Metric Tons of Uranium |
| **NE** | Office of Nuclear Energy |
| **NGNP** | Next Generation Nuclear Plant |
| **NIF** | National Ignition Facility |
| **NNSA** | National Nuclear Security Administration |

| | |
|---|---|
| **NP** | Office of Nuclear Physics |
| **NRC** | Nuclear Regulatory Commission |
| **NRD** | Natural Resources Damages |
| **NWF** | Nuclear Waste Fund |
| **NWPA** | Nuclear Waste Policy Act |
| **OCRWM** | Office of Civilian Radioactive Waste Management |
| **OMB** | Office of Management and Budget |
| **OPAM** | Office of Procurement and Assistance Management |
| **OPM** | Office of Personnel Management |
| **ORNL** | Oak Ridge National Laboratory |
| **PAR** | Performance and Accountability Report |
| **PARS** | Project Assessment and Reporting System |
| **PDP** | Medicare Part D prescription drug plan |
| **PHEV** | Plug-in Hybrid Electric Vehicles |
| **P.L.** | Public Law |
| **PMA** | Power Marketing Administrations |
| **PP&E** | Property, Plant, and Equipment |
| **PPO** | Preferred Provider Organization |
| **PRB** | Post Retirement Benefits Other Than Pensions |
| **PV** | Solar pholtovoltaic |
| **PX** | California Power Exchange |
| **R&D** | Research and Development |
| **RCSP** | Regional Carbon Sequestration Partnership |
| **RD&D** | Research, Development & Deployment |
| **REP** | Residential Exchange Program |
| **RIK** | Royalty-in-Kind |
| **ROD** | Record of Decision |
| **RPSA** | Residential Purchase and Sale Agreements |
| **RSI** | Required Supplementary Information |
| **RSSI** | Required Supplementary Stewardship Information |
| **SBIR** | Small Business Innovative Research |
| **SFAS** | Statement of Financial Accounting Standards |
| **SFFAS** | Statement of Federal Financial Accounting Standards |
| **SNF** | Spent Nuclear Fuel |
| **SPR** | Strategic Petroleum Reserve |
| **STARS** | Standard Accounting and Reporting System |
| **STRIPES** | Strategic Integrated Procurement Enterprise System |
| **UCSD** | University of California at San Diego |
| **USEC** | United States Enrichment Corporation |
| **WAPA** | Western Area Power Administration |
| **WIPP** | Waste Isolation Pilot Plant |

# Internet References/Links

2009 DOE PAR Reports
**http://www.energy.gov/about/budget.htm**

Advanced Research
**http://www.netl.doe.gov/technologies/coalpower/advresearch/**

Advanced Research Projects-Energy
**http://arpa-e.energy.gov/**

Advance Scientific Computing
**http://www.science.doe.gov/Program_Offices/ASCR.htm**

Advanced Technology Vehicles (ATVM)
**http://www.atvmloan.energy.gov/**

Appliance Rebates
**http://www.energy.gov/news2009/7634.htm**

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

Batteries
**http://www.energy.gov/news2009/7751.htm**

Basic Energy Sciences
**http://www.science.doe.gov/Program_Offices/BES.htm**

Biological and Environmental Research
**http://www.science.doe.gov/Program_Offices/BER.html**

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

Block Grant Program
**http://www.eecbg.energy.gov/default.html**

Building Technologies
**http://www1.eere.energy.gov/buildings**

Carbon Capture and Storage Technology (CCS)
**http://www.fossil.energy.gov/programs/sequestration/index.html**

Clean Cities Alternative Fuel Vehicles Program
**http://www1.eere.energy.gov/cleancities/about.html**

Clean Coal Power Initiative
**http://fossil.energy.gov/programs/powersystems/cleancoal/**

Control System Security
**http://www.oe.energy.gov/information_center/documents.htm#controlssecurity**

Conversion of Cellulosic Ethanol
**http://www.afdc.energy.gov/afdc/ethanol/production_cellulosic.html**

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

Electrical grid
**http://www.oe.energy.gov/smartgrid.htm**

Energy Frontier Research Center
**http://www.sc.doe.gov/bes/EFRC.html**

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

Energy Storage and Renewable System Integration
**http://www.oe.energy.gov/renewable.htm**

Federal Energy Management Program
**http://www1.eere.energy.gov/femp**

Fuel cell
**http://www.afdc.energy.gov/afdc/vehicles/fuel_cell.html**

Fusion Energy Sciences
**http://www.science.doe.gov/Program_Offices/fes.htm**

FutureGen
**http://www.netl.doe.gov/technologies/coalpower/futuregen/**

Gas Hydrates
**http://fossil.energy.gov/programs/oilgas/hydrates**

Geothermal Energy
**http://www.energy.gov/energysources/geothermal.htm**

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

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

High Energy Physics
**http://www.science.doe.gov/Program_Offices/HEP.htm**

High Performance Computing
**http://www.cio.energy.gov/high-performance-computing.htm**

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

Industrial Technologies
**http://www1.eere.energy.gov/industry**

Innovative, Advanced Technology Vehicles
**http://www.atvmloan.energy.gov/**

Legacy Management
**http://www.lm.doe.gov/**

Legacy Waste Sites
**http://www.energy.gov/**

Loan guarantees
**http://www.lgprogram.energy.gov/**

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

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**http://www.eurekalert.org/features/doe/2009-04/dlnl-doe040809.php**

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

Naval Reactors
**http://www.nnsa.energy.gov/naval_reactors/**

Nuclear Detonation Detection
**http://www.nnsa.energy.gov/nuclear_nonproliferation/1917.htm**

Nuclear Physics
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Nuclear stockpile
**http://www.nnsa.energy.gov/defense_programs/The_Stockpile.htm**

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

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

Office of Environmental Management
**http://www.em.doe.gov/Pages/EmHome.aspx**

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

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

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**http://www.ne.doe.gov**

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PAR Reports
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**http://www.whitehouse.gov/omb/budget**

Power Marketing Administrations
**http://www.energy.gov/organization/powermarketingadmin.htm**

Proliferation Detection
**http://www.nnsa.energy.gov/nuclear_nonproliferation/1913.htm**

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

Research, Development and Demonstration Program
**http://www.netl.doe.gov/technologies/coalpower/index.html**

Small Business Innovative Research/Technology Transfer
**http://www.science.doe.gov/sbir**

Smart Grid
**http://www.oe.energy.gov/smartgrid.htm**

Solar America Cities
**http://www1.eere.energy.gov/solar/solar_america_cities.html**

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

Solar photovolatic
**http://www.energy.gov/energysources/solar.htm**

State Energy Program
**http://apps1.eere.energy.gov/state_energy_program/**

Tank waste processing
**http://www.em.doe.gov/EM20Pages/TankWasteProcessing.aspx**

Technology Innovation
**http://www.bpa.gov/corporate/business/innovation**

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

Visualization and Controls
**http://www.oe.energy.gov/our_organization/rnd.htm**

Weatherization Assistance Program
**http://www.energy.gov/energyefficiency/weatherization.htm**

Weatherization & Intergovernmental Activities
**http://apps1.eere.energy.gov/wip/**

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

Wind Energy
**http://www.energy.gov/energysources/wind.htm**

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