U.S. DEPARTMENT OF ENERGY

Report on Uncosted Balances
For Fiscal Year Ended September 30, 2007

August 2008

Prepared by: Office of the Chief Financial Officer

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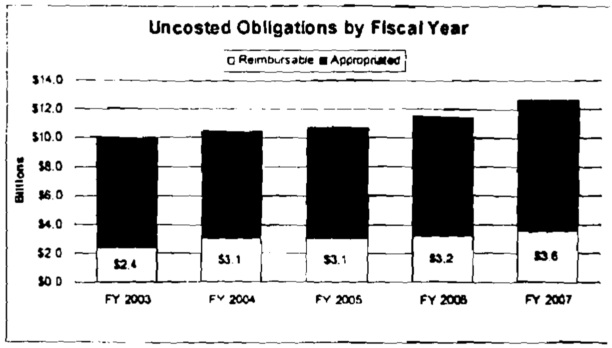
Purpose

On October 24, 1992, the President signed the Energy Policy Act of 1992 into law (Public Law 102-486). Section 2307 of the Act requires the Department of Energy (DOE) to submit an annual report to Congress on the status of its uncosted obligations (obligations recorded for specific deliverables that are not yet completed and accepted). This is the sixteenth annual submission of that report.

Executive Summary

Exhibit 1



In FY 2007, the Department faced significant challenges in executing its funding due to the unusually long Continuing Resolution (CR), which extended until April 2007. Under the CR the Department must act conservatively to ensure that obligations and costs are restrained in order to mitigate any negative impacts should actual appropriations differ significantly from planned and budgeted amounts. In addition, the Department is prohibited from engaging in any "new starts" for contracts or projects, which means that these activities are deferred until later in the year, thereby increasing the amount of uncosted balances at year-end since the costing cycle is, in essence, no longer on a fiscal year basis. This situation was further complicated by the final appropriations bill, which required new operating plans based on FY 2006 funding levels, thereby causing further misalignment of balances.

Not surprisingly, the Department's appropriated uncosted balances increased significantly (approximately $800 million – Exhibit 1) in FY 2007 directly and/or indirectly as a result of these and other circumstances to a large extent beyond the Department's control. Areas that contributed to significant portions of this increase include: 1) The International Nuclear Materials Protection and Cooperation program, which saw an overall budget increase with slowed obligation due to the CR and delayed costing pending the completion of significant deliverables; 2) construction activities for the Mixed Oxide Fuel Fabrication Facility (MOX) and the Pit Disassembly and Conversion Facility (PDCF), which experienced slowed obligation and costing due to legislative restrictions included in the Revised Continuing Appropriations Resolution; and 3) activities funded by the Energy Supply appropriation which spans multiple programs that were significantly impacted by the late receipt of funding. These activities account for approximately $570 million of the increase, with the remainder spread among numerous programs and activities that were impacted by the extended resolution.

In order to evaluate the appropriateness of the Department's uncosted balance levels, individual appropriated uncosted balances are evaluated against pre-defined thresholds that represent standard costing levels for various types of funding, such as construction, operating, site/facility management contractor and capital equipment (See "Approach and Background" on Page 3). Uncosted balances above the defined thresholds must be analyzed and justified to ensure that they remain consistent with sound financial management. The thresholds are a useful indicator of the need for additional scrutiny, but the Department also recognizes the opportunity for improved management of balances even when they are below the threshold.

For FY 2007, the Department's balances as a whole were approximately $1.7 billion over the calculated threshold. This represents an increase of approximately $829 million from the FY 2006 over-threshold amount. It is easy to see the dependency between the timing of the release of funding from the restraints of a CR and the Department's threshold variance, as the increase in the over-threshold amount is comparable to the overall increase in appropriated uncosted balances ($829 million versus $800 million). This is due to the fact that the Department's threshold assumes a fiscal year obligation cycle, while significant delays in releasing funds effectively move the obligation cycle further into the year.

The area with the highest over-threshold amount is the Defense Nuclear Nonproliferation (DNN) appropriation, which accounts for approximately $841.5 million. The balances in this appropriation are impacted by unique obligation and costing patterns due to challenges inherent with the extensive multi-year work with foreign countries undertaken in the programs funded by this appropriation. The Department's Energy Supply ($320.1M over), Science ($179M over) and Non-Defense Environmental Cleanup ($106.3M over) appropriations also displayed significant over-threshold balances. The major drivers for these and other appropriations more than $20 million over-threshold are discussed in detail in the "Explanation of Significant Threshold Variances" section starting on page 6 of this report.

Overall, the Department believes that the general level of uncosted balances is justified and consistent with the impacts of the extended CR and other factors described in the report. However, the Department recognizes that there are always opportunities to enhance management control of our balances and will continue to seek innovative measures to more effectively manage and help reduce uncosted balances where feasible. For example, in FY 2006, the Office of Energy Efficiency and Renewable Energy (EERE) launched a Corporate Planning System (CPS) pilot program to evaluate the potential impact the system may have on the management of its uncosted balances. The initial pilot was focused on two sites, Oak Ridge National Laboratory and the National Renewable Energy Laboratory. With the financial and performance data being collected in the centralized CPS, it is now easier for the Program Managers and their staff to review program status on a regular basis. The data is also being provided from the field laboratories in a more timely manner and at a more detailed level to support decision making. The ease of accessing the detailed data and the speed with which it is being provided allows EERE program managers to check the status of their funding and make informed judgments as to future funding increases for particular projects. It is this rapid and detailed feedback from the final recipient of the funding (the laboratories) that has allowed EERE to begin to tackle the uncosted balance issue on a more informed and systematic basis. EERE continues to work with the two selected sites and all of the EERE programs to continue the expansion of the data feed to CPS to additional field sites. As a goal, EERE will work to provide quantitative measures of this improved management.

In addition, the Department recently implemented a Quarterly Budget Execution Review initiative that provides structured senior management level focus on these balances throughout the year. These reviews will be an integral part of the Department's corporate strategy for ensuring effective budget execution. Furthermore, as referenced in the FY 2006 report, the Department has set a goal to pursue tracking of uncosted balances by fiscal year appropriated, understand the drivers and take actions to ensure balances are right-sized. The aging of these balances will provide greater insight into the costing patterns of various contractual instruments and allow for more meaningful management analysis of the drivers for uncosted balances.

Threshold Analysis - Approach and Background

It is not possible to eliminate uncosted obligations completely. Uncosted obligations are required to meet that portion of existing contractual obligations related to goods and services that have not yet been received, used or consumed. DOE maintains a cost-based accounting system, consistent with the Office of Management and Budget's cost and accrual accounting requirements, to track these balances.

In April 1996, the Government Accountability Office (GAO) issued its report "*DOE Needs to Improve its Analysis of Carryover Balances*" (GAO/RCED-96-57). GAO stated that the Department did not have a standard, effective approach for identifying excess carryover balances that might be available to reduce future budget requests. Instead, it relied on broad estimates of potentially excess balances in its individual programs. As a result, GAO indicated that DOE could not be sure whether the amount of carryover balances proposed for use by its programs was adequate, too small or too large.

Recognizing that there is a legitimate rationale for retaining some level of uncosted balances, and to address GAO concerns, DOE developed a comprehensive approach for the systematic analysis of uncosted balances. This approach is based on the establishment of percentage thresholds specifying levels of uncosted balances consistent with sound financial management for specific types of financial/contractual arrangements. This allows the Department to evaluate its overall performance based on the variance between target thresholds and actual balances. The Department established the target thresholds through internal analysis and discussions with GAO. A target threshold is defined as an analytical reference point (i.e., a specific dollar value or percentage of funds available) beyond which uncosted obligation balances should be given greater scrutiny. That does not mean balances in excess of threshold are inappropriate; however, it does mean those balances will become subject to more intensive review and require more detailed justification to determine their appropriateness.

In order to analyze those areas where the Department can exercise the most control, costs and uncosted balances are segregated into distinct categories that display similar and predictable costing patterns. Exhibit 2 below, outlines the various uncosted categories and their respective thresholds.

Exhibit 2

CATEGORY	THRESHOLD
Contractor Operating Costs: This category includes costs incurred by Site/Facility Management Contractors (SFMC) that manage Departmental sites.	**13% of the Total Funds Available to Cost (TAC)[1] for contractor operating activities for the FY just ended.**
Federal Operating Costs: This category includes operating costs not related to SFMCs or other identified categories.	**17% of the TAC for Federal operating activities for the FY just ended.**
Capital Equipment (CE), General Plant Projects (GPP) & Accelerator Improvement Projects (AIP): This category includes costs incurred for CE, GPP and AIP. CE includes those items that meet the accounting criteria for capitalization.	**50% of the TAC for CE, GPP and AIP, respectively, for the FY just ended.**
• **Line Item Construction** • **Grants** • **Cooperative Research and Development Agreements and other Cooperative Agreements** • **Reimbursable Work**	**Not subject to a specific threshold. These costs should be reported and evaluated on a case-by-case basis throughout the life of the contractual instruments. (Consistent with GAO's approach)**

To arrive at a reasonable target percentage for each category of funding, the Department analyzed the typical funding patterns and balanced those with what should reasonably be expected given typical procurement and funding execution patterns. GAO's methodology for reviewing uncosted balances was also examined to help make a final determination for the Department. The 17 percent threshold for Federal Operating Costs represents approximately two months of carryover at the beginning of the next fiscal year to facilitate the receipt of new funding and processing of procurement requests. This assumes no funding delays (e.g. via a continuing resolution) and the use of basic funding instruments (e.g. no special procurement instruments that would require extended solicitations). In working with our laboratory budget directors, it was proposed that the more streamlined procurement processes of the contractors would allow for a slightly accelerated obligation pattern if funding is received in a timely manner. Therefore, they proposed a more stringent target (based on an analysis of typical obligation and costing

[1] Total Available to Cost (TAC) represents the total of all obligated amounts that are available for costing during the year. TAC is calculated as Beginning Uncosted + Current Year Obligations.

patterns) of 13 percent. Capital equipment projects in total typically have higher uncosted balances since many are multi-year in nature. Therefore, as much as 50 percent could be uncosted in the first year of the award. Since we have a continuous stream of new projects and old project completions, 50 percent was set as a reasonable starting point beyond which further justification should be considered. A lower threshold would likely result in reviewing most projects, resulting in the same root cause (i.e. the first year of a multi-year contract).

The analysis process requires that all Departmental elements array their uncosted balances in a standard format that discloses activities with balances in excess of the defined thresholds. For each activity that exceeds the defined threshold, a narrative justification is required which explains the major drivers for the balances, accompanied by a request to retain the balances based on a defined planned usage, or an acknowledgment that the balances can be withdrawn for higher priority use.

To identify thresholds at the appropriation level, the Department first segregates the uncosted balance for each appropriation by the categories identified on page 4 in Exhibit 2. The thresholds for each category are then calculated using the noted percentages. These category thresholds are then rolled together to obtain the overall threshold amount by appropriation. The combined threshold is then compared to the ending uncosted balance to generate the variance or over/under threshold amount. Justifications for significant variances are provided beginning on page 6 of the report. In addition, these threshold variances by category can also be found on the chart located on page 7 of this report.

Composition of FY 2007 Year-End Uncosted Obligations

Exhibit 3

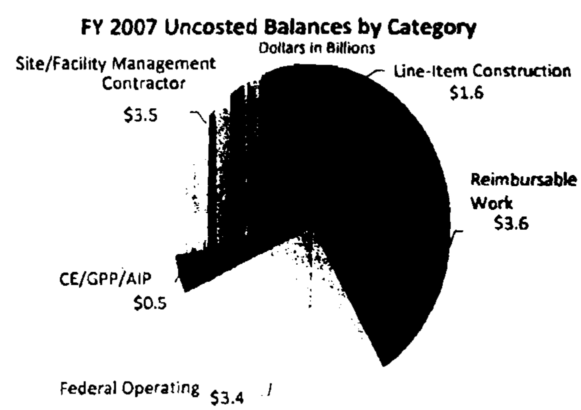


Exhibit 3 presents the composition of the Department's $12.6 billion uncosted balance as of September 30, 2007. Of the total uncosted amount, $3.6 billion was associated with reimbursable work funded by other Federal agencies and non-Federal entities. These funds are under external control and cannot be used to offset DOE appropriations. Another $1.6 billion is associated with line-item construction projects. Construction projects are reviewed on a case-by-case basis through other Departmental processes.

Five hundred million dollars of the total uncosted balance is related to Capital Equipment (CE), General Plant Projects (GPP) and Accelerator Improvement Projects (AIP). Another $3.5 billion is attributed to uncosted balances arising from the operating activities of the Department's Site/Facility

Management Contractors (SFMC). The final $3.4 billion resulted from Federal operating activities not related to the other categories.

Explanation of Significant Threshold Variances

As noted earlier in this report, the purpose of the threshold approach is to provide a reference point beyond which further analysis is required to determine if a particular balance is appropriate or necessary. Therefore, it cannot be assumed that any amount over threshold is inherently available or unnecessary or that any amount under threshold is appropriate or justified. In addition to providing a basis for assessing the appropriateness of balances, this analysis helps to identify types of funding and contractual instruments that display inherently higher balances than typical operating funding. Categories such as line-item construction, grants, cooperative agreements and reimbursable work have traditionally been exempted from threshold application due to their unpredictability and inherently larger balances. These exemptions are consistent with previous GAO treatment of DOE uncosted balances.

DOE's threshold analysis for FY 2007 shows that the Department, as a whole, is $1.7 billion above its calculated threshold (Appendix Chart 3). This is an increase of $829.1 million from the FY 2006 over-threshold amount, which is consistent with the impacts of the overall increase in uncosted balances as described on page 1 of this report's "Executive Summary."

It is important to note that the amount over threshold represents a "net" amount at the Departmental level, and that this variance consists of a combination of over- and under-threshold amounts for various appropriations. The over- and under-threshold amounts allow the total value of the balances justified to exceed the $1.7 billion variance at the Departmental level. Thirty-nine out of 57 appropriations exceeded their target threshold for uncosted balances. The following sections identify the key drivers/justifications for appropriations with an over-threshold amount greater than $20 million[2]. The total amount justified equals over $2 billion. The chart on the next page summarizes the total variance for each over-target appropriation and shows to what extent the variance is due to each category for which there is a threshold.

[2] For this report, the Department uses a materiality for justification of one percent of the Department's total net amount over threshold, rounded to the nearest $10 million, which equals $20 million for FY 2007.

Threshold Variances for Appropriations Requiring Justification

(Dollars in Thousands)

Appropriation	Federal Operating Variance	Site/Facility Management Contractor Variance	CE/GPP/AIP Variance	Total Variance	*Balances Not Subject To Thresholds
89X0213 Fossil Energy R&D	$361,548	$26,630	$108	$388,286	$460,048
89X0218 Strategic Petroleum Reserve	$4,015	$23,551	$0	$27,566	$7
89X0222 Science	$53,005	$171,196	($4,090)	$220,111	$344,631
89X0224 Energy Supply & Research Activities	$437,203	$226,018	$9,524	$672,745	$1,243,858
89X0233 Strategic Petroleum Reserve, Petroleum Account	$1,608	$19,412	$0	$21,020	$0
89X0243 Other Defence Activities	$70,469	$22,688	$864	$94,021	$14,271
89X0309 Defence Nuclear Nonproliferation	$319,004	$551,148	($19,192)	$850,960	$381,110
89X0315 Non-Defense Environmental Cleanup	$89,355	$88,983	$26	$178,364	$74,729
89X5523 Ultra-Deep Water & Unconventional Natural Gas/Other Petrol Res Fund	$33,217	$0	$0	$33,217	$0
89X5227 Nuclear Waste Fund	$12,149	$15,723	$155	$28,027	$0
89X5530 Sales of Uranium and Energy Programs	$31,999	$0	$0	$31,999	$0
89X5231 Uranium Enrichment D & D Fund	$25,117	$9,576	$0	$34,693	$715

*This column represents the total uncosted balance by appropriation for grants, line-item construction and reimbursable work. This is not a variance.

Appropriation 89X0213, Fossil Energy Research and Development - This appropriation exceeds the appropriation threshold by a net amount of $52.2 million. The general justification for the over-threshold balance is related to the delay in the receipt of the FY 2007 appropriation, and the continuing resolutions which extended through April 2007. This situation significantly delayed the issuance of new obligations, which reduced the amount of time available for contractors to deliver goods and services, as well as issue invoices before the end of the fiscal year. Only 16 percent of the total FY 2007 obligations were completed during the first half of the fiscal year with the remaining 84 percent accomplished during the second half. Therefore, the program's costing and payment cycle was significantly delayed. More specifically, the primary drivers for this over-threshold amount include: 1) $40.0 million in up-front funding on several mission critical contracts for scopes of work extending beyond the end of the fiscal year. Up-front funding for longer periods of performance is a management strategy to ensure continuity on these contracts, while mitigating the risks of work reduction and/or stoppage during the uncertainty of continuing resolutions; 2) $12.8 million in uncosted obligations associated with 150 awardees that have completed contract deliverables and are currently in contract closeout. These uncosted obligations must be retained pending the completion of closeout procedures including receipt and payment of final invoices, conduct of final contract audits and final settlement of cost and fee; and 3) $8.4 million related to the "AG" Eagle Construction Management Services construction contract, the terms of which required forward funding to complete the Technology Support Facility by December 2008. No de-obligations can be accomplished without re-negotiating existing contracts and/or changing the current statements of work.

Appropriation 89X0218, Strategic Petroleum Reserve – This appropriation exceeds the appropriation threshold by a net amount of $27.6 million. The primary drivers for this over-threshold amount include: 1) $8.1 million on a contract currently in closeout related to the vapor pressure plant program. These funds are required pending the final settlement of costs; 2) $12.2 million related to major maintenance contracts that span multiple years, which produces significant balances until the final year of the contracts; 3) $1.1 million resulting from a contract for brine disposal maintenance and casing services that was awarded in September. The work began in September 2007 and was completed in October 2007; and 4) $4.6 million related to calibration and maintenance supplies ordered, but not yet received.

Appropriation 89X0222, Science – This appropriation exceeds the appropriation threshold by a net amount of $179.1 million. The primary drivers for this over-threshold amount include: 1) $76 million related to Spallation Neutron Source operating and capital funded activities with outstanding subcontract and material commitments, long lead-time procurements awarded late in FY 2007, and delays in start dates due to funding constraints created by the FY 2007 Continuing Resolution; 2) $21 million resulting primarily from contractual obligations that have scheduled payments in the first quarter of FY 2008 within the Advanced Scientific Computing Research program; 3) $10 million resulting from an initial obligation for a long-term lease related to the Argonne Leadership Computing Facility that will be costed during FY 2008; 4) $18.5 million related to the Transmission Electron Aberration-corrected Microscope, a major item of equipment project. The work scope and current funding for this project spans multiple years and is scheduled to be completed in FY 2009; 5) $11.5 million for the Bevatron Demolition multi-year project, which currently has a completion date of FY 2011. The multi-year work scope's start date is planned for FY 2008; 6) $10 million resulting from a reprogramming approved in September to fund the Bioenergy Research Centers. The new start awards under this program were not made until the end of FY 2007; 7) $10 million for the multi-year lease utilized by the Lawrence Berkeley National Laboratory for the Production Genomics Facility, which required full up-front funding; and 8) $6.4 million for R&D subcontracts and fixed commitments on goods and services that were ordered, but not delivered by September 30, 2007.

Appropriation 89X0224, Energy Supply and Conservation – This appropriation exceeds the appropriation threshold by a net amount of $320.1 million. The primary drivers for this over-threshold amount include: 1) $126.3 million related to a significant part of ongoing Energy Efficiency and Renewable Energy (EERE) programs being awarded late in the fiscal year due to the delayed receipt of full funding on subcontracts and procurements until the middle of the fiscal year and the lead-time needed to issue solicitations and review technical R&D proposals (Program: EERE); 2) $23.8 million related to the late receipt of full funding on commitments with university and industry cost-shared subcontracts due to the passage of the FY 2007 appropriation midway through the year (Program: EERE); 3) $39.5 million related to contracts with multi-year work scopes, which produces significant balances until the final year of the contracts (Program: Nuclear Energy); 4) $12.8 million for multi-year building leases that are prepaid up to six months in advance resulting in a balance that is paid in the final year of the lease term. (Program: EERE); 5) $7.5 million related to lower than anticipated increases in the post-retirement life and medical expenses of former employees at the Portsmouth and Paducah sites. This difference was factored into the FY 2008 budget request which was significantly lower than in previous years (Program: Legacy Management); 6) $17.7 million related to the delayed receipt of full funding on subcontracts and procurements until the middle of the fiscal year (Program: EERE); 7) $15.7 million related to unique equipment that was fabricated for NREL's new Science & Technology facility. This equipment requires a long lead time for purchase and receipt of materials (Program EERE); and 8) $18.9 million related to multi-year subcontracts and procurements that were awarded in the last few days of FY 2007 for the Wind & Hydropower Technologies Program and the Biomass & Biorefineries R&D Program. (Program: EERE)

Appropriation 89X0233, Strategic Petroleum Reserve, Petroleum Account – This appropriation exceeds the appropriation threshold by a net amount of $21.0 million. The primary driver for this over-threshold amount is $22.4 million resulting from the FY 2005 transfer loan from the SPR Facilities Account to finance draw-down operations of 30 million barrels of crude oil as directed by the President in the aftermath of Hurricane Katrina. Actual drawdown operations were for 11 million barrels of crude oil.

Appropriation 89X0243, Other Defense Activities – This appropriation exceeds the appropriation threshold by a net amount of $79.8 million. The primary drivers for this over-threshold amount include: 1) $1.8 million related to the funding for the Archives and Information Management Program (AIM) to provide for increased FY 2008 funding requirements; 2) $1.3 million related to up-front funding for leasing, furnishing and equipping Legacy Management's new Consolidated Data Center to be expended in the next two fiscal years; 3) $1.2 million related to contract closeout amounts that are required pending the final settlement of costs; 4) $10.3 million related to post-retirement benefits at the Pinellas site. The Department's earlier cost estimates were conservative and created a high uncosted balance, which is scheduled to be corrected in FY 2008; 5) $4.2 million related to the Long-Term Surveillance and Maintenance (LTS&M) and Reuse and Property

Management (RPM) actions primarily as a result of the reduction of the Pinellas baseline requirement. The FY 2008 and FY 2009 LTS&M budget requests were reduced by a combined total of approximately $4.0 million due to the reduction associated with the baseline requirements; 6) $3.8 million related to the benefits for the Worker Transition program. These benefits have up to four years of eligibility and would be expended accordingly over that period. No additional funds for this program have been requested for fiscal year 2008 and 2009; 7) $6.1 million related to approved scopes of work to be accomplished in FY 2008, but planned for in FY 2007; 8) $18.6 million related to the Cyber Security Program funding that was received late in the year due to the continuing resolution extending mid-year. The funds are expected to be expended during FY 2008; 9) $7.3 million related to funds for first quarter of FY 2008 activities to ensure uninterrupted service during the uncertainty of the CR; and 10) $3.5 million related to working capital fund obligations to support continuity in FY 2008 operations. An additional $17.8 million is related to two interagency agreements in support of Homeland Security Presidential Directive 12 (HSPD-12). Funding ($13.3M) was provided to the General Services Administration's HSPD-12 Managed Service Office for management and service support for personal identification verification (PIV) II compliant identity credentials through a shared service solution. We expect $10 million to be expended in FY 2008 and the remaining funding to be expended in FY 2009. The remaining funds ($4.5M) were provided to the Office of Personnel Management to perform PIV checks by conducting National Agency Checks (NACs) on all eligible employees (DOE-wide). A background check must be conducted on all eligible employees before receiving the new HSPD-12 badges. We expect the majority of these funds to be expended in FY 2008.

Appropriation 89X0309, Defense Nuclear Nonproliferation (DNN) – This appropriation exceeds the appropriation threshold by a net amount of $841.5 million, primarily due to the rate and timing of costing for contracts and agreements with various foreign countries/entities related to the International Nuclear Materials Protection and Cooperation, Fissile Materials Disposition (FMD), Elimination of Weapons-Grade Plutonium Production (EWGPP), Global Threat Reduction Initiative (GTRI), and the Nonproliferation and International Security (NIS) programs.

The uncosted balances for many of the DNN programs exceed DOE thresholds because of the costing patterns for the significant amount of DNN work conducted in foreign countries, including the Russian Federation and the Newly Independent States. Although most of this work is handled through operating contractors, business transactions with these countries, including contract negotiations and the subsequent accounting for these transactions, do not follow the normal obligation and costing patterns for typical operating contractors. Contract negotiations with a foreign entity may take from two to eighteen months to complete, and then work may take another three to six months to begin. Also, although funds are obligated up front on these operating contracts (many of which are multi-year in nature), costs are not reported until the work has been completed. Due to the uncertainties related to foreign government reviews, site access agreements, export controls, learning curves required to conduct the work and rework of unacceptable deliverables, the costs associated with these obligations may not be reported for three to twenty-four months after the work orders are placed. This unique situation does result in higher uncosted balances than many of the other programs whose business is conducted primarily within the United States.

Due to the nature of this work, however, relying on costs alone does not reflect an accurate assessment of the programs' financial status. Along with costs recorded in the official accounting system, the inclusion of funds committed to contracts (deliverables underway but not costed) more completely reflects program execution and financial status. Commitments were tracked in the DOE accounting system for DNN programs for the first time in FY 2004. When commitments are added to costs, most of the DNN program balances are consistent with sound financial management. The DNN program has submitted a separate report to the authorizing and appropriating committees explaining in detail the program's cost and commitment status. The following narrative provides the main drivers for DNN exceeding the appropriation thresholds.

International Nuclear Materials Protection and Cooperation Program: ($608 million) Although the threshold for uncosted balances was exceeded for this program, when commitments are added to costs, 85.4 percent of the total funds available to cost were costed or committed, leaving 14.6 percent uncommitted ($149 million). The increase in uncosted balances during FY 2007 was due to an overall increase in the International Nuclear Materials Protection and Cooperation budget and delayed costing pending the completion of significant deliverables. The overall funding increase provided for a significant expansion of the Russian 12th Main Directorate and Megaports programs and expanded Second Line of Defense (SLD) program activities to include work in the following countries: Russian, Ukraine, Kazakhstan, Republic of Georgia, Azerbaijan, Armenia, Slovenia and Slovakia. SLD Megaports Initiative activities are ongoing in over 20 countries including Belgium, Panama, Columbia, Dominican Republic, China, Dubai United Kingdom, Israel, Mexico, South Korea, Honduras, Pakistan and Taiwan. These activities include the installation of radiation detection capability at land and border crossings and seaports to detect, deter and interdict the illicit trafficking of nuclear and other radioactive materials along with training of host government custom officials in the use of the equipment.

FMD Program: ($542 million) Of the total uncosted balances for this program, 66 percent ($360 million) are associated with two major construction projects, Mixed Oxide Fuel Fabrication Facility (MOX) and the Pit Disassembly and Conversion Facility (PDCF), which includes the Waste Solidification Building (WSB) sub-project. Obligation and costing of funds were slowed due to the legislative restriction included in the Revised Continuing Appropriations Resolution, 2007, on obligating construction funding for MOX prior to August 1, 2007. Twenty percent of the uncosted balances are associated with U.S. Surplus Fissile Materials Disposition. Of total funds available to cost, 82.5 percent have been costed or committed, leaving 17.5 percent uncommitted ($48 million). These uncosted funds support operation and maintenance activities related to the MOX and PDCF Projects, which were also affected by the legislative restriction. Additionally, funding also supports other MOX fuel program activities, U.S. highly enriched uranium disposition activities, and other U.S. Surplus Fissile Materials Disposition program efforts. The remaining 14 percent of the uncosted balances are associated with the Russian Surplus Fissile Materials Disposition Program. Of total funds available to cost, 43.2 percent have been costed or committed, leaving 56.8 percent uncommitted ($50 million). Russia has indicated that it remains committed to plutonium disposition and has presented DOE with a technically and financially credible path forward that focuses primarily on irradiating MOX fuel in fast reactors. In November 2007, the U.S. Secretary of Energy and the Russian Federal Atomic Energy Agency Director signed a joint statement outlining a plan to dispose of 34 metric tons of surplus plutonium from Russia's weapons program. Under the new plan, the United States will cooperate with Russia to convert Russian weapon-grade plutonium into mixed oxide fuel (MOX) and irradiate the MOX fuel in the BN-600 fast reactor, currently operating at the Beloyarsk nuclear power plant, and in the BN-800 fast reactor, currently under construction at the same site. The United States and Russia also intend to continue cooperation on the development of an advanced gas-cooled, high-temperature reactor, which may create additional possibilities for disposition of Russia's plutonium.

Russia intends to implement this program, with the U.S. contributing $400 million, as previously pledged for cooperation under the 2000 Plutonium Management and Disposition Agreement and subject to appropriations by the U.S. Congress. The Russian program has not requested any new budget authority in recent years, and intends to use its unobligated balances to fund limited ongoing technical work and negotiations with Russia.

<u>EWGPP Program</u>: ($200 million) The uncosted balances for the EWGPP program in the DNN appropriation are associated with the Seversk and Zheleznogorsk projects with scheduled completion dates in 2008 and 2010 respectively. 99.8 percent of the total funds available to cost have been costed or committed for equipment, fabrications, and assemblies in support of construction activities. At the end of FY 2007, the Zheleznogorsk project achieved 34 percent completion, and awarded over 80 percent of its equipment procurements. The Seversk project achieved 72 percent completion and is on schedule for completion in December 2008. Balances will continue to be significant until the closing year of the project since the costing is spread over an extended period.

<u>Global Threat Reduction Initiative</u>: ($99 million) The majority of GTRI uncosted balances result from multi-year contracts for work performed in over 95 countries worldwide. In FY 2007, the program continued to accelerate and expand threat reduction work. The program completed the conversion or shutdown of a an additional 8 research reactors (for a cumulative total of 55 research reactors) from use of HEU fuel to LEU fuel; removed an additional 425 kilograms of HEU and plutonium (for a cumulative total of 1,791 kilograms removed) from Russian-origin and US-origin sources; removed an additional 1,625 domestic radiological sources (for a cumulative total of more than 15,500 excess radiological sources in the United States); and, completed protection efforts at an additional 99 vulnerable sites worldwide (for a cumulative total of 600 radiological sites protected). Balances will continue to be significant until the closing year of the project since the costing is spread over an extended period.

88.4 percent of the total funds available to cost were costed or committed at year end for the cask procurements supporting the BN-350 reactor protection efforts and several Russian-origin nuclear material removal efforts worldwide, including funding to support shipments from Vietnam, Kazakhstan, and the Czech Republic. The remaining uncommitted funds represent laboratory labor for ongoing contract negotiations and deliverables.

<u>Nonproliferation and International Security Program</u>: ($87 million) Uncosted balances for this program are primarily the result of difficulties arising from work in Russia/Former Soviet Union and delays in negotiating agreements with Russian institutes and other international partners. The Warhead Dismantlement and Fissile Material program initially experienced delays in program work due to an expired Warhead Safety and Security Exchange (WSSX) Agreement, but increased its costs/commitments in the second half of the fiscal year once Rosatom provided deliverables and redirected funds to projects with an increased scope. The Nuclear Noncompliance Verification expedited a number of projects due to increased emphasis on countries of proliferation concern.

Export Control assistance to foreign governments and industries accelerated to ensure compliance with international obligations and assistance to the International Atomic Energy Agency (IAEA). The Global Initiatives for Proliferation Prevention program reduced uncosted balances by 50.8 percent during FY 2007 and anticipates obligating and costing funds at a higher than normal rate due to implementing a new, streamlined project management process and expediting the completion of several projects. For the total Nonproliferation and International Security program, 77 percent of the total funds available to cost were costed or committed, leaving 23 percent uncommitted ($55 million).

<u>Nonproliferation and Verification Research and Development Program</u>: ($73.3 million) As of the end of FY 2007, 100 percent of obligational authority was obligated and 90.1 percent of total funds available to cost for the operations and maintenance program was costed/committed, bringing end of year uncommitted obligations to a level consistent with sound financial management.

For construction activities, 100 percent of obligational authority was obligated and 62.4 percent of total funds available to cost was costed/committed. We expect the costing of all remaining uncosted/uncommitted Project Engineering and Design funds in FY 2008. The NNSA construction funds are being used to support the award of the steel and foundation subcontract. That subcontract was awarded for approximately $14M in November, committing all of the NNSA construction funds provided to date ($4.2M). CD-3b approval is expected in February 2008 at which time construction funds can be costed.

Appropriation 89X0315, Non-Defense Environmental Cleanup – This appropriation exceeds the appropriation threshold by a net amount of $106.3 million. The primary drivers for this over-threshold amount include: 1) $15.6 million related to the 301 Hot Cell at Argonne National Laboratory. Approximately $1.7 million of this amount is related to Cave 1, Cave 2 and Fuel Storage Tubes dismantlement activities scheduled in FY 2007 that will be completed or are on-going in FY 2008 and $13.9 million related to work on the 301DD project for dismantlement, demolition and waste handling and transportation activities scheduled to continue through FY 2009; 2) $19.4 million for Brookhaven National Laboratory's Brookhaven Graphite Research Reactor project. The FY 2006 Environmental Management baseline schedule and associated funding assumed that Critical Decision 3 (CD-3) would be achieved and Brookhaven Science Associates would initiate the graphite pile removal in FY 2006. Actual events indicate that the requirements for CD-1, 2 and 3 have changed and that the schedule for completing all the necessary reviews for CD-3 will extend into mid-FY 2008; 3) $9.3 million resulting from a delay in the construction of the conversion facilities at the Portsmouth and Paducah sites which has caused operating funding to carry over into FY 2008. This balance must be retained to continue the required surveillance and maintenance of the current facility and to support the initiation of operations of the conversion facilities; 4) $17.7 million resulting from contractor work that was originally scheduled to be completed in FY 2007, but due to delays encountered by the previous contractor, the work will not be completed until FY 2008 under the new contractor and will now be considered legacy issues; 5) $16.7 million resulting from a delay in the award of the new West Valley Demonstration Project contract until July 2007, followed by a two-month transition period. West Valley Environmental Services assumed responsibility for the site effective September 2007. Additional funding was provided in the August AFP for acceleration of the scope, but was not made available to the contractor until September 2007; 6) $11.6 million is a result of DOE's directed strategy change for the Fast Flux Test Facility

(FFTF) in FY 2006. The new strategy called for a change in the FFTF planning path and transitions the facility to a low cost state by FY 2008. Extensive carryover amounts will occur from FY 2007 to FY 2008 and from FY 2008 to FY 2009; and 7) $22.6 million resulting from the award of the Remedial Action Contract (RAC) at the MOAB site, originally scheduled for early in the fiscal year. but was delayed until June 2007 when it was awarded to Energy Solutions Federal Services. The RAC assumed responsibility for the site and activities in August 2007. Costing should be accomplished by the second quarter of FY 2008.

Appropriation 89X5523, Ultra-Deepwater and Unconventional Natural Gas & other Petroleum Research Fund (PRF) – This appropriation, new this fiscal year, exceeds the appropriation threshold by a net amount of $33.2 million. The primary driver for this over-threshold amount is the result of funding received in September for the Research Partnership to Secure Energy for America (RPSEA). Release of funds for obligation was delayed until September pending the approval of an Annual Plan and implementation of Energy Policy Act of 2005, Subtitle J, Section 999, requirements. The program anticipates approval of the FY 2008 plan earlier in the fiscal year for 2008 to facilitate a more timely obligation of funds.

Appropriation 89X5227, Nuclear Waste Fund - This appropriation exceeds the appropriation threshold by a net amount of $30.8 million. The primary drivers for this over-threshold amount include: 1) $14.2 million for leases and multi-year contracts which produces significant balances until the final year of the contract/lease; 2) $6.3 million representing procurements for goods and services awarded in FY 2007 which had not been completed by the end of the fiscal year; and 3) $7.6 million needed to complete ongoing Programmatic Environmental Impact Statement (PEIS) scope on the Global Nuclear Energy Partnership (GNEP) program. The monies were provided under this appropriation in the FY 2006 Energy and Water appropriations conference report; however, the program is actually managed by NE. This report is due to the Secretary in June 2008 and will assist him in his decision to scope the future GNEP program.

Appropriation 89X5530, Sales of Uranium and Energy Programs – This appropriation exceeds the appropriation threshold by a net amount of $ 32.0 million. The primary driver for this over-threshold amount includes $52.1 million related to planned work on the process to remove technetium-99 contamination from uranium feed at a USEC facility at the Portsmouth site. This work was originally planned for FY 2007, but will actually be accomplished in FY 2008. The remaining funds will be used to complete this work. There is no appropriation for this activity in FY 2008, so uncosted balances are the only source of funds.

Appropriation 89X5231, Uranium Enrichment Decontamination & Decommissioning Fund - This appropriation exceeds the appropriation threshold by a net amount of $34.0 million. The primary drivers for this over-threshold amount include: 1) $17.0 million related to delays experienced by the United States Enrichment Corporation (USEC) for work scope negotiations that deferred the contract awards; 2) $6.0 million related to funding that has been committed to USEC upon approval of their FY 2004 and FY 2005 provisional billing rates (FY 2006 and FY 2007 were recently approved). USEC had previously billed the Department at the FY 2004 and 2005 rates which was expected to be less than the current provisional rate, thereby creating and unbilled amount that was difficult to estimate. This issue is expected to be resolved in FY 2008; 3) $5.0 million required to implement new mandates by the Federal Energy Regulatory Commission (FERC) and the North American Electric Reliability Corporation (NAERC) that were not included in the baseline or budget, but must be implemented to remain compliant. Implementation was delayed due to ongoing negotiations with the Ohio Valley Electric Corporation. Funds for the unplanned mandates were made available through efficiencies gained from using multiple small business contractors as compared to the previous single M&O contractor. No cleanup work was eliminated or needed to be reduced because of the new requirements; and 4) $1.0 million that was committed in FY 2007 for HVAC and roof repairs, but was rescheduled for completion in FY 2008.

LIST OF KEY ACRONYMS

AIP – Accelerator Improvement Project
CE – Capital Equipment
CR – Continuing Resolution
CRDF – Civilian Research and Development Foundation
DNN – Defense Nuclear Nonproliferation
EWGPP – Elimination of Weapons Grade Plutonium Production
FMD – Fissile Materials Disposition
FSU – Former Soviet Union
GAO – Government Accountability Office
GIPP – Global Initiative for Proliferation Prevention
GPP - General Plant Projects
GTRI – Global Threat Reduction Initiative
HEU – Highly Enriched Uranium
LEU – Low Enriched Uranium
MPC&A - Materials Protection Control and Accounting
MOX – Mixed Oxide
NAERC – North American Electric Reliability Corporation
NIS - Nonproliferation and International Security
PDCF – Pit Disassembly and Conversion Facility
R&D – Research and Development
RAC – Remedial Action Contract
RTI - Russian Transition Initiative
SFMC – Site/Facility Management Contractor
SPRO – Strategic Petroleum Reserve
TAC - Total Available to Cost

APPENDIX

Uncosted Obligations by Fiscal Year

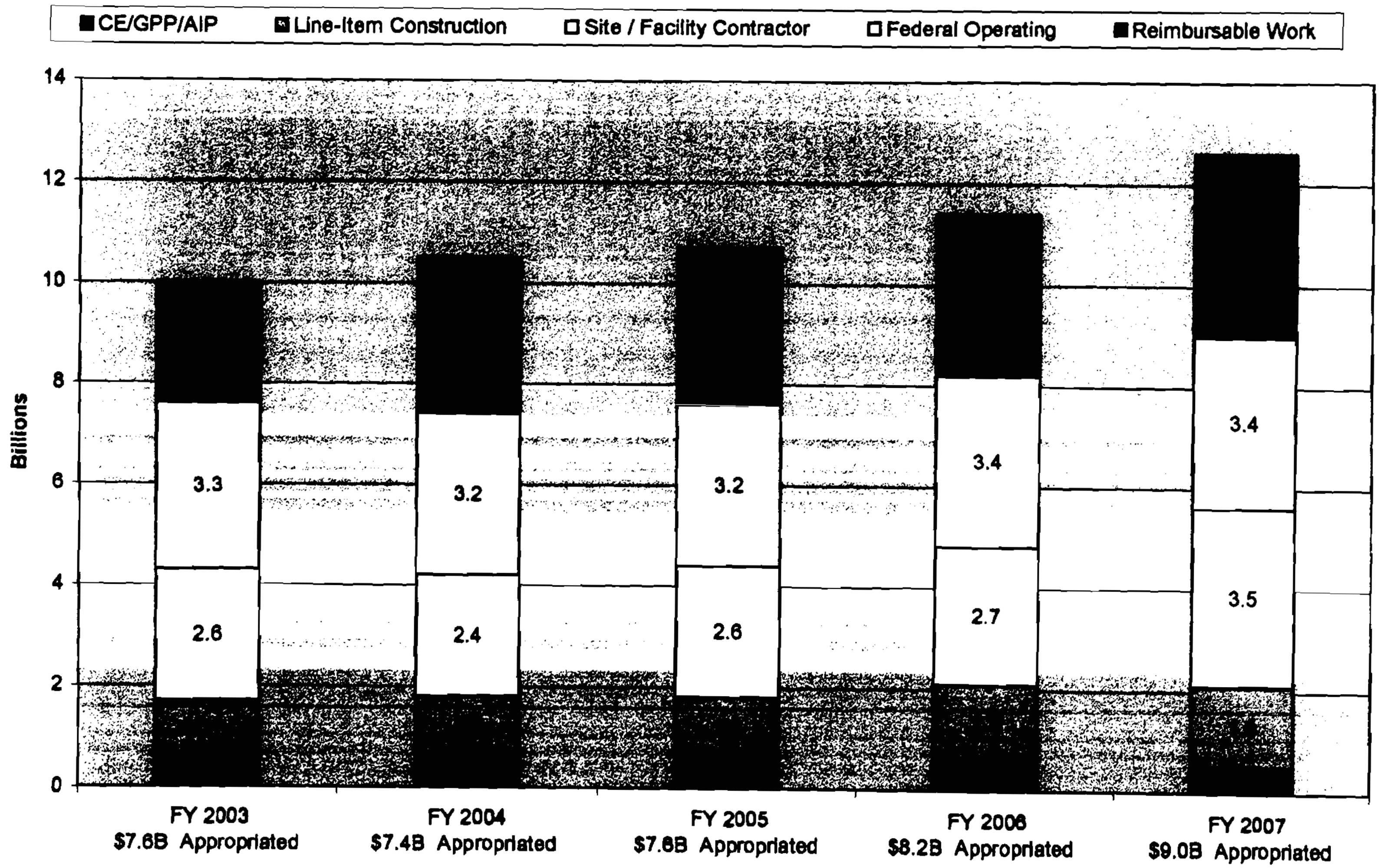


Chart 1

U.S. DEPARTMENT OF ENERGY

Uncosted Obligations Comparison of FY 2006 to FY 2007

Appropriated and Reimbursable Activities

(dollars in thousands)

APPROPRIATION	2006 Total Uncosted	Increase/ (Decrease)	2007 Total Uncosted
ENERGY & WATER DEVELOPMENT			
Geothermal Resources Development Fund	9	(9)	0
Federal Energy Regulatory Commission	3,826	(2,656)	1,170
Science	1,108,945	24,662	1,133,607
Energy Supply & Research Activities	1,534,254	283,050	1,817,304
Energy Supply & Research Activities - 00 Annual	14	(3)	11
Energy Supply & Research Activities - 05/06 2yr	14,991	(10,588)	4,403
Energy Supply & Research Activities - 06/07 2yr	11,038	878	11,916
Energy Supply & Research Activities - 07/08 2yr	0	11,890	11,890
Departmental Administration	52,360	7,523	59,883
Departmental Administration - 03/04 2yr	1	(1)	0
Working Capital Fund	30,738	(366)	30,372
Office of Inspector General	3,856	33	3,889
Weapons Activities	4,326,026	335,994	4,662,020
Weapons Activities - 02 Annual	26	(26)	0
Defense Env. Rest. & Waste Mgmt.	(4,962)	4,964	2
Defense Environmental Services (Privatization)	(85)	209	124
Non-Defense Site Acceleration (Env. Management)	242	(239)	3
Defense Nuclear Nonproliferation - 01/02 2yr	4	(4)	0
Defense Nuclear Nonproliferation - 02/03 2yr	145	185	330
Defense Nuclear Nonproliferation - 03/04 2yr	15	(4)	11
Defense Nuclear Nonproliferation - 03/05 3yr	2,942	(2,210)	732
Defense Nuclear Nonproliferation - 04/05 2yr	170	(170)	0
Defense Nuclear Nonproliferation	1,312,823	299,188	1,612,011
Defense Site Acceleration (Fac.Closure Projects)	1,284,812	(31,667)	1,253,145
Office of the Administrator - 03 Annual	2,347	(936)	1,411
Office of the Administrator	73,095	1,424	74,519
Other Defense Activities	188,635	42,834	231,469
Other Defense Activities 04/05 2 yr	85	(85)	0
Other Defense Activities - 02 Annual	3	(3)	0
Southeastern Power Administration	404	224	628
Southeastern Power Administration Annual	4,349	3,737	8,086
Southwestern Power Administration	14,150	7,540	21,690
Continiung Fund SEPA	16,286	(7,972)	8,314
Alaska Power Administration	500	(50)	450
Isotope Production & Distribution Fund a/	8,490	3,858	12,348
Colorado River Basins Fund a/	17,850	4,333	22,183
Western Area Power Administration	172,302	8,480	180,782
Western Emergency Fund	0	35	35
Falcon/Amistad Op. Fund (WAPA)	2,073	(381)	1,692

U.S. DEPARTMENT OF ENERGY
Uncosted Obligations Comparison of FY 2006 to FY 2007
Appropriated and Reimbursable Activities
(dollars in thousands)

APPROPRIATION	2006 Total Uncosted	Increase/ (Decrease)	2007 Total Uncosted	
Nuclear Waste Fund	150,353	(79,555)	70,798	
Non Defense Environmental Services (Uranium Fac.)	223,560	35,521	259,081	
Uranium Enrichment D&D	100,912	26,027	126,939	
Defense Nuclear Waste Disposal	50,703	(11,497)	39,206	
Naval Reactors	104,054	(10,092)	93,962	
Cerro Grande Fire Activities	13,618	(774)	12,844	
Pajarito Plateau Homesteaders Compendation	5,158	(5,158)	0	
Sales of uranium & Energy Programs	17,796	34,295	52,091	
Fossil Energy Research & Development	391,017	195,168	586,185	
Energy Conservation	(3,002)	3,027	25	
Energy Information Administration	17,701	1,792	19,493	
Economic Regulatory Administration	86	(54)	32	
Strategic Petroleum Reserve	90,087	(24,693)	65,394	
Naval Petroleum & Oil Shale Reserves	11,816	(2,041)	9,775	
SPR Petroleum Account	25,458	(1,116)	24,342	
Northeast Home Heating Oil Reserve Account	4,863	4,198	9,061	
Emergency Preparedness	1	(1)	0	
Clean Coal Technology	1,598	(1,102)	496	
Energy Security Reserves & Alternate Fuels Prod	9,134	0	9,134	
Ultra-Deepwater and Unconventional Natural Gas	0	40,510	40,510	*New
TOTAL Energy & Water Development	11,397,672	1,188,126	12,585,798	
TOTAL Other b/	4,552	(3,002)	1,550	
TOTAL DEPARTMENT OF ENERGY	11,402,224	1,185,124	12,587,348	

Footnotes:

a/ Uncosted revolving fund balances

b/ Other consists of expired appropriations, Payments to States under Federal Power Act, and Trust Fund Advances for Co-Sponsored Work, Gifts, Donations and Bequests, and Transfer Appropriations.

U.S. DEPARTMENT OF ENERGY
Uncosted Obligations Threshold Analysis by Appropriation
Appropriated and Reimbursable Activities
(dollars in thousands)

APPROPRIATION	2007 Total Uncosted	Uncosted Threshold	Variance Net	
ENERGY & WATER DEVELOPMENT				
Federal Energy Regulatory Commission	1,170	38,778	(37,608)	
Science	1,133,607	954,548	179,059	*
Energy Supply & Research Activities	1,817,304	1,497,237	320,067	*
Energy Supply & Research Activities - 00 Annual	11	(6)	17	
Energy Supply & Research Activities - 05/06 2yr	4,403	1,949	2,454	
Energy Supply & Research Activities - 06/07 2yr	11,916	1,553	10,363	
Energy Supply & Research Activities - 07/08 2yr	11,890	1,546	10,344	
Departmental Administration	59,883	61,415	(1,532)	
Departmental Administration - 03/04 2yr	0	(1)	1	
Working Capital Fund	30,372	23,387	6,985	
Office of Inspector General	3,889	7,640	(3,751)	
Weapons Activities	4,862,020	4,843,643	18,377	
Weapons Activities - 02 Annual	0	3	(3)	
Defense Env. Rest. & Waste Mgmt.	2	(818)	820	
Defense Environmental Services (Privatization)	124	134	(10)	
Non-Defense Site Acceleration (Env. Management)	3	(13)	16	
Defense Nuclear Nonproliferation - 02/03 2yr	330	49	281	
Defense Nuclear Nonproliferation - 03/04 2yr	11	2	9	
Defense Nuclear Nonproliferation - 03/05 3yr	732	496	236	
Defense Nuclear Nonproliferation - 04/05 2yr	0	22	(22)	
Defense Nuclear Nonproliferation	1,612,011	770,466	841,545	*
Defense Environmental Cleanup	1,253,145	1,275,589	(22,444)	
Office of the Administrator - 03 Annual	1,411	279	1,132	
Office of the Administrator	74,519	74,956	(437)	
Other Defense Activities	231,469	151,719	79,750	*
Southeastern Power Administration	628	6,582	(5,954)	
Southeastern Power Administration Continuing Fund	8,086	6,854	1,232	
Southwestern Power Administration	21,690	18,315	3,375	
Southwestern Power Administration Continuing Fund	8,314	2,769	5,545	
Alaska Power Administration	450	85	365	
Isotope Production & Distribution Fund a/	12,348	5,889	6,459	
Colorado River Basins Fund a/	22,183	34,692	(12,509)	
Western Area Power Administration	180,782	190,450	(9,668)	
Western Emergency Fund	35	85	(50)	
Falcon/Amistad Op. Fund (WAPA)	1,692	804	888	

Chart 3

U.S. DEPARTMENT OF ENERGY
Uncosted Obligations Threshold Analysis by Appropriation
Appropriated and Reimbursable Activities
(dollars in thousands)

APPROPRIATION	2007 Total Uncosted	Uncosted Threshold	Variance Net	
Nuclear Waste Fund	70,798	40,020	30,778	*
Non Defense Environmental Cleanup	259,081	152,750	106,331	*
Uranium Enrichment D&D	126,939	92,961	33,978	*
Defense Nuclear Waste Disposal	39,206	56,996	(17,790)	
Naval Reactors	93,962	148,868	(54,906)	
Cerro Grande Fire Activities	12,844	13,711	(867)	
Pajarito Plateau Homesteaders Compensation	0	1,308	(1,308)	
Sales of Uranium & Energy Programs	52,091	20,092	31,999	*
Fossil Energy Research & Development	586,185	533,985	52,200	*
Energy Conservation	25	(11)	36	
Energy Information Administration	19,493	18,573	920	
Economic Regulatory Administration	32	14	18	
Strategic Petroleum Reserve	65,394	37,835	27,559	*
Naval Petroleum & Oil Shale Reserves	9,775	4,862	4,913	
SPR Petroleum Account	24,342	3,322	21,020	*
Northeast Home Heating Oil Reserve Account	9,061	2,358	6,703	
Clean Coal Technology	496	(286)	782	
Energy Security Reserves & Alternate Fuels Prod	9,134	1,553	7,581	
Ultra-Deepwater &Unconventional Natural Gas & other PRF	40,510	7,293	33,217	*New
TOTAL Energy & Water Development	12,585,798	10,907,302	1,678,496	
TOTAL Other b/	1,550	955	595	
TOTAL DEPARTMENT OF ENERGY	12,587,348	10,908,257	1,679,091	

*** Justifications for these over threshold amounts are provided starting on page 5 of this report.**

A $20 million threshold was used for amounts to be justified.

a/ Uncosted revolving fund balances

b/ Other consists of expired appropriations, Payments to States under Federal Power Act, and Trust Fund Advances for Co-Sponsored Work, Gifts, Donations and Bequests, and Transfer Appropriations.

General Notes:

1) Threshold amounts for reimbursable work, Line item construction, Grants, and Cooperative agreements are set at 100% as these activities inherently display a higher level of uncosted balances with minimal control and therefore do not lend themselves to threshold analysis. Other Departmental efforts monitor and address uncosted balances for these activities.

Chart 3