Notes to the Financial Statements

1. Significant Accounting Policies

A. Basis of Presentation

These consolidated financial statements have been prepared to report the financial position and results of operations of the U.S. Department of Energy (DOE). They have been prepared from the books and records of DOE in accordance with the form and content for agency financial statements, specified by the Office of Management and Budget (OMB) in OMB Bulletin No. 94-01. Generally accepted accounting principles for the Federal government consist of the following hierarchy:

- Individual standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office;
- Interpretations related to the Statement of Federal Financial Accounting Standards issued by OMB;
- Requirements contained in OMB Bulletin No. 94-01, Form and Content of Agency Financial Statements; and
- Accounting principles published by other authoritative standard-setting bodies and other authoritative sources.

B. Description of Reporting Entity

DOE is a cabinet level agency of the Executive Branch of the U.S. Government. DOE's headquarters organizations are located in Washington, D.C. and Germantown, MD and consist of an executive management structure that includes: the Secretary, the Deputy Secretary, and the Under Secretary; nine Secretarial staff organizations; and program organizations that provide technical direction and support for DOE's principal programmatic missions. DOE also includes the Federal Energy Regulatory Commission, which is an independent regulatory organization responsible for setting rates and charges for the transportation and sale of natural gas and for the transmission and sale of electricity and the licensing of hydroelectric power projects.

DOE has a complex field structure comprised of operations offices, field offices, power marketing administrations, laboratories, and other facilities. The majority of DOE's environmental cleanup, energy research and development, and testing and production activities are carried out by major contractors. These contractors operate, maintain, or support DOE's government-owned facilities on a day-to-day basis and provide other special work under the direction of field organizations.

These contractors have unique contractual relationships with DOE. In most cases, their charts of accounts and accounting systems are integrated with DOE's accounting system through a home office-branch office type of arrangement. Additionally, DOE is ultimately responsible for funding certain defined benefit pension plans, as well as post retirement benefits such as medical care and life insurance, for the employees of these contractors. As a result, these statements reflect not only the costs incurred by these contractors, but also include certain assets (i.e., employee advances and prepaid pension costs) and liabilities (i.e., 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 a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All material intra-agency balances and transactions have been eliminated in consolidation.

D. Revenues and Other Financing Sources

DOE 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. Appropriations are recognized as a financing source at the time the related operational or administrative expenses are incurred. Appropriations expended for property, plant and equipment are recognized as financing sources when the asset is consumed in operations. Revenues are recognized when earned (i.e., goods have been delivered or services rendered.) (See Notes 18 - 21)

E. Funds with Treasury and Cash

Funds with Treasury represent appropriated funds, trust funds, and revolving funds that are available to pay current liabilities and finance authorized purchase commitments. Cash balances held outside Treasury primarily represent trust fund balances held in minority financial institutions. (See Note 2)

F. Investments

Investments in Treasury securities for the Nuclear Waste Fund are classified as available for sale and are reported at fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities.* All other DOE investments are reported at cost net of amortized premiums or discounts as it is DOE's intent to hold the investments to maturity. Premiums or discounts are amortized using the effective interest method. (See Note 3)

G. Accounts Receivable, Net of Allowance

The amounts due for governmental (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 4)

H. Property, Plant, and Equipment

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized if they have an anticipated service life of 2 years or more and cost $25,000 or more. Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy, the cost is transferred to the appropriate property account. Property, plant and equipment related to environmental management facilities storing and processing DOE's environmental legacy wastes are not capitalized. (See Notes 6 and 22)

Depreciation expense is generally computed using the straight line method throughout DOE. The units of production method may be 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	25 - 40 years
ADP Software	5 - 20 years
Equipment	5 - 45 years

I. Liabilities

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

J. Accrued Annual, Sick and Other Leave

Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken and increased for leave earned. 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 nonvested leave are expensed as taken.

K. Retirement Plans

Federal Employees

There are two retirement systems for Federal employees. DOE employees hired prior to January 1, 1984 may participate in the Civil Service Retirement System (CSRS), to which DOE makes matching contributions equal to 7 percent of pay. 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 DOE automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOE also contributes the employer's matching share for Social Security. DOE does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System. DOE does report, as an imputed financing source and a program expense, the difference between its contributions to Federal employee retirement programs and the estimated actuarial cost as computed by the Office of Personnel Management. (See Note 20)

Contractor Employees

Most DOE contractors have a defined benefit pension plan under which they promise to pay specified benefits, such as a percentage of the final average pay for each year of service. DOE costs under the contracts include reimbursement of annual employer contributions to the pension plans. Each year an amount is calculated for employers to contribute to the pension plan to ensure the plan assets are sufficient to provide for the full accrued benefits of contractor employees in the event that the plan is terminated. The level of contributions is dependent on actuarial assumptions about the future, such as the interest rate, employee turnover and deaths, age of retirement, and salary progression. (See Note 14)

L. Comparative Data

Comparative data for the prior year for the Statement of Operations and Changes in Net Position have not been presented. This was due to DOE's FY 1997 implementation of Statement of Federal Financial Accounting Standards Number 4 (SFFAS No. 4), *Managerial Cost Accounting Concepts and Standards for the Federal Government*. As a result, it was not practical to restate prior year program expenses and other costs in order to present a comparative Statement of Operations and Changes in Net Position . In future years, full comparative data will be presented in order to provide an understanding of changes in DOE's financial operations.

Comparative information for the Statement of Financial Position are presented as the implementation of SFFAS No. 4 did not require restatement of FY 1996 amounts for this statement. Certain FY 1996 amounts have been reclassified to conform to the FY 1997 presentation.

M. Program Expenses

Program expenses are summarized in the Consolidated Statement of Operations and Changes in Financial Position by business line, which represents the four major elements of the Department's mission. A detailed breakdown of the expenses for each business line is presented in the Supplemental Financial and Management Information section of the annual report.

The program expenses reported in the Consolidated Statement of Operations and Changes in Financial Position and in the Supplementary Financial and Management Information represent the full cost of the Department's programs in accordance with the Department's implementation of SFFAS No. 4.

N. Use of Estimates

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

2. Fund Balance with Treasury

(in millions)

		-------Unobligated-------		Investments in Treasury	Total Fund Balances
	Obligated	Unrestricted	Restricted	Securities	With Treasury
Fiscal Year 1997					
Agency Funds					
Revolving funds	$70	$404			$474
Appropriated funds	7,194	1,995	$622		9,811
Special funds	319	68	6,956	($7,129)	214
Deposit funds			10		10
Total agency funds	$7,583	$2,467	$7,588	($7,129)	$10,509
Custodial Funds (Note 8)					
Trust funds	9				9
Special funds			3		3
Deposit funds			18		18
Total custodial funds	$9	$0	$21		$30
Total FY 1997 funds in Treasury	$7,592	$2,467	$7,609	($7,129)	$10,539
Fiscal Year 1996					
Agency Funds					
Revolving funds	($16)	$262	$3		$249
Appropriated funds	7,992	1,859	561		10,412
Special funds	271	107	5,652	($5,790)	240
Deposit funds			10		10
Total agency funds	$8,247	$2,228	$6,226	($5,790)	$10,911
Custodial Funds (Note 8)					
Trust funds	12				12
Special funds			3		3
Deposit funds			22		22
Total custodial funds	$12		$25		$37
Total FY 1996 funds in Treasury	$8,259	$2,228	$6,251	($5,790)	$10,948

The unobligated restricted funds primarily represent revenues that have been collected and are being held until such time that Congress appropriates the funds to DOE or directs DOE to return the funds to Treasury's general fund. The appropriated restricted funds represent primarily revenues earned from the sale of oil prior to FY 1994 from the Naval Petroleum and Oil Shale Reserves which Congress has not made available to DOE. The special and deposit funds represent revenues from the Nuclear Waste Fund, Uranium Enrichment Decontamination and Decommissioning Fund, and the Petroleum Pricing Violation Escrow Fund.

3. Investments

(in millions)

	Cost	Market Value	Amortized (Premium) Discount	Investments Net
Fiscal Year 1997				
Agency Assets				
Intragovernmental Non-Marketable				
Nuclear Waste Fund	$6,966	$6,947	($139)	$6,827
Net unrealized holding gains				$120
Uranium Enrichment D&D Fund	890	886	(6)	884
Great Plains Gasification Plant Trust Fund	14	14		14
Subtotal	$7,870	$7,847	($145)	$7,845
Governmental Marketable Securities				
Du Pont pension receipts	45	72		45
Total agency investments	$7,915	$7,919	($145)	$7,890
Custodial Assets (Note 8)				
Intragovernmental Non-Marketable				
Petroleum Pricing Violation Escrow Fund	297	300	3	300
Low Level Radioactive Waste Fund	2	2		2
Subtotal	$299	$302	$3	$302
Governmental Marketable Securities				
Petroleum Pricing Violation Escrow Fund	200	200		200
Total custodial investments	$499	$502	$3	$502
Total FY 1997 investments	$8,414	$8,421	($142)	$8,392
Fiscal Year 1996				
Agency Assets				
Intragovernmental Non-Marketable				
Nuclear Waste Fund	$6,102	$5,897	($129)	5,973
Net unrealized holding losses				(76)
Uranium Enrichment D&D Fund	486	482	(2)	484
Great Plains Gasification Plant Trust Fund	21	21		21
Subtotal	$6,609	$6,400	($131)	$6,402
Governmental Marketable Securities				
Du Pont pension receipts	72	72		72
Total agency investments	$6,681	$6,472	($131)	$6,474
Custodial Assets (Note 8)				
Intragovernmental Non-Marketable				
Petroleum Pricing Violation Escrow Fund	394	397	3	397
Low Level Radioactive Waste Fund	4	4		4
Subtotal	$398	$401	$3	$401
Governmental Marketable Securities				
Petroleum Pricing Violation Escrow Fund	200	200		200
Total custodial investments	$598	$601	$3	$601
Total FY 1996 investments	$7,279	$7,073	($128)	$7,075

Pursuant to statutory authorizations, DOE invests monies in Treasury notes and commercial certificates of deposit which are secured by the Federal Deposit Insurance Corporation. DOE's investments primarily involve the Nuclear Waste Fund and the Uranium Enrichment Decontamination and Decommissioning Fund. Fees paid by owners and generators of spent nuclear fuel and high-level radioactive waste and fees collected from domestic utilities are deposited into the respective funds. Funds in excess of those needed to pay current program costs are invested in Treasury securities. DOE also has non-Federal securities resulting from an over funded pension plan of a former contractor and the 1988 sale of the Great Plains Coal Gasification Project to a private concern.

DOE custodial investments are primarily Petroleum Pricing Violation Escrow Fund receipts collected as a result of consent agreements reached with individuals or firms that violated petroleum pricing regulations during the 1970s. These receipts are invested in Treasury securities and certificates of deposit at minority financial institutions pending determination by DOE as to how to distribute the fund balance.

Except for the Nuclear Waste Fund, DOE's investments are valued at the amortized acquisition cost. The Nuclear Waste Fund investments are reported at fair value in accordance with SFAS No. 115, which requires the valuation of investments at fair value when there is an intent to sell the securities prior to maturity. Based on past investment practices, the Nuclear Waste Fund's Treasury notes are routinely redeemed prior to maturity in order to maximize the return on the Fund's investments and minimize uninvested cash balances. As a result, the Nuclear Waste Fund's investment balance includes a net unrealized holding gain of $120 million as of September 30, 1997, and a net unrealized holding loss of $76 million as of September 30, 1996.

4. Accounts Receivable

(in millions)

	FY 1997			FY 1996		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Agency Receivables						
Intragovernmental						
Accounts receivable	$442		$442	$569		$569
Interest receivable	114		114	114		114
Advances	7		7	5		5
Subtotal	$563		$563	$688		$688
Governmental						
Nuclear Waste Fund receivables	2,316		2,316	2,216		2,216
Uranium Enrichment D&D Fund receivables	1,662		1,662	1,790		1,790
Power Marketing Administrations' receivables	371		371	339	($2)	337
Advances and prepayments	76		76	66		66
Credit program receivables	66	($26)	40	63	(26)	37
Other	253	(123)	130	346	(124)	222
Subtotal	$4,744	($149)	$4,595	$4,820	($152)	$4,668
Total agency receivables	$5,307	($149)	$5,158	$5,508	($152)	$5,356
Custodial Receivables (Note 8)						
Petroleum Pricing Violation Escrow Fund	2,451	(2,319)	132	2,492	(2,318)	174
Total receivables	$7,758	($2,468)	$5,290	$8,000	($2,470)	$5,530

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. Interest receivable represents earned revenues on investments held in Treasury securities.

Governmental receivables represent amounts due primarily for Nuclear Waste Fund (NWF) and Uranium Enrichment Decontamination and Decommissioning (D&D) Fund fees. NWF receivables are supported by contracts and agreements with public utilities that contribute resources to the fund. D&D Fund receivables from public utilities are supported by public law. Other receivables due from the public include reimbursable work billings and other amounts related to trade receivables, overpayments, and other miscellaneous receivables.

Custodial receivables represent amounts owed as a result of consent agreements reached with individuals or firms that violated petroleum pricing regulations during the 1970s. The majority of these receivables are with individuals or firms that are in bankruptcy, or collection action is being taken by the Department of Justice. Many cases handled by the Department of Justice will result in complete write-offs or settlement agreements for amounts significantly less than the original consent agreement. Allowance accounts have been established to reflect the realistic potential for recovery of amounts owed.

5. Stockpile Materials, Net

Stockpile materials consist of crude oil held in the Strategic Petroleum Reserve and nuclear materials. The Strategic Petroleum Reserve consists of crude oil stored in salt domes, terminals, and pipelines. The Reserve contained 563 million barrels of oil as of September 30, 1997, of which, 555 million barrels were available for drawdown. The reserve provides a deterrent to the use of oil as a political instrument and provides an effective response mechanism should a disruption occur. Oil from the reserve may be sold only with the approval of Congress and the President of the United States. During FY 1997, DOE sold 10.2 million barrels of crude oil inventory from the reserve. Congress authorized an FY 1998 sale of crude oil inventory to generate $207.5 million. An estimated 14 million barrels will be sold, although changes in the market could significantly affect the estimate.

Nuclear materials include weapons and related components, including those in the custody of the Department of Defense under Presidential Directive, and materials used for research and development purposes.

Stockpile materials are recorded at historical costs in accordance with Statement of Federal Financial Accounting Standard No. 3, *Accounting for Inventory and Related Property,* except for certain nuclear materials which have been identified as surplus or excess to DOE's needs. These nuclear materials are recorded at their net realizable value.

6. Property, Plant and Equipment, Net

(in millions)

	FY 1997			FY 1996		
	Acquisition Costs	Accumulated Depreciation	Net Book Value	Acquisition Costs	Accumulated Depreciation	Net Book Value
Land and land rights	$497	($4)	$493	$500	($4)	$496
Structures and facilities	29,138	(17,664)	11,474	28,859	(16,922)	11,937
ADP software	14	(13)	1	78	(63)	15
Equipment	13,725	(8,493)	5,232	16,035	(10,143)	5,892
Natural resources	11	(2)	9	11	(2)	9
Construction work in process	3,547		3,547	3,700		3,700
Total	$46,932	($26,176)	$20,756	$49,183	($27,134)	$22,049

In FY 1997, DOE raised its capitalization threshold from $5,000 to $25,000 for all field elements except the power marketing administrations. This change in accounting policy resulted in a charge to expense during FY 1997 of $694 million.

7. Regulatory Assets

(in millions)

	FY 1997	FY 1996
Non-Federal projects	$7,037	$7,106
Appropriation refinancing asset	5,228	
Conservation and fish & wildlife projects	796	823
Other	104	91
Total regulatory assets	$13,165	$8,020

DOE's power marketing administrations record certain assets in accordance with SFAS No. 71. The provisions of SFAS No. 71 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

Non-Federal Projects

The Bonneville Power Administration (BPA) has acquired all or part of the generating capability of five nuclear power plants, as well as several hydroelectric projects. The government's contracts with these utilities require BPA to pay all or part of the annual projects' budgets, including debt service, whether or not all the projects are completed. Because these projects' current and future costs can be recovered through BPA's electricity rates, the Statement of Financial Position includes a regulatory asset and related debt of $7,037 million and $7,106 million for these contracts for FY 1997 and FY 1996, respectively.

Appropriation refinancing asset

The BPA Appropriations Refinancing Act of 1994 required that the unpaid balance, as of September 30, 1996, of the Federal Columbia River Power System (FCRPS) capital appropriations, which BPA is obligated to set rates to recover, be reset and assigned prevailing market rates. As a result, BPA assumed the liability to repay the unpaid balance of capital appropriations of the power generating assets of the Corps of Engineers and the Bureau of Reclamation associated with the FCRPS. In accordance with SFAS No. 71, an offsetting regulatory asset was established in FY 1997 which represents the ability of BPA to repay this appropriated capital from the proceeds of power sales generated from the Corps and Bureau of Reclamation assets.

Conservation and fish and wildlife projects

The conservation and fish and wildlife projects consist of facilities constructed by BPA for the protection, enhancement, and mitigation of fish and wildlife losses attributed to the development and operation of hydroelectric projects on the Columbia River and its tributaries pursuant to Section 4(h) of the Northwest Power Act. BPA pays for the construction of the facilities and recovers the costs in rates but does not retain ownership of the facilities. These facilities are amortized and recovered in rates over a 15 year period.

8. Custodial Assets

(in millions)

	Funds in Treasury (Note 2)	Investments (Note 3)	Accounts Receivable (Note 4)	Petroleum Reserve	Total
Fiscal Year 1997					
Petroleum Pricing Violation Escrow Fund		$500	$132		$632
Oil held in Strategic Petroleum Reserve for DOD				$106	106
Other custodial assets	$30	2			32
Total custodial assets	$30	$502	$132	$106	$770
Fiscal Year 1996					
Petroleum Pricing Violation Escrow Fund		$597	$174		$771
Oil held in Strategic Petroleum Reserve for DOD				$106	106
Other custodial assets	$37	4			41
Total custodial assets	$37	$601	$174	$106	$918

Petroleum Pricing Violation Escrow Fund

Pursuant to the Emergency Petroleum Allocation Act of 1973, DOE is responsible for recovering oil pricing overcharges and making restitution to injured parties. Monies received are invested in Treasury securities and minority financial institutions pending disbursement to injured parties or returned to the Treasury's general fund.

Oil Held in Strategic Petroleum Reserve for DOD

The FY 1993 Defense Appropriations Act authorized DOE to acquire, transport, store and prepare for ultimate drawdown of crude oil for the Department of Defense (DOD). The crude oil purchased with DOD funding is commingled with DOE stock and is held for DOD's future use.

Other Custodial Assets

Other custodial assets include funds in various Treasury deposit and special receipt accounts which are not available to fund DOE's operations

.9. Debt

(in millions)

	FY 1997	FY 1996
Intragovernmental Debt		
Borrowing from Treasury	$2,499	$2,456
Refinanced appropriations	6,584	
Subtotal	$9,083	$2,456
Governmental Debt		
Non-Federal projects	$7,037	$7,106
Other	129	91
Subtotal	$7,166	$7,197
Total debt	$16,249	$9,653

Borrowing from Treasury

To finance its capital programs, the Bonneville Power Administration is authorized to issue to Treasury up to $3,750 million of interest-bearing debt with terms and conditions comparable to debt issued by U.S. government corporations. A portion ($1,250 million) is reserved for conservation and renewable resource loans and grants. At September 30, 1997, $589 million of the outstanding debt was for conservation and renewable resource loans. The average interest rate of BPA's long-term debt exceeds the rate which could be obtained currently. As a result, the fair value of BPA's long-term debt, based on discounting future cash flows using rates offered by Treasury as of September 30, 1997, for similar maturities, exceeds carrying value by approximately $303 million. BPA's policy is to refinance debt that is callable when associated benefits exceed costs of refinancing.

Refinanced appropriations

The BPA Appropriations Refinancing Act of 1994 required that the unpaid balance, as of September 30, 1996, of the Federal Columbia River Power System (FCRPS) capital appropriations, which BPA is obligated to set rates to recover, be reset and assigned prevailing market rates. The amount of appropriations refinanced was $6.6 billion, the majority of which represented the unpaid capital appropriations of the Corps of Engineers and the Bureau of Reclamation. (See Note 7)

Non-Federal projects

As discussed in Note 7, the non-Federal projects debt represents BPA's liability to pay all or part of the annual budgets, including debt service, of the generating capability of five nuclear power plants as well as several hydroelectric projects.

10. Appropriated Capital Owed to Treasury

Appropriated capital owed to Treasury represents the balance of appropriations provided to DOE's power marketing administrations for construction and operation of power projects which will be repaid to Treasury. 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 to Treasury within 50 years from the time the facilities are placed in service or are commercially operational. Replacements to Federal investments are generally to be repaid over their expected useful service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis.

Each of the power marketing administrations, except the Bonneville Power Administration, receives an annual appropriation to fund operation and maintenance expenses. These appropriations totaled $221 million and $300 million in FY 1997 and FY 1996, respectively. These appropriated funds are repaid to Treasury 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. DOE treats these appropriations as a borrowing from Treasury, and as such, the Statement of Operations and Changes in Net Position does not reflect these funds as a financing source.

Except for the appropriation refinancing asset described in Note 7, DOE's financial statements do not reflect the Federal investment in power generating facilities owned by the U.S. Department of Defense, Army Corps of Engineers; the U.S. Department of Interior, Bureau of Reclamation; and the U.S. Department of State, International Boundary and Water Commission. DOE's power marketing administrations are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities.

11. Governmental Accounts Payable

(in millions)

	FY 1997	*FY 1996*
Accrued payroll and benefits	$683	$748
Accounts payable & other accrued expenses	3,109	3,141
Petroleum Pricing Violation Escrow Fund balance payable to injured parties	583	719
Uranium inventories to be transferred to USEC (Note 21)	416	89
Contract holdbacks	61	56
Other	126	134
Total	$4,978	$4,887

12. Deferred Revenues and Other Credits

(in millions)

	FY 1997	*FY 1996*
Nuclear Waste Fund deferred revenues	$8,996	$8,205
Advances	176	160
Petroleum Pricing Violation Escrow Fund	47	52
Total deferred revenues and other credits	$9,219	$8,417

Nuclear Waste Fund 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 Nuclear Waste Fund activities. Annual adjustments are made to defer revenues that exceed the Nuclear Waste Fund expenses.

13. Environmental Liabilities

(in millions)

	FY 1997	*FY 1996*
EM facilities and legacy wastes	$141,321	$190,610
Active facilities	20,708	22,139
Pipeline facilities	8,758	11,420
High-level waste and spent nuclear fuel	6,745	1,421
Other	3,082	3,524
Total environmental liabilities	$180,614	$229,114
Amount funded by current appropriations	(1,148)	(1,165)
Total unfunded environmental liabilities	$179,466	$227,949

FY 1997 changes in environmental liabilities

FY 1997 total environmental liabilities, beginning balance	$229,114
Prior period adjustment (Note 24)	5,271
Adjusted beginning balance	$234,385
Changes to environmental liability estimates	
EM facilities and legacy wastes	($43,309)
Active facilities	(1,409)
Pipeline facilities	(2,662)
High-level waste and spent nuclear fuel	85
Other	(454)
Total changes in estimates	($47,749)
Operating expenditures related to legacy waste activities	(5,552)
Capital expenditures related to legacy waste activities	(470)
FY 1997 total environmental liabilities, ending balance	$180,614

During World War II and the Cold War, the United States developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities that manufactured tens of thousands of nuclear warheads, and conducted more than one thousand nuclear explosion tests.

At all sites where these activities took place, some environmental contamination occurred. In this regard, the treatment and storage of radioactive and chemical waste resulted in contamination of soil, surface water, and groundwater and an enormous backlog of waste and dangerous materials. The environmental legacy derived from the process of producing nuclear weapons includes thousands of contaminated areas and 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 waste must be stabilized, safeguarded, and dispositioned, including a quantity of plutonium sufficient to fabricate thousands of nuclear weapons.

In the FY 1996 financial statements, the Department reported an environmental liability totaling $229.1 billion. This liability was largely based on a mid-range estimate of life-cycle costs reported in the FY 1996 Baseline Environmental Management Report (BEMR). This report was published by our Office of Environmental Management (EM) pursuant to the requirements of the 1994 National Defense Authorization Act. The BEMR estimate represented life cycle costs beginning in FY 1996 and ending in 2070, when environmental activities were projected to be substantially completed.

During the latter part of FY 1996, DOE embarked on a new vision for addressing the legacy of the cold war and disposing of nuclear materials and waste. The vision is the cleanup of most of the EM nuclear sites (except for some waste streams at a small number of sites) by 2006, while complying with compliance agreements and other legal obligations. The proposed strategy, which was communicated in a June 1997 Discussion Draft "Accelerating Cleanup: Focus on 2006" (hereafter referred to as the "2006 Plan") to Tribal Nations and stakeholders, provided the basis for the FY 1997 estimates developed by DOE sites[1].

Changes to FY 1996 Estimates

Revised estimates resulted in a net decrease of $47,749 million in environmental liabilities during FY 1997. The revised estimates for EM facilities and legacy wastes reflect reductions in surveillance and maintenance, program direction, and other costs resulting from earlier completion of remediation activities; cost savings due to privatization of certain projects, resequencing of activities, improved sharing of resources between sites, and other changes in the remediation approach; changes in end-state assumptions for certain facilities and sites (e.g., demolition/greenfield to deactivation/industrial re-use); and continuing efforts to improve productivity and reduce indirect costs. The revised estimate for pipeline facilities is largely due to a change in decontamination and decommissioning assumptions for certain facilities. The revised estimate for active facilities resulted from reductions in cleanup scope and changes to cost estimating models. Examples of changes to the cost estimating models, which represent the bulk of the decrease, include: inflation of stabilization/deactivation unit cost factors, assumptions regarding the duration and level of annual surveillance and maintenance, the use of the Automated Remediation Assessment Methodology for generating decommissioning cost, and changes in waste management and support cost multipliers from FY 1996 to FY 1997.

Legacy Wastes and Surplus Facilities 2006 Plan Estimate (FY 1997)

In FY 1997, the Department developed life cycle cost estimates consistent with the 2006 strategic vision based on two potential funding scenarios for the EM program: one that assumes a $6.0 billion annual funding level and another that assumes a $5.5 billion annual funding level. Each of the Operations/Field Offices was directed to develop a draft site 2006 Plan that analyzed each of those scenarios on the basis of allocations set in accordance with each Office's proportion of the fiscal year 1998 budget request. The two potential funding scenarios formed the range of the 2006 Plan environmental liability where the high funding provides the basis for the low end of the range and the low funding provides the basis for the high end. The estimates were reported in the June 1997 Discussion Draft in 1998 constant dollars. For financial statement reporting purposes, the Department deducted costs associated with waste generated from current and future operations, subtracted FY 1997 costs, and adjusted the estimates to FY 1997 constant dollars. The range, after adjustments, reflects a low end of $136.0 billion and a high end of $147.4 billion. The Department recognized $141.3 billion as the better estimate within the range.

The 2006 Plan cost and schedules were based on meeting existing compliance agreements, including milestones for as long as they were established, consistent with existing Federal, State and/or local statutes and/or regulations. Information included cost and schedule estimates for environmental restoration; nuclear material and facility stabilization; and waste treatment, storage, and disposal activities at each installation. It also includes costs for related activities such as landlord responsibilities, program management, and legally prescribed grants for participation and oversight by native American tribes and regulatory agencies.

Active Facilities

Environmental liabilities for active facilities represent anticipated remediation costs for those facilities that are conducting ongoing operations but will ultimately require stabilization, deactivation, and decommissioning. The FY 1996 environmental liability for active facilities was $ 22.1 billion, which was considered to be the best estimate in the range between $13.8 billion and $37.8 billion. In FY 1997, the Department modified its estimating methodology and developed a point estimate of $20.7 billion which it recognized as its environmental liability for active facilities. This estimate is not based on costs determined by remediation/feasibility studies performed at the active sites. Rather, cost estimating models were used to estimate costs of remediating sites with matching conditions. Such models were used to extrapolate stabilization, deactivation, and decommissioning costs for contaminated active facilities and structures not included in the 2006 Plan or the FY 1996 BEMR.

BEMR (Pipeline Facilities/Activities)

While the 1996 BEMR estimate included the cost for facilities scheduled to be transferred to the EM Program from other Departmental programs, the 2006 Plan estimate does not. In circumstances where additional cost estimating techniques were not applied to the pipeline facilities/activities during FY 1997, the BEMR (adjusted for inflation) continues to be used as it reflects the most comprehensive analysis of life cycle

[1]In Fiscal Year 1998, DOE will publish a Draft National 2006 Plan to accelerate the cleanup of most of EM's sites by 2006. The Draft National 2006 Plan will reflect estimates updated since the June Discussion Draft and subsequent to the end of fiscal year 1997.

costs. Where decisional changes in assumptions resulted in a material difference from the amounts in the BEMR, adjustments were made to reflect the assumptions. For example, the estimate for pipeline facilities was decreased due to a revised estimate for decontamination and decommissioning (D&D) of the gaseous diffusion plants near Portsmouth, Ohio and Paducah, Kentucky. Both of these facilities are currently under lease to the United States Enrichment Corporation and no date has been identified for the end of operations at either plant. However, a new estimate was prepared for the D&D of these facilities based on a contract which resulted in a reduction in the cost to remove the process equipment from three gaseous diffusion buildings.

High-Level Waste and Spent Nuclear Fuel

The Nuclear Waste Policy Act of 1982 established DOE's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel. The Act requires that owners and generators of nuclear waste pay the full cost of the program and, to that end, establishes a fee which DOE must collect and annually assess to determine its adequacy.

The total-system life cycle cost for a surrogate single repository system without interim storage was estimated in FY 1995 at $33,100 million ($35,745 million in constant FY 1997 dollars). Yucca Mountain, Nevada, was assumed as the location for the repository since it is the only site that DOE is authorized by law to characterize, but this does not constitute a predecision that Yucca Mountain is an acceptable site. Cost estimates for additional scenarios including a two-repository system with interim storage were not developed since DOE did not have current cost information or designs for a second repository and interim storage.

To estimate the share of the total-system costs that should be allocated to the disposal of DOE's high-level waste and spent nuclear fuel, the methodology announced by DOE in the *Federal Register* in August 1987 was used. As of September 30, 1997, DOE's share of the total-system life cycle cost in FY 1997 dollars is estimated to be $6,947 million. In addition, interest accrued for DOE's share of costs incurred for the program in excess of DOE's contributions to the Nuclear Waste Fund totaled $496 million. DOE's contributions to the program from annual appropriations totaled $698 million. As a result, DOE's net unfunded liability for its share of costs for the disposal of high-level waste and spent nuclear fuel totaled $6,745 million as of September 30, 1997.

As of September 30, 1996, DOE accrued a liability totaling $1,421 million. This primarily represented DOE's share of unpaid costs incurred for the program plus accrued interest. During FY 1997, DOE recorded a prior period adjustment of $5,271 million to recognize its share of the total-system life cycle costs associated with the disposal of its high-level waste and spent nuclear fuel.

Since the total-system life cycle cost estimate was prepared in FY 1995, a number of changes in the program have occurred. The estimate has not been modified to reflect changes necessitated by an updated repository design or for changes in the volume and type of defense waste to be stored. During FY 1997, Congress directed DOE to issue a Viability Assessment, including a detailed cost estimate, of the repository by the end of FY 1998. DOE has elected to update the total-system life cycle cost estimate and complete it in conjunction with its FY 1998 Viability Assessment. DOE did, however, prepare a preliminary interim cost estimate during FY 1997 that indicated that disposal fees for defense high-level waste and spent nuclear fuel could increase by as much as $1.8 billion over the FY 1995 estimate, to $8.8 billion in FY 1997 dollars. DOE expects to complete the Viability Assessment and update the estimate during FY 1998 at which time it will adjust the accrual for spent nuclear fuel and high-level waste disposal.

Other Unfunded Environmental Liabilities

Dispositioning of excess plutonium

The Nuclear Weapons Council declared in December 1994, leading to the Secretary of Energy's announcement in February 1996 that 38.2 metric tons of weapons grade plutonium was excess to national security needs. DOE also designated a quantity of non-weapons grade plutonium as excess. DOE has considered a variety of disposition methodologies for this excess material. In December 1996, DOE selected a preferred alternative for the storage and disposition of the excess plutonium. The preferred alternative is to reduce, over time, the number of locations where the various forms of plutonium are stored, while the preferred alternative for disposition is to pursue a strategy that allows for immobilization of excess plutonium in glass or ceramic forms and burning of the excess material as mixed oxide fuel in existing reactors. A formal record of decision regarding the storage and disposition methodology was announced by the Secretary of Energy in January 1997. DOE has recognized a $2.2 billion unfunded liability in the FY 1997 financial statements to reflect the estimated cost in constant 1997 dollars of the preferred alternative. FY 1998 events including the development of updated cost estimates, identification of savings from reduced plutonium storage sites, and issuance of a record of decision selecting specific sites for plutonium disposition facilities may result in adjustments to the liability in subsequent fiscal years.

Dispositioning of excess highly enriched uranium waste

The Nuclear Weapons Council declared in December 1994, leading to the Secretary of Energy's announcement in February 1996, that 174.3 metric tons of DOE's highly enriched uranium (HEU) was excess to national security needs. Most of this material will be blended for sale as low-enriched uranium (LEU) and used over time as commercial nuclear reactor fuel to recover its value. Material that could not be economically recovered was originally planned to be blended to LEU for disposal as low-level waste. DOE recorded a $592 million unfunded liability in FY 1996 for the disposition of 26.1 metric tons of surplus HEU estimated to be waste. After further evaluation of the material in FY 1997, it has been determined part of this material will now be sold for use as reactor fuel. The remaining part, the majority of the material, is already in the form of irradiated fuel, which requires no processing prior to disposal. Therefore, the $592 million unfunded liability for blending 26.1 metric tons of surplus HEU was reduced to zero in FY 1997.

Deactivation and decommissioning of inactive naval reactors facilities

Deactivation and decommissioning liabilities totaling $833 million for inactive naval facilities represent anticipated remediation costs for those facilities at the Pittsburgh and Schenectady Naval Reactors Offices that have ceased operations. The methodology used for estimating the environmental liabilities for these facilities was similar to the approach used in estimating the liabilities for active facilities in that experiences of similar types of facilities further along in the decommissioning process were used as a basis for determining the estimate.

Assumptions

Estimating the cost of DOE's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of DOE's environmental management program will depend on a number of fundamental technical and policy choices, many of which have not been made. Ultimately, these decisions will be made on the basis of fulfilling Congressional mandates, regulatory direction, and stakeholder input. Congressional appropriations at lower than anticipated levels would cause increases in life cycle costs.

The cost and environmental implications of alternative choices can be profound. For example, many contaminated sites and facilities could be restored to a pristine 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 pristine conditions would have a higher cost but may or may not warrant the costs and potential ecosystem disruption or be legally required.

The following key assumptions were used in estimating the environmental liability:

- DOE 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/or regulatory decisions have not been made for most 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 restoration costs.

- The Waste Isolation Pilot Plant will open in 1998.

- The first geological repository for high-level radioactive waste will open in 2010. At that time, it will accept spent nuclear fuel from commercial utilities. In 2016, the repository will begin accepting defense high-level waste and will begin accepting DOE-owned fuel shortly thereafter. An uncertainty relating to projected waste dispositioning costs is that current projections of legacy waste volume exceed storage capacity. This could result in significant cost growth in out years as additional storage capacity is acquired.

- Project baselines anticipate savings from enhanced productivity. However, it is possible that some projected savings may not be achieved.

- Only existing technologies, such as pumping and treating groundwater, are assumed to be available for estimating cleanup costs. Estimates were based on remedies considered technically and environmentally reasonable and achievable by local project managers and appropriate regulatory authorities.

- Environmental cleanup will be considered substantially complete when all sites have been remediated and when wastes generated from previous activities and from remediation and stabilization activities are safely disposed.

- Projects with no current feasible remediation approach are excluded from the estimate. The cost estimate would be higher if some remediation were assumed for these areas for which complete cleanup is not technically feasible with existing technologies. However, because no effective remedial technology could be identified, no basis for estimating cost was available. Significant projects excluded are:

  - nuclear explosion test areas (e.g., Nevada Test Site);
  - large surface water bodies (e.g., Clinch and Columbia rivers); and
  - most contaminated ground water (even with treatment, future use will remain restricted)

- Costs related to the disposition of depleted uranium hexafluoride (UF_6) are excluded from the estimate. DOE published a draft programmatic environmental impact statement (PEIS) in December 1997, which assesses several strategies for the long-term management of approximately 560,000 metric tons of depleted UF_6. The draft PEIS identifies a preferred alternative strategy that would use 100 percent of the Department's depleted UF_6 either as uranium oxide, uranium metal, or a combination of both. However, the draft PEIS acknowledges that potential uses that are capable of consuming a substantial fraction or all of the depleted uranium inventory are yet to be fully developed. Recognizing this uncertainty, DOE estimates in its September 1997, *Cost Analysis Report for the Long-Term Management of Depleted Uranium Hexafluoride*, that the cost of depleted UF_6 disposition will range from $1.6 billion to $3.9 billion.

In addition to the assumptions and exclusions identified above, another factor that could affect the certainty of the estimate include the adjustment to FY 1997 dollars which is required under Federal accounting standards. Any potential increases caused by future inflation could result in costs that are substantially higher than the recorded liability.

14. Pension and Other Actuarial Liabilities

(in millions)

	FY 1997	*FY 1996*
Contractor pension plans	$283	$204
Contractor postretirement benefits other than pensions	5,986	5,896
Federal employee workers' compensation benefits	59	54
Contractor disability and life insurance plans	20	18
Total actuarial liabilities	$6,348	$6,172
Less funded actuarial liabilities	(40)	(37)
Total unfunded actuarial liabilities	$6,308	$6,135

Most of DOE's contractors have defined benefit pension plans under which they promise to pay specified benefits to their employees, such as a percentage of the final average pay for each year of service. DOE's cost under the contracts includes reimbursement of annual contractor contributions to these pension plans. DOE's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits. In the past, these costs were recognized on a pay-as-you-go or cash basis. Since DOE approves the contractors' pension and postretirement benefit plans and is ultimately responsible for funding the plans, the responsibility for any related liabilities rests with DOE.

DOE also reimburses the Department of Labor for Federal employee workers' compensation benefits. An unfunded liability is reported based on the Department of Labor's actuarial estimate of DOE's liability for future workers' compensation benefits. DOE also reimburses its major contractors for employee disability insurance plans and actuarial estimates are recorded as unfunded liabilities for these plans.

Contractor Pension Plans

DOE adopted SFAS No. 87, *Employers' Accounting for Pensions*, beginning in FY 1996 for contractor employees, for whom DOE has a continuing pension obligation. As of September 30, 1997, DOE has prepaid pension costs of $283 million and accrued pension costs of $283 million. Contractor plans include both qualified and unqualified plans with a variety of benefit formulas, consisting of final average pay, career average pay, dollar per month of service, and defined contribution plan with future contributions for retired employees. The plans cover union and/or nonunion employees.

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

Plan assets generally include cash and equivalents, stocks, corporate bonds, government bonds, real estate, venture capital, international investments, and insurance contracts.

Assumptions and methods

In order to provide consistency among the various DOE contractors, certain standardized actuarial assumptions were used. These standardized assumptions include the discount rates 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 3.5 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 in determining the pension estimates:

The weighted average discount rates of 7.75 percent for FY 1997 and 7.5 percent for FY 1996 were used, the average long-term rate of return on assets was 8.2 percent in FY 1997 and 8.5 percent in FY 1996, and the average rate of compensation increase was 4.9 percent in FY 1997 and 5.0 percent in FY 1996 in determining the net periodic pension cost.

The weighted average discount rates used to determine the vested benefit obligation, accrued benefit obligation, and projected benefit obligation as of September 30, 1997 and 1996 were 7.0 percent and 7.75 percent respectively.

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

Table 1 sets forth the vested benefit obligation, accrued benefit obligation, projected benefit obligation, plan assets, and a reconciliation of the funded status to the prepaid/(accrued) pension cost after minimum liability. Table 2 sets forth the components of net periodic pension cost for FY 1997.

Table 1 *(in millions)*

	FY 1997	FY 1996
Vested benefit obligation	$ (10,475)	$ (8,748)
Accrued benefit obligation	(11,354)	(9,310)
Projected benefit obligation:		
Projected benefit obligation	(13,462)	(11,142)
Plan assets	17,584	14,185
Funded status	$ 4,122	$ 3,043
Unrecognized transition asset	(1,590)	(1,696)
Unrecognized prior service cost	28	-
Unrecognized gain	(2,438)	(1,347)
Prepaid/(accrued) pension cost	$ 122	$ 0
Adjustment required to reflect minimum liability	(122)	(120)
Prepaid/(accrued) pension cost after minimum liability	$ 0	$ (120)
Total prepaid pension cost after minimum liability	283	84
Total accrued pension cost after minimum liability	$ (283)	$ (204)

In the interest of brevity, information regarding all defined benefit plans is summarized in a single table. Assets of one plan are not available to satisfy liabilities of another plan

Table 2 *(in millions)*

	FY 1997
Net Periodic Pension Cost:	
Service cost	367
Interest cost	861
Actual return on plan assets	(1,114)
Net amortization and deferral	(150)
Impact of curtailment or special termination benefits	34
Total net periodic pension cost	$ (2)

An expense of $45 million was recognized for special termination benefits at Flour Daniel Hanford Company, Hanford Site. Income of $16 million was recognized for a curtailment at Kaiser Hill Rocky Flats Plant. An expense of $5 million was recognized for a curtailment at Stanford University Stanford Linear Acceleration Center.

Contractor Postretirement Benefits Other Than Pensions (PRB)

DOE adopted SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, beginning in FY 1994 for contractor employees for whom DOE has a continuing obligation. SFAS No. 106 requires that the cost of PRB be accrued during the years that the employees render service. As of September 30, 1997, DOE has an accrued PRB liability of $5,986 million. Prior to FY 1994, PRB costs, consisting of predominantly retiree health care, were recognized as expenses when claims were paid. DOE's contractors sponsor a variety of postretirement benefits other than pensions. Benefits consist of medical, dental, life insurance, and Medicare Part B premium reimbursements. These plans include traditional indemnity plans, PPOs, HMOs with and without gatekeepers, or similar plans. Generally, the PRB plans are unfunded, and DOE's funding policy is to fund on a pay-as-you-go basis. There are 9 contractors, however, that are prefunding benefits in part as permitted by law.

Assumptions and methods

In order to provide consistency among the various DOE 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 were used in determining the PRB estimates:

The medical and drug trend rates for a point of service plan, an HMO, or similar plan for under age 65, grade from 8.5 percent in 1996 down to 5.5 percent in 2002 and later and, for over age 64, grade from 7.0 percent in 1996 down to 5.5 percent in 2002 and later. For a PPO, a traditional indemnity plan, or similar plan, the trend rates for under age 65 grade from 11.0 percent in 1996 down to 5.5 percent in 2002 and later and, for over age 64, grade from 9.5 percent in 1996 down to 5.5 percent in 2002 and later. The dental trend rates at all ages grade down from 7.5 percent in 1996 to 5.5 percent in 2002 and later.

The weighted average discount rates of 7.75 percent for FY 1997 and 7.5 percent for FY 1996 were used, and the average long-term rate of return on assets was 7.36 percent in FY 1997 and 7.33 percent in FY 1996 in determining the net periodic postretirement benefit cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions.

The weighted average discount rates used to determine the accumulated postretirement benefit obligation as of September 30, 1997 and 1996 were 7.0 percent and 7.75 percent, respectively.

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

Table 3 sets forth the components of the accumulated postretirement benefit obligation, plan assets, and a reconciliation of the funded status to the accrued postretirement benefit liability. Table 4 sets forth the components of net periodic postretirement benefit cost for FY 1997. Table 5 sets forth the effect of a one percentage point increase in the assumed health care cost trend rate for each future year.

Table 3 *(in millions)*

	FY 1997	FY 1996
Accumulated Postretirement Benefit Obligation:		
Fully eligible actives	$ (750)	$ (708)
Other actives	(1,850)	(1,918)
Retirees	(2,539)	(2,263)
Total APBO	$(5,139)	$ (4,889)
Plan assets	126	116
Funded status	$(5,013)	$ (4,773)
Unrecognized prior service cost	(98)	(93)
Unrecognized gain	(875)	(1,030)
Accrued postretirement benefit liability	$(5,986)	$ (5,896)

Table 4 *(in millions)*

	FY 1997
Net Periodic Postretirement Benefit Cost:	
Service cost	$ 136
Interest cost	326
Actual return on plan assets	(9)
Net amortization and deferral	(105)
Impact of curtailment	(68)
Total net periodic postretirement benefit cost	$ 280

Income of $68 million was recognized for curtailments at contractors including: Iowa State University Ames Laboratories ($2 million); Flour Daniel Hanford, Inc. Hanford Site ($48 million); Rust Geotech Grand Junction ($16 million); and Lockheed Martin Corporation Sandia Laboratories ($2 million).

Table 5 *(in millions)*

Trend Rate Sensitivity

	Base Valuation	1% Trend Increase
Fiscal Year 1997		
Service cost plus interest cost for health care benefits	$ 423	$ 499
APBO as of Sept. 30, 1997 for health care benefits	$ 4,657	$ 5,354

15. Other Governmental Liabilities (unfunded)

(in millions)

	FY 1997	FY 1996
Environment, safety and health compliance activities	$796	$1,152
United States Enrichment Corporation	242	352
Capital leases	103	141
Accrued annual leave of Federal employees	95	87
Other	81	68
Total other governmental liabilities	$1,317	$1,800

Environment, Safety and Health Compliance Activities

DOE's unfunded environment, safety and health liability represents those activities necessary to bring facilities and operations into compliance with existing environmental, safety and health (ES&H) laws and regulations (e.g., Occupational Safety and Health Act; Clean Air Act; Safe Drinking Water Act). Types of activities included in the estimate relate to the following: upgrading site wide fire and radiological 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 FY 1998 and beyond for programs outside the purview of DOE's Environmental Management (EM) Program. ES&H activities within the purview of the EM program are included in the environmental liability estimate.

United States Enrichment Corporation

DOE has entered into an agreement with USEC that requires DOE to fund certain costs associated with the gaseous diffusion plants leased by USEC. DOE's unfunded liabilities for these costs include nuclear safety upgrades to the plants, security and processing costs for highly enriched material sold to USEC, and decommissioning costs for the plants supplying electrical energy to the gaseous diffusion plants.

Capital Leases

DOE's contractors lease facilities, machinery, equipment and other assets. The assets under capital leases are recorded under the lesser of the present value of minimal lease payments or the fair value of the assets. Unfunded capital lease liabilities generally reflected lease agreements in effect prior to FY 1993. Subsequent capital leases, except for telecommunications and certain computer leases, are required to be funded by existing appropriations.

16. Contingencies

DOE 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. DOE 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 a 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 following are other significant contingencies:

- *Toxic Releases from DOE's Facilities* - DOE's contractors are defendants in a number of class action suits arising from alleged environmental contamination of air, water, and soil affecting communities surrounding various DOE facilities. Collectively, in the most significant cases involving facilities at Rocky Flats, Colorado; Hanford, Washington; Brookhaven, New York; and Paducah, Kentucky the claimants seek in excess of $2.1 billion in damages. DOE's contractors are vigorously contesting all of these cases, but an evaluation of the likely outcome of these claims cannot be estimated at this time.

- *Human Radiation Experiments* - DOE and its contractors are the defendants in a number of individual and class action suits, as well as administrative claims, arising from past human radiation experiments allegedly sponsored or carried out by the Federal government. In the aggregate, the remaining claims seek more than $400 million in damages. Due to the preliminary nature of many of these matters, an evaluation of the likely outcomes of these claims cannot be estimated at this time. While the cases will be vigorously contested, possibilities of settlement will also be pursued.

- *Compliance with the Nuclear Waste Policy Act* - In Indiana Michigan Power Co. v. DOE, the U.S. Court of Appeals for the District of Columbia Circuit found on July 23, 1996 that, in return for payment of fees under the Standard Contract, the Nuclear Waste Policy Act of 1982, as amended (NWPA) creates an unconditional obligation for DOE to commence disposing of utilities' spent nuclear fuel no later than January 31, 1998.

  On January 31, 1997, 36 contract holders and 33 states again filed petitions in the D.C. Circuit in Northern States Power Co. v. DOE for "enforcement" of the Indiana Michigan decision. They asserted that DOE's inability to meet the January 31, 1998 deadline constituted an anticipatory breach of provisions of the Standard Contract. On November 14, 1997, the court ruled that the utilities have a potentially adequate remedy for avoidable delay under the Standard Contract. The court, however, did not grant the request to hold future payments in escrow. On December 12, 1997, Yankee Atomic filed a petition for rehearing. On December 29, 1997, the DOE filed a petition for rehearing and suggestion for rehearing en banc. On January 30, 1998, the states filed a motion for enforcement of a writ of mandamus barring DOE from using the Nuclear Waste Fund to pay costs or damages connected with DOE's alleged breach and also to allow Nuclear Waste Fund payments to be placed in escrow. On February 19, 1998, the 36 utility contract holders filed a motion seeking the same relief, and 5 additional utility holders filed similar petitions.

  The court has not yet acted on any of these petitions and motions; accordingly, DOE is unable to predict the ultimate outcome of this litigation. If the court's decision stands, the Nuclear Waste Fund may be affected if the contract holders pursue and receive equitable adjustments of their fees. However, no claims for equitable adjustment have yet been filed and resolution of any claim will involve highly fact-specific and individualized decisions about the cost incurred by each contract holder as a result of the delay. Moreover, if equitable adjustments of fees substantially impact revenues to the Fund, DOE may be obligated under the NWPA's "full cost recovery" provision to propose offsetting fee adjustments.

  It is also possible that, whether or not the court' decision stands, utilities will sue for breach of contract. On February 18, 1998, Yankee Atomic filed such a suit in the Court of Federal Claims, seeking $70 million in damages. However, it is not possible at this time to estimate the nature or size of such claims, whether they will prevail, or whether any judgments would be payable out of the Judgment Fund, rather than the Nuclear Waste Fund. Therefore, no provision has been made for any loss in the financial statements.

- *Natural Resource Damage Claims* - DOE is disclosing a contingency for potential natural resource damage (NRD) claims filed under the Comprehensive Environmental Response, Compensation, and Liability Act. Such liabilities could result from potential claims filed against DOE for natural resource injuries, primarily those remaining at DOE facilities after cleanup. Although any estimate of such liability is by necessity extremely speculative, the estimated range of DOE's NRD liability is $1.4 billion to $2.5 billion.

  Notwithstanding the potential for such claims, there neither are currently pending claims against DOE nor have there been any successful NRD claims against DOE. DOE's practice of addressing natural resource injuries during the remedy selection process should limit the exposure to potential NRD claims. DOE has initiated other efforts as well that are intended to minimize the potential for NRD claims. These efforts include: creating site-specific advisory boards at its facilities; ensuring participation of interested parties in the remedial planning process; and forming natural resource trustee councils at facilities where there is sufficient interest. In view of the foregoing, DOE currently considers estimating its potential NRD liability speculative and any potential payment less than probable but reasonably possible. Therefore, DOE has not recognized such a liability in its financial statements to date.

- In FY 1995, the Tenaska Washington Partners (Tenaska) and Chase Manhattan Bank (Chase) filed suit against the Bonneville Power Administration (BPA) for breach of contract and lost revenues. In June 1996, BPA reached a settlement which resulted in a payment of $115 million by BPA to Chase. Currently, BPA and Tenaska are in binding arbitration to resolve Tenaska's suit. BPA believes that the factual and legal assertions by Tenaska in support of its $611 million claim are without merit. However, BPA believes that arbitration could result in an award from the Tenaska case in excess of $115 million. There are defenses available to BPA that could result in a lesser award. Any monetary award received by Tenaska in arbitration will be offset by the $115 million paid by BPA to Chase in settlement of Chase's claim, plus interest accruing on this amount. In the event that Tenaska obtains an award in arbitration that is less than the amount BPA paid to Chase, Tenaska will owe BPA the difference. BPA's minimum liability for this matter has been accrued in DOE's financial statements.

17. Unexpended Appropriations

(in millions)

	Appropriated and Reimbursable Funds	Special Funds	Trust Funds	Total
Fiscal Year 1997				
Unobligated				
Available	$1,980	$25		$2,005
Unavailable	622	5		627
Total unobligated	$2,602	$30		$2,632
Undelivered orders	5,724	104	$10	5,838
Unfilled customer orders	(1,963)			(1,963)
Funded environmental liabilities (Note 13)	(1,120)	(28)		(1,148)
Total FY 1997 unexpended appropriations	$5,243	$106	$10	$5,359
Fiscal Year 1996				
Unobligated				
Available	$1,838	$24		$1,862
Unavailable	561	3		564
Total unobligated	$2,399	$27		$2,426
Undelivered orders	6,301	74	$12	6,387
Unfilled customer orders	(1,807)			(1,807)
Funded environmental liabilities (Note 13)	(1,139)	(26)		(1,165)
Total FY 1996 unexpended appropriations	$5,754	$75	$12	$5,841

18. Revenues and Related Costs from Goods and Services Provided

(in millions)

	FY 1997		
	Revenue from Goods and Services Provided	Cost of Goods and Services Provided	Net Revenues (Losses)
Governmental			
Power marketing administrations	$3,329	$2,150	$1,179
Sale of oil from the Naval Petroleum Reserves	488	135	353
Sale of oil from the Strategic Petroleum Reserves	220	241	(21)
Reimbursable and cooperative work	127	136	(9)
Technology transfer program	59	64	(5)
Sale of Russian origin uranium	41	38	3
Strategic alignment initiative asset sales	28	26	2
Other	39	37	2
Total governmental	$4,331	$2,827	$1,504
Intragovernmental			
Reimbursable work	1,249	1,318	(69)
Services performed for the U. S. Enrichment Corporation	515	521	(6)
Power marketing administrations	80	51	29
Other	30	22	8
Total intragovernmental	$1,874	$1,912	($38)
Total	$6,205	$4,739	$1,466

Power Marketing Administrations

DOE's power marketing administrations market electricity generated primarily by Federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations and maintenance costs, repay the capital investments with interest, and assist capital repayment of other features and certain projects.

Sale of Oil from the Naval Petroleum Reserves

Crude oil, natural gas, and liquid gas products produced from the Naval Petroleum Reserves are sold to public customers at bid prices. Proceeds from these sales and royalties from leased acreage are returned to Treasury. DOE's share of FY 1997 production at the Naval Petroleum Reserves totaled 34 million barrels of oil equivalent.

The Naval Petroleum Reserves' lands were set aside in the early 1900's by the U.S. Government. Therefore, no value has been recorded for the crude oil and gas reserves underlying these lands and no costs are reflected for the depletion of the reserves.

Sale of Oil from the Strategic Petroleum Reserve

During FY 1997, DOE sold 10.2 million barrels of oil from the Strategic Petroleum Reserve. The $220 million proceeds from this sale were returned to Treasury.

Reimbursable and Cooperative Work

DOE performs work for other Federal agencies and private companies on a reimbursable work basis and on a cooperative work basis. Whereas reimbursable work is generally not DOE's direct mission, but part of the customer's mission, cooperative work is part of DOE's direct mission. Reimbursable work is financed by funds of Federal agencies ordering the work or by cash advances from non-Federal customers, and DOE receives no appropriated funds for such work or services. Cooperative work, however, is financed by funds appropriated to DOE that may be used in a cooperative effort with one or more Federal or non-Federal participants. Authorities for DOE to perform reimbursable work include the Economy Act of 1932, the Atomic Energy Act of 1954, Intergovernmental Cooperation Act of 1968, Department of Energy Organization Act of 1990, and Intergovernmental Personnel Act of 1970. Authorities for performance of cooperative work include Public Law 98-438, the Energy Reorganization Act of 1974, section 107(a), and

Public Law 95-224, the Federal Grant and Cooperative Agreements Act of 1977.

DOE's policy is to establish prices for materials and services provided to public entities at the Department's full cost and to other Federal agencies at the Department's full cost less depreciation. In some cases, the full cost information reported by DOE in accordance with OMB's Statement of Federal Financial Accounting Standards Number 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 a conditional waiver granted by OMB, which provide DOE authority to charge customers an amount less than the full cost of the product or service. In these instances, DOE will generally waive Departmental overhead charges for other Federal agencies and both Departmental overhead and depreciation for public entities, resulting in a net loss on these activities.

Technology Transfer Program

DOE 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. This program is primarily implemented through Cooperative Research and Development Agreements between DOE's laboratories and the private sector (may include industry, non-profits , universities, state or local governments, or individuals). The non-Federal party may provide funds, personnel, services, facilities, equipment or other resources to conduct specific research and development work consistent with the mission of the laboratory.

Sale of Russian Origin Uranium

The USEC Privatization Act provided that the United States Enrichment Corporation, pursuant to the Russian HEU Agreement, transfer to DOE the natural uranium equivalent associated with at least 18 metric tons of Russian origin highly enriched uranium purchased from the Russian Executive Agent. The Russian HEU Agreement was executed to help meet U.S. nuclear nonproliferation objectives as well as to provide greater economic stability to Russia. A total of 5,512 metric tons of natural uranium was transferred to DOE in December 1996, in accordance with a memorandum of agreement between the USEC and DOE.

In accordance with the provisions of the Act, DOE must sell this uranium over a seven year period. During FY 1997, 1,446 metric tons of this material was sold to Global Nuclear Services and Supply Limited, the Russian Executive Agent's representative.

Services Performed for the U.S. Enrichment Corporation (USEC)

USEC leases DOE's gaseous diffusion plants. While DOE does not receive payment from USEC for the lease, USEC does pay for all services provided by DOE or its contractors. Most of the reimbursements are for the cost of providing electricity to operate the gaseous diffusion plants.

19. Interest

	(in millions) *FY 1997*
Intragovernmental	
Nuclear Waste Fund	$420
Uranium Enrichment D&D Fund	49
Petroleum Pricing Violation Escrow Fund	36
Other	36
Subtotal	$541
Governmental	
Nuclear Waste Fund	111
Total interest revenues	$652

Intragovernmental interest is earned on DOE's investments in Treasury notes as described in Note 3. Governmental interest for the Nuclear Waste Fund is earned on amounts owed by owners and generators of civilian spent nuclear fuel and high-level radioactive wastes.

20. Other Revenues and Financing Sources

(in millions)

	FY 1997
Nuclear Waste Fund	$590
Federal Energy Regulatory Commission	208
Petroleum Pricing Violation Escrow Fund	238
OPM retirement benefits	94
Uranium Enrichment Decontamination and Decommissioning Fund	37
Other	20
Total	$1,187

Nuclear Waste Fund

The Nuclear Waste Policy Act of 1982 requires DOE 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 Titles I and II of the Act. Fees assessed in FY 1997 totaled $585 million. An additional $5 million was earned from the net gains from activities related to the investment of Treasury securities.

Federal Energy Regulatory Commission

The Federal Energy Regulatory Commission (FERC) is an independent regulatory organization within DOE which is responsible for setting rates and charges for the transportation and sale of natural gas and for the transmission and sale of electricity and the licensing of hydroelectric power projects. FERC assesses most of its administrative program costs as an annual charge to each regulated entity. These revenues are returned to Treasury when collected.

Petroleum Pricing Violation Escrow Fund

DOE recognized $238 million in revenues in FY 1997 from oil overcharge reimbursements that were deferred in prior years pending a determination of how to distribute funds from the Petroleum Pricing Violation Escrow Fund. In FY 1997, DOE determined that these funds were not needed to settle claims from injured parties and returned the funds, along with $41 million in accrued interest to Treasury.

OPM Retirement Benefits

An imputed financing source and program expense is recognized for the estimated annual costs in excess of DOE contributions for Federal employee retirement benefits. These costs will ultimately be funded by the Office of Personnel Management and are therefore reported by DOE as an imputed financing source.

Uranium Enrichment Decontamination and Decommissioning Fund

Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Revenue recognized includes known adjustments for transfers between utilities and other reconciliation adjustments. Increases in current and future assessments due to changes in the Consumer Price Index are recognized in each fiscal year as such changes occur.

21. Receipts Transferred to Treasury and Other Agencies

(in millions)

	FY 1997
Power marketing administrations	($437)
Naval Petroleum Reserves	(513)
Strategic Petroleum Reserve	(220)
Federal Energy Regulatory Commission	(205)
Petroleum Pricing Violation Escrow Fund	(279)
Strategic alignment initiative asset sales	(22)
Other	(57)
Total	($1,733)

Power Marketing Administrations

Each of the power marketing administrations, except for the Alaska Power Administration, is responsible for collecting and remitting to Treasury revenues attributable to the hydroelectric power projects owned and operated by the U.S. Department of Defense, Army Corps of Engineers; the U.S. Department of Interior, Bureau of Reclamation; and the U.S. Department of State, International Boundary and Water Commission.

Naval Petroleum Reserves

Proceeds from the sale of crude oil, natural gas, and liquid gas products produced from the Naval Petroleum Reserves totaling $486 million in FY 1997 were returned to Treasury. An additional $27 million representing the joint interest costs at the Naval Petroleum Reserves in California reimbursed to DOE by Chevron USA, Inc. was also returned to Treasury.

22. Other Expenses

(in millions)

	FY 1997
Excess nuclear materials and weapons components	$1,259
Change in capitalization threshold	694
Interest	514
Provision for net loss on USEC inventory transfers	184
Federal Energy Regulatory Commission	172
Energy Information Administration	75
Office of Inspector General	31
Other	78
Total	$3,007

Excess nuclear materials and weapons components

DOE reduced the value of the nuclear materials stockpile in FY 1995 and 1996 based on materials that were declared excess to national security needs and for which there was no non-defense programmatic requirement for the materials within the Department. During FY 1997, a determination was made that additional nuclear materials and weapon components were excess to national security and programmatic needs, which resulted in a loss of $1,259 million.

Change in capitalization threshold

In FY 1997, DOE raised its capitalization threshold from $5,000 to $25,000 for all field elements except the power marketing administrations. This change in accounting policy resulted in a charge to expense during FY 1997 of $694 million.

Interest

Interest consists primarily of $230 million accrued on BPA borrowing from Treasury, $146 million from accrued interest on BPA bonds, and $140 million accrued on the unpaid balance of appropriated capital owed to Treasury by the remaining power marketing administrations.

Provision for net loss on USEC inventory transfers

DOE recognized an estimated loss of $184 million during FY 1997 related to nuclear materials inventory transfers mandated by Public Law 104-134, the United States Enrichment Corporation Privatization Act of 1996. Pursuant to the law, the United States Enrichment Corporation (USEC) transferred uranium hexafluoride with a carrying value of $143 million to DOE for sale to Russia and others. The law also requires DOE to transfer up to 50 metric tons of highly enriched uranium and up to 7,000 tons of natural uranium to USEC. The total book value of uranium to be transferred to USEC is approximately $416 million. This amount is recorded as a liability on DOE's financial statements and represents an increase of $327 million from the FY 1996 estimated liability balance. The net of the $327 million increase in the liability and the $143 million carrying value of uranium transferred from USEC to DOE resulted in the net current year loss of $184 million.

Energy Information Administration

The Energy Information Administration functions as an independent statistical/analytical agency, develops and maintains a comprehensive energy database, publishes a wide variety of energy reports and analysis as required by law, and responds to energy information inquiries from DOE decision- and policy-makers, the Congress, other government entities, and the general public. Information disseminated includes data on energy reserves, production, distribution, consumption, prices, technology, and related international economic and financial market information.

Office of Inspector General

The Office of Inspector General conducts investigations, audits, and inspections to detect and prevent fraud, abuse, and violations of law, and promotes economy, efficiency, and effectiveness of DOE operations.

23. Unfunded Liability Adjustments

(in millions)

	FY 1997
Environmental liability adjustments (see Note 13)	($47,749)
Environment, safety and health liability adjustments	(356)
Total unfunded environmental and ES&H liability adjustments	($48,105)

24. Prior Period Adjustments

(in millions)

	FY 1997
High-level waste and spent nuclear fuel	($5,271)
Correction of prior accumulated depreciation expense	(174)
Fast Flux Test Facility	136
Write-down of legacy waste facilities and equipment	(749)
Other	(12)
Total	($6,070)

High-level waste and spent nuclear fuel

As discussed in Note 13, DOE accrued an environmental liability totaling $1,421 million in FY 1996 for its share of unreimbursed nuclear waste fund program costs incurred, plus accrued interest. During FY 1997, DOE recorded a prior period adjustment of $5,271 million to recognize its share of the total-system life cycle costs associated with the disposal of its high-level waste and spent nuclear fuel.

Correction of prior period accumulated depreciation expense

Errors in recording depreciation and related capitalization entries in prior years were corrected in FY 1997.

Fast Flux Test Facility (FFTF)

The FFTF was written off in FY 1995 after DOE determined that the FFTF had no further research mission. In January 1997, DOE directed that the FFTF be held in standby until a final decision could be made as to whether or not it was needed for tritium and/or medical isotope production. The decision to place the FFTF in standby resulted in an increase to capitalized property, plant, and equipment and invested capital.

Write-down of legacy waste facilities and equipment

DOE changed its capitalization practices related to environmental management processing facilities and equipment during FY 1995. DOE implemented the guidance of the Financial Accounting Standards Board (FASB) Emerging Issues Task Force Issue 90-8, *Capitalization of Costs to Treat Environmental Contamination*. This guidance requires the expensing of facilities that treat, store, or dispose of existing wastes generated by past operations (legacy facilities and equipment). Analysis conducted in FY 1997 identified additional facilities and equipment resulting in write-downs of capitalized property.

25. Other Matters

Disposition of Depleted Uranium Generated by the U.S. Enrichment Corporation

Pursuant to Section 3109(a)(3) of the U.S. Enrichment Corporation (USEC) Privatization Act of 1996, DOE will assume responsibility for disposal of depleted uranium generated by USEC between July 1, 1993, and the privatization date. This responsibility is dependent on formal establishment of a private corporation to receive the assets and obligations of USEC and continue its business operations, as well as an execution of a Memorandum of Agreement between the Office of Management and Budget (OMB) and USEC to implement the requirements of Section 3109 of the Act.

As of September 30, 1997, the private corporation had not been established nor had negotiations between OMB, USEC and DOE been finalized. In December 1997, DOE published a Draft Programmatic Environmental Impact Statement for Alternative Strategies for the Long-Term Management and Use of Depleted Uranium Hexaflouride. While this assessment did not address the USEC generated depleted uranium requiring disposal because of uncertainties regarding its future management, it did identify a preferred alternative strategy for use of 100 percent of the Department's depleted UF_6, either as uranium oxide, uranium metal, or a combination of both.

Once the Memorandum of Agreement between OMB and USEC is finalized and uncertainties regarding future management of the USEC generated depleted uranium are resolved, the Department may include this material in future assessments. Such assessments could identify potential alternative uses for the USEC generated depleted uranium. Accordingly, no provision for the cost of disposal is included in these financial statements.

Sale of the Naval Petroleum Reserve No. 1 (NPR-1)

NPR-1 is one of the 11 largest oil and natural gas fields in the lower 48 states. Originally set aside in the early 1900's to ensure a future source of crude oil for the U.S. Navy, the field no longer serves a national security purpose and has been in commercial production since Congress authorized its development in 1976. NPR-1 reached peak production of 181,000 barrels of oil a day in 1981. Oil production averaged 57,500 barrels of oil per day during FY 1997.

As required by the FY 1996 National Defense Authorization Act, DOE offered NPR-1 for sale during FY 1997. In October 1997, DOE announced that Occidental Petroleum Corporation had submitted the highest responsible offer at $3.65 billion for all of DOE’s interest in NPR-1. DOE completed the sale in February 1998. In accordance with a settlement agreement involving land claims related to the sale, 9% of the net sale proceeds will be paid to the state of California.

Formerly Utilized Sites Remedial Action Program

DOE transferred the Formerly Utilized Sites Remedial Action Program (FUSRAP) to the U.S. Army Corps of Engineers effective October 1997. The estimated remediation costs included in DOE’s environmental liability as of September 30, 1997, totaled $1.4 billion.

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