



# Memorandum

**To:** ISO Board of Governors

**From:** Roger Collanton, VP, General Counsel and Chief Compliance Officer

**Date:** June 24, 2015

**Re:** Decision on Lincoln operations center budget

---

***This memorandum requires Board action.***

## EXECUTIVE SUMMARY

This memorandum is to request Board approval for funding to design, permit, construct, and occupy a new back-up operations center in Lincoln, California. Management will recommend selection of a reputable design-build team as the contractor for the project, based upon the completion of a competitive bidding and evaluation process.

***Moved that the ISO Board of Governors approves the capital project budget of \$30.4 million for the purpose of constructing the Lincoln operations center and related costs.***

## DISCUSSION AND ANALYSIS

The lease for the ISO's current back-up control room and data center in Alhambra, CA will expire in August 2017. The current facility does not meet our needs, including presenting significant challenges in maintaining current best practices in physical security, particularly when the recently adopted NERC physical security requirements (CIP Version 5) take effect. The current building is in the middle of an office park, without the possibility to enhance physical security to maintain best practices, such as full perimeter fencing, and needed distance between the property line and the control room.

Given the lease expiration and the various shortcomings with the existing facility, Management has assessed possible alternative locations throughout California. Various risk factors have been considered and evaluated to select a location for a new back-up control room, data center, and business continuity building. These factors include the potential for disruption of the facility from natural causes (e.g. floods and earthquakes); and the suitability of the location and physical facilities, such as transportation, distance from the main Folsom campus, high-speed networking, and located within the service area of a different power service provider than at the primary Folsom location.

Through this review, the Lincoln location was determined to adequately meet the needs for the ISO's business continuity while providing a superior alternative to the existing facility. The Lincoln site is not in a flood plain and is considered a more seismically stable area. Transportation is abundant and it will be accessible from many different routes, as well as being only a short distance from the Lincoln airport. Adequate high-speed networking is available, amenities are within a reasonable distance, and power services are available from a separate provider than the Folsom campus.

In addition, the location is only about 25 miles from the Folsom campus. While this distance is significant enough to reduce the likelihood that a contingency event affecting Folsom would also affect the back-up facility, it is close enough to allow for full integration of all staff into the Sacramento area facilities. Thus, the proposed design and use of the new Lincoln operations center will; eliminate the need for two training facilities, increase efficiency in staff rotations, reduce travel and other operational expenses, in addition to facilitating compliance with all NERC CIP version 5 requirements.

**BUDGET**

The overall budget for the Lincoln operations center project, including building and moving costs, is \$30.4 million. These costs are budgeted as follows:

Description of expense	Estimate
Building costs (land purchase, construction, permitting, consultants, legal, insurance, and other)	\$25.3 million
Move costs (equipment move and purchases, employee relocation and severance)	\$5.1 million
<b>Total capital/project budget</b>	<b>\$30.4 million</b>

As noted in the chart, the building costs include the land purchase, construction, permitting and fees, as well as professional fees. The design-build solicitation for the construction of the Lincoln operations center followed a formal solicitation, to ensure a fair and competitive bidding process. The ISO sent a request for qualification and intent to bid package to eleven qualified contractors. The ISO received responses from five companies from which the ISO selected three to submit a request for proposal. The three teams were selected for their experience, local presence, and capabilities to deliver a building consistent with the requirements set forth in the bid package. Each of the three companies submitted a response, and each response was evaluated based on cost and design principals. Based upon this review, Management will recommend a reputable design-build team for selection as the contractor for the project.

Also included in the budget is move costs that, with the expiration of the Alhambra lease, would have largely been incurred regardless of the construction of a new facility.

The cost of the project will be funded entirely from capital reserves on-hand; therefore, no additional debt financing will be required. Capital reserves come from two sources: 1) remaining bond proceeds from the 2009 bonds, and, 2) cash funded capital collected as part of the annual revenue requirement. At the end of 2014, the ISO had approximately \$77 million in uncommitted capital reserves.

Furthermore, there is no negative impact to the revenue requirement and resulting grid management charge rates. In fact, in addition to the security, site, technology, and network improvements cited earlier, the Lincoln operations center project should result in approximately \$1.2 million in annual savings to the operations and maintenance budget. Those savings are primarily due to the elimination of lease payments, common area maintenance costs, wired network savings, and other workforce efficiencies such as travel, training, and scheduling.

## **CONCLUSION**

The ISO is requesting Board approval of funding to proceed with the award of the design-build contract and the overall project funding. This budget will cover all necessary funding to permit, construct, install infrastructure, and relocate equipment from the Alhambra facility. The budget will also cover related employee costs such as relocation of existing ISO staff from Alhambra to Northern California.