

## Memorandum

**To:** ISO Board of Governors

**From:** Stephen Berberich, CIO and Vice President of Information Technology  
William J. Regan, Jr., CFO and Vice President of Corporate Services

**Date:** March 18, 2008

**Re:** Decision on Design Development Phase of Proposed New Facility

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*This memorandum requires Board action.*

### EXECUTIVE SUMMARY

In August 2000, the ISO purchased Folsom property on Iron Point Road with the intention of constructing a long-term facility. The ISO was originally located in the office park it currently occupies on Blue Ravine Road, with the intention it would be a temporary home while a permanent and secure facility was constructed. A site development plan, initiated soon after the ISO purchased the 30 acres on Iron Point Road, was stopped in its tracks by the 2000-2001 energy crisis.

As part of its Five-Year Strategic Business Plan, the ISO identified the growing need for a permanent facility. A Real Estate Feasibility Study was initiated to consider a number of options, including constructing a new facility on the Iron Point site as well as upgrading and retrofitting the buildings currently occupied by the ISO. The ISO conducted a cost study of the options and concluded that constructing a new facility on the Iron Point site was the best option, given the benefits to reliability and security associated with a new facility, and the fact that the cost of a new facility in the long-term is comparable to the cost of staying in the facilities currently occupied by the ISO.

Once the ISO reached this conclusion, the Board directed Management to conduct a detailed analysis of the ISO business functions and needs for the new facility and to propose design elements that would meet these needs at a reasonable and justifiable cost. The ISO has completed that assessment, and now Management requests Board approval to move into the next phase of planning and design for the new facility at the Iron Point site.

Over the course of this year, Management proposes to develop a detailed design for the new facility, which will entail preparation of development plans and specifications, review of bid packages, selection of contractors, validation of the project cost, and completion of the permitting process. Management requests Board approval for \$10 million for this phase of the project.

## MOTION

*WHEREAS, the ISO Board of Governors has engaged extensively with ISO Management to evaluate the appropriateness and cost effectiveness of proceeding with developing plans to construct a long-term facility in Folsom to house the ISO, its critical infrastructure and staff; and*

*WHEREAS, the ISO Board of Governors directed ISO Management to review the ISO's essential business functions and needs and develop preliminary design principles to meet these needs;*

*MOVED, that the ISO Board of Governors approves funding for the design development and cost finalization of the proposed new ISO facility planned for construction at the Iron Point site, in an amount not to exceed \$10 million dollars, and consistent with the design criteria discussed in the memorandum dated March 18, 2008; and*

*MOVED, that the ISO Board of Governors instructs Management to report to the Board periodically on progress and as cost estimates are developed so the Board can provide direction to Management as the design development progresses and choices affecting cost are made.*

## ANALYSIS

In July 2006, Management retained Parsons Corporation ("Parsons"), an engineering and construction firm, to perform a Long-Range Real Estate Feasibility Study to determine the best option going forward to meet the operational, administrative, and security needs of the ISO. After carefully considering several alternatives, the study team concluded that the development of a new facility on the ISO-owned land on Iron Point Road was the preferred option.

The analysis estimated the long-term cost of the ISO continuing to lease space at the existing location (with modifications and upgrades to achieve ISO requirements for security, adequate public meeting space, and infrastructure reliability) and compared that estimate with the long-term cost of constructing and operating a new facility at the Iron Point site. Effectively, the ISO would be replacing its current lease payments and expenditures for upgrades with debt service on the new facility financing. The ISO studies showed that the cost of a new facility would amount to approximately \$2 million more a year over the cost of remaining at the current facility with the required upgrades. Even with investment in upgrades in the current facility, however, the current facility would never provide the security or long-term benefits of a new facility.

## NEXT STEPS

Based on the Real Estate Feasibility Study, Management estimates that the initial cost of the design and construction of the project will be in the range of \$125 million, with an additional \$25 million in moving costs, once the facility is complete.

The ISO has been working with Parsons and Dreyfuss & Blackford Architects to evaluate ISO business functions and needs, and propose design elements and concepts for the proposed new facility. The resulting conceptual design configures the proposed new facility in three building wings -- offices, mission critical centers, and public area -- connected by the main lobby as a common hub. This configuration accommodates the distinct functional areas and needs of the ISO business operations, and satisfies the

ISO design principles and priorities for the project -- security, community context, cost efficiency, productive work environment, utilitarian (but state-of-the-art) style, and green features.

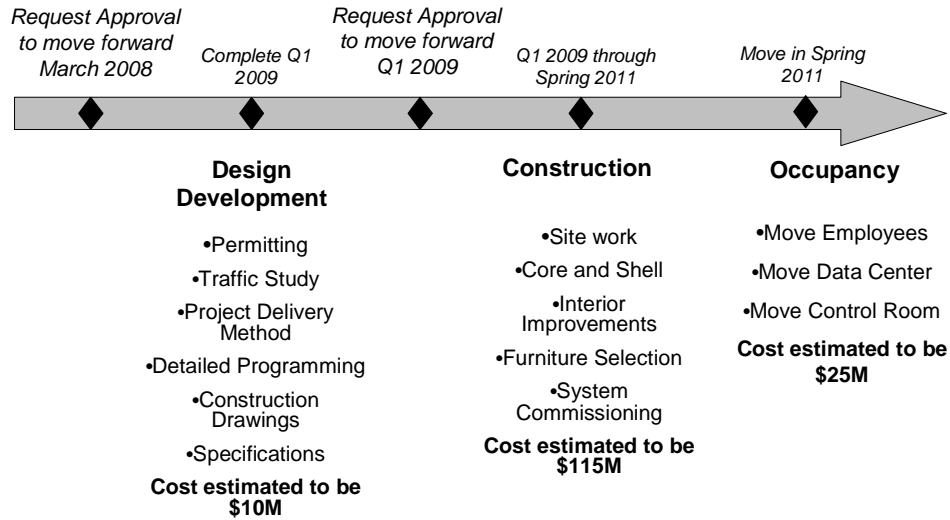
The conceptual design includes the following major elements:

- The style of the buildings is modern and has a civic architectural quality, with clean lines, well-defined utilitarian forms, and no applied ornamentation. Each building design is intended to optimize its use and functionality, with every space configured to meet a planned purpose. For durability, resilient materials and finishes, such as concrete, metals, and glass, will be used in construction.
- Within the buildings, the operations center has a state-of-the-art technological layout and differing spaces for the conduct of real-time operations and market activities. A three-story office building is envisioned as an open, innovative, modern office environment, with free flow of space, fewer offices, and glass for natural light. The public area includes the Board room, training facilities, and conference areas for meetings with ISO's visitors.
- The conceptual design focuses on security, with the overall objective of developing a facility with appropriate levels of security and reliability to permit uninterrupted operation of the electrical grid in a safe work environment.
- In order to fit the local context and accommodate neighborhood interests, the design maintains the existing landscape of the site wherever possible, keeps the height of the buildings low, and provides for outdoor equipment and lighting to be installed so they minimize impact to adjacent properties.
- The design incorporates numerous "green" features to achieve energy efficiency and environmental sustainability. The plan minimizes energy and water use onsite, and reduces the cost for energy that is consumed. As the detailed plans for the facility progress, Management will strive to identify additional green options and will analyze their feasibility and cost for inclusion in the new facility, with Board input.
- Because the ISO administrative costs are charged to its market participants and ultimately passed on to the end-users of electricity, project cost and justification of capital expenditures are critical considerations in determining the ISO long-term operational and office needs. The evaluation of HVAC and other key systems for inclusion in the conceptual design for the new facility is based on cost efficiency and the sustainability of long-term operations.

In the design development phase of the project, the ISO will prepare and submit the site development plan and application for required permits to the City of Folsom. The City will then determine whether an Environmental Impact Report for the proposed development plan is necessary, and will perform a traffic study to identify possible mitigation measures for the flow of traffic to and from the site. Parsons and Dreyfuss will prepare detailed construction drawings and specifications that include floor and site plans and elevations. These detailed plans will allow the ISO to solicit and consider bid packages for constructing the facility, select contractors, and validate the project cost. The target completion date for this phase is the first quarter of 2009.

Under the proposed schedule for developing the new facility, Management would plan to seek Board approval to proceed with the construction phase of the new facility in the first quarter of 2009, with occupancy of the new headquarters targeted for spring 2011.

## Time Line Going Forward



### RECOMMENDATION

Management recommends Board approval of \$10 million for the design development and cost finalization phase of the project to construct a new long-term facility for the ISO.