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January 5, 2015

Mr. Brent Godshalk, City Auditor
City of Gainesville
P.O. Box 490-17
Gainesville, FL 32627-0490

Re: External Investigative Review of Gainesville Regional Utilities (RFP No. CAUD140037-DH)

Dear Mr. Godshalk,

As you are aware, Navigant Consulting, Inc. ("Navigant") has been providing professional services to the City of Gainesville ("City") in connection with the above referenced matter since October 16, 2014 when Navigant's retention was authorized by the City Commission. Pursuant to the terms of the contract, Navigant has been working with City and Gainesville Regional Utilities ("GRU") personnel to identify, collect and organize documents and data relevant to the Investigative Review, as well as conducting meetings with City/GRU personnel, elected officials and certain citizens. Pursuant to our efforts to date, we have identified certain circumstances that we believe necessitate an increase in the professional fees and expenses in Navigant's contract with the City (i.e., *Section 6.4 Not to Exceed Amount*) by \$145,000 in order to meet the City's objectives under the contract.

Consistent with Navigant's proposed approach and scope of work in this matter, Navigant has met with a number of City/GRU staff, elected officials and citizens to confirm the scope and schedule for the performance of this review. The primary focus of these meetings was to ensure our understanding of the key objectives and issues to be evaluated and analyzed during our efforts. Additionally, various meetings were held with senior City/GRU information technology personnel and others concerning the location and extent of electronically-stored information (ESI) that is available for review, and the extent of efforts to identify, preserve and search such information; and a meeting with certain citizens to ensure that their questions and concerns were being adequately addressed.

Each area where we are requesting additional funds is further described below.

Electronic Discovery and Review of Electronically-Stored Information

As is our standard approach in investigative related matters, Navigant's initial efforts included ascertaining the nature, form and extent of ESI available for review; the current and former personnel (i.e., custodians) of that information; and the implementation of efforts to preserve and collect the ESI for further review. Our discussions were primarily focused on information resident within the jointly managed E-mail systems for the City and GRU, electronic records located within the City Attorney's case management system, GRU and City files located on shared or private network repositories, and records potentially residing on computer hard drives of current and former personnel. Based on our efforts, Navigant has collected and preserved a significant amount of ESI that may contain information relevant to the Investigative Review.

While Navigant understood that we would likely need to review a significant amount of information in relation to this matter, especially given the length of time covering the scope of our review (i.e., 2007 through 2013), and the number of individuals and various regulatory and legal proceedings involved; the breadth of information collection and organization required has exceeded our expectations. In addition, given the City and GRU's relatively decentralized, and sometimes more narrowly focused, processes for identifying, collecting and preserving information that would be relevant to our efforts, we have been unable to ascertain whether a comprehensive search for relevant information was conducted, or whether responsive records were adequately saved. Further, we have not identified records that would describe either the purpose or extent of prior E-mail searches that may have been conducted, nor the results of those searches. As such, we have no reasonable assurance that information relevant to our efforts has already been identified or is reasonably available, and believe additional E-Discovery efforts are warranted.

In addition, during our initial discussions with City/GRU staff, elected officials and citizens, various additional areas of concern were identified that Navigant believes were not in the original scope of work for this project. While we believe some areas of interest/concern are more appropriate for review and analysis separate from this contract, Navigant believes certain areas have merit and are consistent with our understanding of the City's objectives in this matter including the following:

Analysis of the Impact of the Power Purchase Agreement on GRU Rates and Financial Condition

Pursuant to Navigant's analysis of the Power Purchase Agreement ("PPA") between GRU and the Gainesville Renewable Energy Center ("GREC"), we believe that a limited analysis of the impact of the PPA, and changes to the PPA, on GRU's electric rates relative to other factors including GRU's capital improvement program and the Solar-Feed-In-Tariff, among other areas, is important to framing (in the proper perspective) potential challenges and/or opportunities for financial and operational benefit to GRU.

Evaluation of Cost/Benefit Modeling and Other Risk Management Efforts

In relation to Navigant's efforts to review GRU policies, procedures and practices with respect to expenditure contracting and other compliance issues, Navigant believes that a more in-depth review of the cost/benefit modeling conducted by GRU in relation to the forecasted impact of the PPA, as well as other risk assessment, management and mitigation practices, is important to provide sound recommendations for enhancing institutional controls going forward. While Navigant's current scope includes a review of existing controls, the current budget is not sufficient to undertake a more detailed review of the financial modeling conducted in relation to the PPA, as well as the basis for assumptions used in that modeling.

Assessment of Current Outlook for Biomass in the United States

Navigant also believes that our efforts to identify opportunities for financial and operational benefit to GRU necessarily involves a high-level review and understanding of the current outlook for the biomass industry and respective biomass facilities in the United States. Navigant proposes to coordinate with our Navigant Research team (who currently follows and reports on the biomass market and industry) to conduct a limited but focused assessment of the current outlook for biomass to provide context and perspective to any recommendations we may make with regard to the existing PPA with GREC.

A breakdown of the proposed increase in services, and professional fees and expenses, is provided below.

Task Area*	Description of Additional Effort	Est. Fees
Task 2: Data Collection and Organization	<ul style="list-style-type: none"> ▪ Conduct additional E-Discovery, file processing, data hosting, and discovery related information review 	\$ 110,000
Task 3: Investigative Review of GREC Contract/Timeline	<ul style="list-style-type: none"> ▪ Review of the history/tenure of past GRU management and decision-making processes ▪ Evaluation of cost/benefit modeling relative to the PPA, the basis for assumptions used, and other risk management/mitigation efforts in relation to the PPA 	-
Task 4: GREC PPA Analysis	<ul style="list-style-type: none"> ▪ Analysis of the impact of the PPA on GRU rates and financial condition over time relative to other factors ▪ Coordination with Navigant Research on current outlook for the biomass industry in the United States including observed trends in capacity utilization, etc. 	-
		\$ 25,000
Out-of-Pocket Expenses	<ul style="list-style-type: none"> ▪ Additional out-of-pocket expenses in relation to increased document collection / organization, onsite visits and expanded interview efforts 	\$ 10,000
		\$ 145,000
* Per Navigant's original Proposal (Sect. 7 – Proposed Approach and Schedule for the Scope of Work)		

We appreciate the opportunity to assist the City with this important assignment and look forward to meeting your objectives in relation to this matter. Please do not hesitate to contact me at 512.493.5420 if you have any questions or would like to discuss this proposed fee increase in greater detail.

Sincerely,



Todd K. Lester
 Managing Director