



October 27, 2010

**VIA ELECTRONIC FILING**

Ms. Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, D.C. 20426

Re: NERC Notice of Penalty regarding NorthWestern Energy  
FERC Docket No. NP10-168-000

Dear Ms. Bose:

On September 30, 2010, the North American Electric Reliability Corporation (“NERC”) submitted a Notice of Penalty regarding violation of Reliability Standards PRC-005-1 Requirement (R) 1 and PRC-005-1 R2 for NorthWestern Energy. It has come to NERC’s attention that the second page of the settlement agreement was inadvertently omitted from the filing document. By this filing, NERC is providing a complete electronic copy of the settlement agreement.

Accordingly, NERC respectfully requests that the Commission accept this supplemental filing and issue an order consistent with the comments provided herein.

Respectfully submitted,

/s/ Rebecca J. Michael  
Rebecca J. Michael

*Attorney for North American Electric  
Reliability Corporation*

Enclosure: Settlement Agreement

cc: Official service list in Docket No. NP10-168-000

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**SETTLEMENT AGREEMENT  
OF  
MIDWEST RELIABILITY ORGANIZATION  
AND  
NORTHWESTERN ENERGY**

**I. Introduction**

1. MIDWEST RELIABILITY ORGANIZATION (MRO) and NORTHWESTERN ENERGY (NWE) (NERC Compliance Registry ID# NCR01021) enter into this Settlement Agreement ("Agreement") to resolve all outstanding issues arising from a non-public assessment resulting in MRO's determination and findings, pursuant to the North American Electric Reliability Corporation (NERC) Rules of Procedure, of violations by NWE of NERC Reliability Standard PRC-005-1, R1 and R2.
2. NWE admits the violations of NERC Reliability Standard PRC-005-1, R1 and R2 and has agreed to the proposed remedial and mitigation actions to mitigate the instant alleged violations and facilitate future compliance under the terms and conditions of the Agreement.

**II. Stipulation**

3. The facts stipulated herein are stipulated solely for the purpose of resolving, between NWE and MRO, the matters discussed herein and do not constitute stipulations or admissions for any other purpose. NWE and MRO hereby stipulate and agree to the following:

**Background**

4. See section I of the Disposition document for a description of NWE.

**Alleged Violations of NERC Reliability Standard PRC-005-1, Requirement 1 and Requirement 2**

5. See Section II of the Disposition document for a description of the violations.

**III. PARTIES' SEPARATE REPRESENTATIONS**

**STATEMENT OF MRO AND SUMMARY OF FINDINGS**

6. On September 18, 2009, NWE self reported a violation of Reliability Standard PRC-005-1, R1 because it was adhering to an informal

protection system maintenance and testing program that was not documented. Also on September 18, 2009, NWE self reported a violation of Reliability Standard PRC-005-1, R2 because it had not performed maintenance and testing for certain required protection system devices subject to PRC-005-1, R2. MRO staff conducted a compliance assessment resulting in the facts and conclusions described in the Disposition Document.

7. MRO concluded that the violation did not pose a serious or substantial risk to the bulk-power system, as discussed in the Disposition document.
8. MRO agrees that this Settlement Agreement is in the best interest of the parties and in the best interest of bulk-power system reliability.

#### **STATEMENT OF NWE**

9. NWE admits that the facts set forth and agreed to by the parties for purposes of this Agreement constitute violations of Reliability Standard PRC-005-1, R1 and R2.
10. NWE has agreed to enter into this Settlement Agreement with MRO to avoid extended litigation with respect to the matters described or referred to herein, to avoid uncertainty, and to effectuate a complete and final resolution of the issues set forth herein. NWE agrees that this agreement is in the best interest of the parties and in the best interest of bulk-power system reliability.

#### **IV. MITIGATING ACTIONS, REMEDIES AND SANCTIONS**

11. For purposes of settling any and all disputes arising from MRO's assessment into the matter self reported by NWE, MRO and NWE agree that on and after the effective date of this Agreement, NWE has or shall take the following actions to prevent recurrence of these alleged violations and increase the reliability of the bulk electric system:
  - i. NWE shall pay a monetary penalty of \$23,000 to MRO, via wire transfer or check to an MRO account that will be outlined in an invoice sent to NWE within twenty days after the Agreement is approved by the Commission. Payment of this invoice shall be made within twenty days after the receipt of the invoice, and MRO shall notify NERC if the payment is not received.
  - ii. NWE will accelerate the replacement of relays associated with the 115kV circuit 3701 at its West Park Substation. NWE will replace 9 existing electro-mechanical relays with 2 microprocessor based relays. This upgrade is not included in

NWE's five year asset replacement schedule for 2010 through 2014. The relay upgrade at the West Park Substation will be completed by the later of May 1, 2011 or 250 days after approval of this Settlement Agreement by FERC. The estimated cost for this relay replacement including materials, relays, racks, labor, and engineering is \$85,000.

12. MRO and NWE agree that NWE has completed and MRO has verified completion of the mitigating actions set forth in Section IV of the Disposition document.
13. MRO also considered the specific facts and circumstances of the violation and NWE's actions in response to the violations in determining a proposed penalty that meets the requirement in Section 215 of the Federal Power Act that "[a]ny penalty imposed under this section shall bear a reasonable relation to the seriousness of the violation and shall take into consideration the efforts of [NWE] to remedy the violation in a timely manner." The factors considered by MRO in the determination of the appropriate penalty are set forth in Section V of the Disposition document.
14. Failure to comply with any of the terms and conditions agreed to herein, or any other conditions of this Agreement shall be deemed to be either the same alleged violation that initiated this Agreement and/or additional violation(s) and may subject NWE to new or additional enforcement, penalty or sanction actions in accordance with the NERC Rules of Procedure. NWE shall retain all rights to defend against such additional enforcement actions in accordance with NERC Rules of Procedure.
15. In order to ensure accountability for the action plans addressed above, NWE shall provide to MRO a written report upon completion of the relay replacement described in Paragraph 11 of this Agreement. NWE shall maintain records and other evidentiary material to support completion of the mitigation and remedies in this Agreement. The written report shall include scope, progress, and actual expenditures for each of the mitigation and remedies. MRO staff will audit the progress, as necessary, within its discretion and adequately coordinate with NWE personnel. The purpose of the audit is to validate that the actions resulting from this settlement Agreement are performed in accordance with the terms and conditions of this Agreement.

## **V. ADDITIONAL TERMS**

16. The signatories to the Agreement agree that they enter into the Agreement voluntarily and that, other than the recitations set forth herein, no tender, offer or promise of any kind by any member,

employee, officer, director, agent or representative of MRO or NWE has been made to induce the signatories or any other party to enter into the Agreement.

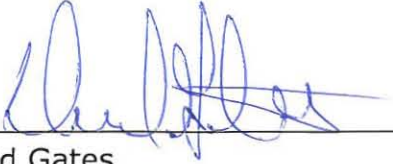
17. MRO shall report the terms of all settlements of compliance matters to NERC. NERC will review the settlement for the purpose of evaluating its consistency with other settlements entered into for similar violations or under other, similar circumstances. Based on this review, NERC will either approve the settlement or reject the settlement and notify MRO and NWE of changes to the settlement that would result in approval. If NERC rejects the settlement, NERC will provide specific written reasons for such rejection and MRO will attempt to negotiate a revised settlement agreement with NWE including any changes to the settlement specified by NERC. If a settlement cannot be reached, the enforcement process shall continue to conclusion. If NERC approves the settlement, NERC will (i) report the approved settlement to the Commission for the Commission's review and approval by order or operation of law and (ii) publicly post the alleged violation and the terms provided for in the settlement.
18. The Agreement will be submitted to the Commission and will be subject to Commission review pursuant to section 39.7 of the Commission's regulations.
19. This Agreement shall become effective upon NERC and the Commission's approval of the Agreement by order or operation of law as submitted to it or as modified in a manner acceptable to the parties.
20. NWE agrees that this Agreement, when approved by NERC and the Commission, shall represent a final settlement of all matters set forth herein and NWE waives its right to further hearings and appeal, unless and only to the extent that NWE contends that any NERC or Commission action on the Agreement contains one or more material modifications to the Agreement. MRO reserves all rights to initiate enforcement, penalty or sanction actions against NWE in accordance with the NERC Rules of Procedure in the event that NWE fails to comply with the mitigation plan and compliance program agreed to in this Agreement. In the event NWE fails to comply with any of the stipulations, remedies, sanctions or additional terms, as set forth in this Agreement, MRO will initiate enforcement, penalty, or sanction actions against NWE to the maximum extent allowed by the NERC Rules of Procedure, up to the maximum statutorily allowed penalty. NWE shall retain all rights to defend against such enforcement actions, also according to the NERC Rules of Procedure.
21. NWE consents to the use of MRO's determinations, findings, and conclusions set forth in this Agreement for the purpose of assessing the factors, including the factor of determining the company's history

of violations, in accordance with the NERC Sanction Guidelines and applicable Commission orders and policy statements. Such use may be in any enforcement action or compliance proceeding undertaken by NERC and/or any Regional Entity; provided, however, that NWE does not consent to the use of the specific acts set forth in this Agreement as the sole basis for any other action or proceeding brought by NERC and/or MRO, nor does NWE consent to the use of this Agreement by any other party in any other action or proceeding.

22. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity and accepts the Agreement on the entity's behalf.
23. The undersigned representative of each party affirms that he or she has read the Agreement, that all of the matters set forth in the Agreement are true and correct to the best of his or her knowledge, information and belief, and that he or she understands that the Agreement is entered into by such party in express reliance on those representations, provided, however, that such affirmation by each party's representative shall not apply to the other party's statements of position set forth in Section III of this Agreement.
24. The Agreement may be signed in counterparts.
25. This Agreement is executed in duplicate, each of which so executed shall be deemed to be an original.

***Remainder of page intentionally blank.  
Signatures to be affixed to the following page.***

Agreed to and accepted:



David Gates  
Vice President—Wholesale Operations  
NorthWestern Energy

5-26-10  
Date



Daniel P. Skaar  
President  
Midwest Reliability Organization

5-20-2010  
Date



Sara E. Patrick  
Dir. of Regulatory Affairs and Enforcement  
Midwest Reliability Organization

5-20-2010  
Date