Service Date: September 30, 2003

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of the Application of	)	
ENERGY WEST INCORPORATED for an	)	UTILITY DIVISION
Order Approving a Credit Agreement	)	DOCKET NO. D2003.9.129
Between the Company and LaSalle Bank	)	DEFAULT ORDER NO. 6513
National Association and for an Order	)	
Approving a Grant of Additional Liens	)	
to the Trustees for the Holders of the	)	
Applicant's Long-term Debt	)	

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FINDINGS OF FACT

1. On September 4, 2003 Energy West, Incorporated (the Company) petitioned the Montana Public Service Commission for approval of the issuance of debt securities pursuant to a proposed credit agreement between the Company and LaSalle Bank National Association. The term of the agreement is one year. The arrangement will consist of a $23,000,000 revolving line of credit with a $6,000,000 subfacility for letters of credit. This debt will be secured by substantially all of the Company's assets. The requirement from LaSalle that is both new and different is that the lender is insisting that this debt be secured. The Company's long-term debt instruments contain covenants that generally prohibit the granting of liens to secure debt unless an equal and ratable lien is granted to the trustees for the holders of the long-term debt. The Company, therefore has included in this application a request that the Commission approve the grant of security to the trustees for the holders of the Company's long-term debt. The Company represented that the aggregate amount of its securities outstanding and proposed to be outstanding will not exceed the fair value of the properties and business of the public utility. The

application also contained the stark admission that without authorization sought in this application, the Company does not believe it will be able to obtain the credit necessary to operate its business.

2. This application represents a very troubling picture to the Commission. In a non-regulated business (Energy West Resources) a dispute arose over a contract between EWR and PPL. PPL asserted that EWR had over scheduled power and thus caused damages to PPL. Prior to the hearing in the damages portion of the case the parties arrived at a settlement of $3.2 million. To date EWR has paid $1 million to PPL leaving a remaining balance of $2.2 million. Energy West does not currently have the cash on hand to make that payment. If the payment is not made, the Company will be required to pay an annual rate of 15 percent interest on the unpaid balance until it is paid. PPL is permitted to request a new trial date for phase two of the litigation.

3. The costs of the PPL lawsuit are not limited to the settlement of $3.2 million. Beyond that, the Company has incurred $2,000,000 in legal fees. Due to the lawsuit with PPL, the Company finds itself standing at the edge of bankruptcy. The Company has stopped paying dividends on its common shares, has reduced its workforce and has disposed of some propane properties. The Company in a letter received by the Commission on May 30th indicated that Energy West Resources, Inc. was returning its customers to NorthWestern Energy's default supply.

4. The Commission finds that the Company's efforts to diversify into the business of being an electricity supplier have been extremely damaging. The Commission finds that Energy West needs to dedicate itself to becoming a pure utility business. The Commission finds that this financing (with the exception of the $2.2 million payment to PPL) and future financings will be restricted to utility purposes only. Losses of $5.2 million from non-utility business activities are not acceptable to the Commission. In this filing the Company has stated that it will be unable to make the payment unless this application is approved. Non-utility activities have resulted in a financial catastrophe for the Company. Energy West (including its officers and directors) must refocus its attention on becoming a financially sound utility company. Losses from other non-utility operations will not be allowed to further weaken the Company.

5. This Petition is governed by MCA Title 69 Section 3 part 5. Section 69-3-504, MCA, requires that the Commission find that the transactions are in the public interest, that they are permitted under that section of the statutes, that the aggregate amount of the securities outstanding do not exceed the fair value of the properties and business of the public utility. Energy West's existing capital structure is approximately 50 percent debt and 50 percent equity. After $8,000,000 of current short-term borrowings are converted to long-term debt, the Company's capital structure will be approximately 60 percent debt and 40 percent equity. That capital structure is similar to other utility capital structures.

6. Based on the information provided by the Company in its Petition, the Commission finds that these requirements have been satisfied. Having found this application to be in the public interest, the Commission finds that in this application the approval of this credit agreement is essential to the continued provision of utility service. The threat to utility service from non-utility activities has created a financial crisis for the Company.

7. After consideration of the Petition, including the above stated facts, the Commission makes the following:

CONCLUSIONS OF LAW

1. Energy West, Incorporated, is a public utility furnishing natural gas in the communities of Great Falls, Ulm and West Yellowstone, Montana. It owns a utility distribution system providing vaporized propane to the community of Cascade, Montana. It also has utility operations in Wyoming and Arizona.

2. Section 69-3-501, MCA et seq. provides for the regulation of issuances of securities and the creation of liens by gas and electric utilities including the following requirements: (a) the transaction must be in the public interest; (b) the purposes of the securities be consistent with the MCA; and, (c) the aggregate amount of the Company's securities outstanding and proposed to be outstanding will not exceed the fair value of the properties and business of the public utility.

ORDER

IT IS, THEREFORE, ORDERED by the Commission that:

1. The petition of Energy West, Incorporated, filed on September 4, 2003 to approve the issuance of debt securities pursuant to a credit agreement between the Company and LaSalle Bank National Association and the authorization to secure existing long-term debt is hereby approved subject to the following conditions:

a. Within 5 working days of the issuance of this Order, Energy West must file an attested statement that neither the $3.2 million settlement with PPL nor any of the legal fees (estimated at $2 million) associated with the defense of this lawsuit will be presented to this Commission for recovery from ratepayers.

b. Other than the payment of $2.2 million to PPL, this financing is restricted to utility purposes only. In returning its focus to being a utility business, Energy West is directed to use financing approved to provide utility service. If non-utility entities require financing, those entities will separately arrange their own financing.

c. Approval of this security application requires ongoing commitment to fully fund comprehensive operation, maintenance, repair and replacement of its public utility infrastructure in Montana. Energy West must file a maintenance plan and budget within 45 days of the issuance of this Order. Energy West must file monthly reports thereafter showing comparisons of actual to budgeted maintenance amounts.

d. Within 20 working days of the closing of this financing, Energy West must file a report containing all of the terms of this financing. When $8 million of this financing is converted to long-term debt, Energy West must file a report containing all of the terms of that financing.

e. Within 30 days of the issuance of this Order Energy West must provide a written plan to the Commission explaining how it intends to improve its balance sheet. The plan should include an examination of whether it is appropriate to accumulate retained earnings to deal with working capital needs associated with seasonal revenue swings prior to resuming the payment of dividends.

f. Within 30 days of the issuance of this Order Energy West must provide monthly reports showing for each non-utility business that the segment is not losing money. If any segment loses money for more than three consecutive months, the Company must provide an explanation to the Commission of how the problem will be resolved including the sale or disposition of that business segment.

g. The Company must focus on becoming a pure utility company.

2. Section 69-3-507, MCA, provides that neither the issuance of securities by Energy West, Incorporated pursuant to the provisions of this Order, nor any other act or deed done or performed in connection with the issuance, shall be construed to obligate the State of Montana to pay or guarantee in any manner whatsoever any security authorized, issued, assumed or guaranteed

3. Issuance of this Order does not mean acceptance of Energy West's exhibits or other material accompanying the application for any purpose other than the issuance of this Order. Approval of this application is for financing purposes only. This approval is without prejudice to the regulatory authority of this Commission with respect to ratemaking, rates, service, accounts, valuations estimates or determinations of cost, or any other matter subject to its jurisdiction as provided by law.

4. This Order shall be effective upon execution.

DONE IN OPEN SESSION at Helena, Montana, this 30th day of September, 2003, by a vote of 5 - 0 .

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

BOB ROWE, Chairman

TOM SCHNEIDER, Vice-Chairman

MATT BRAINARD, Commissioner

GREG JERGESON, Commissioner

JAY STOVALL, Commissioner

ATTEST:

Connie Jones
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.