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UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA

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IN RE: WESTERN STATES)	MDL 1566
WHOLESALE NATURAL GAS)	2:03-CV-01431-PMP-PAL
ANTITRUST LITIGATION)	BASE FILE
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BRECKENRIDGE BREWERY OF)	
COLORADO, LLC, et al.,)	2:06-CV-01351-PMP-PAL
)	
Plaintiffs,)	
)	
v.)	<u>ORDER RE: DEFENDANTS' MOTION</u>
)	<u>TO DISMISS (Doc. #962)</u>
ONEOK, INC., et al.,)	
)	
Defendants.)	
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Presently before this Court is Specially Appearing Defendants CMS Energy Corporation, Duke Energy Carolinas, LLC, and Reliant Energy, Inc.'s Motion to Dismiss for Lack of Personal Jurisdiction (Doc. #962)¹ with Joint Memorandum (Doc. #963). Defendants filed separate volumes of exhibits (Doc. #968, #974, #976) in support.² Plaintiffs filed Oppositions (Doc. #1080, #1083, #1106) and supporting appendices (Doc. #1081, #1084, #1125, #1126, #1142). Defendants filed Replies (Doc. #1176, #1185, #1189).

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¹ Document numbers refer to the base file, 2:03-CV-01431-PMP-PAL, unless otherwise noted.

² Defendants Reliant Energy, Inc. and Reliant Energy Services, Inc. also entered into a stipulation of fact (Doc. #1054) with Plaintiffs.

1 **I. BACKGROUND**

2 This case is one of many in consolidated Multidistrict Litigation arising out of the
3 energy crisis of 2000-2001. Plaintiffs originally filed the above action in the District Court
4 of the City and County of Denver, Colorado. (Notice of Removal, Compl. [2:06-CV-1351-
5 PMP-PAL, Doc. #2].) Defendants removed the case to the United States District Court for
6 the District of Colorado. (Id.) The Judicial Panel on Multidistrict Litigation entered a
7 Transfer Order pursuant to 28 U.S.C. § 1407 centralizing the foregoing action in this Court
8 for coordinated or consolidated pretrial proceedings. (Letter dated November 2, 2006
9 [2:06-CV-1351-PMP-PAL, Doc. #29].)

10 In this litigation, Plaintiffs seek to recover damages on behalf of natural gas rate
11 payers. In the Complaint, Plaintiffs allege Defendants engaged in anti-competitive
12 activities with the intent to manipulate and artificially increase or control the price of
13 natural gas for consumers. (Am. Compl. (Doc. #717) at 32-36.) Specifically, Plaintiffs
14 allege Defendants knowingly delivered false reports concerning trade information and
15 engaged in wash trades, in violation of Colorado Revised Statutes § 6-4-101, et seq. (Id.)

16 Plaintiff Breckenridge Brewery of Colorado, LLC (“Breckenridge Brewery”) is a
17 Colorado limited liability company with its principal place of business in Denver, Colorado.
18 (Id. at 3.) Plaintiff BBD Acquisition Co. (“BBD”) is a Colorado corporation with its
19 principal place of business in Denver, Colorado. (Id.) Plaintiffs allege they purchased
20 natural gas directly from one or more Defendants, and from other natural gas sellers in the
21 State of Colorado, during the past six years. (Id.) According to the Complaint, Defendants
22 are natural gas companies that buy, sell, transport, and store natural gas, including their own
23 and their affiliates’ production, in the United States and in the State of Colorado. (Id. at 3-
24 32.)

25 The Amended Complaint’s allegations are directed generally at two types of
26 Defendants: the natural gas companies that actually engaged in natural gas sales and the

1 related reporting of allegedly manipulated gas prices to the trade indices, and those
2 companies' parent corporations. The Amended Complaint does not allege the parent
3 company Defendants themselves engaged in natural gas trading and price reporting.
4 Rather, the Amended Complaint alleges these Defendants are the parent companies of
5 subsidiaries which engage in such activity generally, and which also made natural gas sales
6 in Colorado during the relevant time period.

7 Plaintiffs seek to establish personal jurisdiction over the parent company
8 Defendants based on their out-of-forum activities directed at Colorado along with their
9 subsidiaries' and affiliates' contacts within Colorado. According to the Amended
10 Complaint, the parent company Defendants dominated and controlled their respective
11 subsidiaries and the parent company Defendants "entered into a combination and
12 conspiracy . . . which tended to prevent full and free competition in the trading and sale of
13 natural gas, or which tended to advance or control the market prices of natural gas." (Id. at
14 4, 7, 11, 13-14, 16, 18, 20, 24, 27-28.) Plaintiffs allege the parent company Defendants
15 intended their actions to have a direct, substantial, and foreseeable effect on commerce in
16 the State of Colorado. (Id. at 4, 7, 11, 14, 16, 18, 20, 24, 27-28.) According to the
17 Amended Complaint, the parent company Defendants "made strategic marketing policies
18 and decisions concerning natural gas and the reporting of natural gas trade information to
19 reporting firms for use in the calculation of natural gas price indices that affected the market
20 prices of natural gas, and those policies and decisions were implemented on an operational
21 level by affiliates . . . in the United States and in Colorado." (Id. at 4-5, 7-8, 12, 14, 17-18,
22 21, 25, 27-29.)

23 Parent company Defendants CMS Energy Corporation, Duke Energy Carolinas,
24 LLC, and Reliant Energy, Inc. now move to dismiss, arguing this Court lacks personal
25 jurisdiction over them. According to these Defendants, they conduct no business in
26 Colorado and have no other contacts supporting general or specific jurisdiction. Defendants

1 also argue they cannot be subject to jurisdiction in Colorado based on their subsidiaries'
2 contacts with the forum because their subsidiaries are not their agents or alter egos.
3 Defendants thus argue exercising personal jurisdiction in this case would violate
4 constitutional due process requirements.

5 Plaintiffs respond that Defendants' subsidiaries have submitted to jurisdiction in
6 Colorado and Defendants are subject to personal jurisdiction through agency and alter ego
7 principles based on their subsidiaries' contacts with the forum. Additionally, Plaintiffs
8 request the Court defer ruling until after the magistrate judge resolves certain jurisdictional
9 discovery disputes, or to delay ruling on the jurisdictional question until merits discovery is
10 completed because the jurisdictional questions are intertwined with the merits.

11 **II. LEGAL STANDARDS**

12 "When a defendant moves to dismiss for lack of personal jurisdiction, the
13 plaintiff bears the burden of demonstrating that the court has jurisdiction over the
14 defendant." Pebble Beach Co. v. Caddy, 453 F.3d 1151, 1154 (9th Cir. 2006). To meet this
15 burden, a plaintiff must demonstrate that personal jurisdiction over a defendant is (1)
16 permitted under the applicable state's long-arm statute and (2) that the exercise of
17 jurisdiction does not violate federal due process. Id. The Court must analyze whether
18 personal jurisdiction exists over each defendant separately. Harris Rutsky & Co. Ins.
19 Servs., Inc. v. Bell & Clements Ltd., 328 F.3d 1122, 1130 (9th Cir. 2003).

20 Where the issue is before the Court on a motion to dismiss based on affidavits
21 and discovery materials without an evidentiary hearing, the plaintiff must make "a prima
22 facie showing of facts supporting jurisdiction through its pleadings and affidavits to avoid
23 dismissal." Glencore Grain Rotterdam B.V. v. Shivnath Rai Harnarain Co., 284 F.3d 1114,
24 1119 (9th Cir. 2002). The Court accepts as true any uncontroverted allegations in the
25 complaint and resolves any conflicts between the facts contained in the parties' evidence in
26 the plaintiff's favor. Id. However, for personal jurisdiction purposes, a court "may not

1 assume the truth of allegations in a pleading which are contradicted by affidavit.”

2 Alexander v. Circus Circus Enters., Inc., 972 F.2d 261, 262 (9th Cir. 1992) (quotation
3 omitted).

4 In diversity cases such as this, “a federal court applies the personal jurisdiction
5 rules of the forum state provided the exercise of jurisdiction comports with due process.”
6 Scott v. Breeland, 792 F.2d 925, 927 (9th Cir. 1986). However, “federal law is controlling
7 on the issue of due process under the United States Constitution.” Data Disc, Inc. v. Sys.
8 Tech. Assoc., Inc., 557 F.2d 1280, 1286 n.3 (9th Cir. 1977); see also Dole Food Co., Inc. v.
9 Watts, 303 F.3d 1104, 1110 (9th Cir. 2002). Therefore, the Court will apply law from the
10 United States Court of Appeals for the Ninth Circuit in deciding whether jurisdiction is
11 appropriate under the Due Process Clause. See In re Korean Air Lines Disaster of Sept. 1,
12 1983, 829 F.2d 1171, 1174 (D.C. Cir. 1987) (concluding that “the transferee court [should]
13 be free to decide a federal claim in the manner it views as correct without deferring to the
14 interpretation of the transferor circuit”); Menowitz v. Brown, 991 F.2d 36, 40 (2d Cir.
15 1993) (holding that “a transferee federal court should apply its interpretations of federal
16 law, not the constructions of federal law of the transferor circuit”).

17 To satisfy federal due process standards, a nonresident defendant must have
18 “minimum contacts” with the forum state so that the assertion of jurisdiction does not
19 offend traditional notions of fair play and substantial justice. Pebble Beach Co., 453 F.3d at
20 1155 (citing Int’l Shoe Co. v. Washington, 326 U.S. 310, 315 (1945)). A federal district
21 court may exercise either general or specific personal jurisdiction. See Helicopteros
22 Nacionales de Colombia, S.A. v. Hall, 466 U.S. 408, 414-15 (1984).

23 To establish general personal jurisdiction, the plaintiff must demonstrate the
24 defendant has sufficient contacts to “constitute the kind of continuous and systematic
25 general business contacts that ‘approximate physical presence.’” Glencore Grain, 284 F.3d
26 at 1124 (quoting Bancroft & Masters, Inc. v. Augusta Nat’l Inc., 223 F.3d 1082, 1086 (9th

1 Cir. 2000), modified, Yahoo! Inc. v. La Ligue Contre Le Racisme Et L'Antisemitisme, 433
2 F.3d 1199, 1207 (9th Cir. 2006)). Courts consider such factors as whether the defendant
3 makes sales, solicits or engages in business in the state, serves the state's markets,
4 designates an agent for service of process, holds a license, or is incorporated there.
5 Bancroft, 223 F.3d at 1086. "[A] defendant whose contacts are substantial, continuous, and
6 systematic is subject to a court's general jurisdiction even if the suit concerns matters not
7 arising out of his contacts with the forum." Glencore Grain, 284 F.3d at 1123 (citing
8 Helicopteros, 466 U.S. at 415 n.9).

9 A nonresident defendant's contacts with the forum state may permit the exercise
10 of specific jurisdiction if: (1) the defendant has performed some act or transaction within
11 the forum or purposefully availed himself of the privileges of conducting activities within
12 the forum, (2) the plaintiff's claim arises out of or results from the defendant's forum-
13 related activities, and (3) the exercise of jurisdiction over the defendant is reasonable.
14 Pebble Beach Co., 453 F.3d at 1155-56. "If any of the three requirements is not satisfied,
15 jurisdiction in the forum would deprive the defendant of due process of law." Omeluk v.
16 Langsten Slip & Batbyggeri A/S, 52 F.3d 267, 270 (9th Cir. 1995).

17 Under the first prong of the "minimum contacts test," the plaintiff must establish
18 either that the defendant "(1) purposefully availed himself of the privilege of conducting his
19 activities in the forum, or (2) purposefully directed his activities toward the forum." Pebble
20 Beach Co., 453 F.3d at 1155. "Evidence of availment is typically action taking place in the
21 forum that invokes the benefits and protections of the laws in the forum." Id. Evidence of
22 direction usually consists of conduct taking place outside the forum that the defendant
23 directs at the forum. Id. at 1155-56.

24 The purposeful direction aspect of the first prong is satisfied when a foreign act is
25 both aimed at and has effect in the forum. Id. In other words, the defendant "must have (1)
26 committed an intentional act, which was (2) expressly aimed at the forum state, and (3)

1 caused harm, the brunt of which is suffered and which the defendant knows is likely to be
2 suffered in the forum state.” Id. To satisfy the third element of this test, the plaintiff must
3 establish the defendant’s conduct was “expressly aimed” at the forum; a “mere foreseeable
4 effect” in the forum state is insufficient. Id. The “express aiming” requirement is satisfied
5 when the defendant is alleged to have engaged in wrongful conduct “individually targeting
6 a known forum resident.” Bancroft, 223 F.3d at 1087.

7 The second prong of the specific jurisdiction test requiring that the contacts
8 constituting purposeful availment or purposeful direction give rise to the current action is
9 measured in terms of “but for” causation. Id. at 1088. “If the plaintiff establishes both
10 prongs one and two, the defendant must come forward with a ‘compelling case’ that the
11 exercise of jurisdiction would not be reasonable.” Boschetto v. Hansing, 539 F.3d 1011,
12 1016 (9th Cir. 2008) (quotation omitted).

13 **A. Alter Ego**

14 A “parent-subsidiary relationship alone is insufficient to attribute the contacts of
15 the subsidiary to the parent for jurisdictional purposes.” Harris Rutsky & Co. Ins. Servs.,
16 Inc., 328 F.3d at 1134. However, a subsidiary’s contacts may be imputed to its parent for
17 personal jurisdiction purposes where the subsidiary is the parent’s alter ego. Id.

18 To demonstrate a parent and its subsidiary are alter egos, the plaintiff must
19 establish a prima facie case that the two companies share “such unity of interest and
20 ownership” that the companies’ separateness no longer exists and “failure to disregard
21 [their separate identities] would result in fraud or injustice.” Doe v. Unocal Corp., 248 F.3d
22 915, 926 (9th Cir. 2001) (quotation omitted). To demonstrate a unity of interest warranting
23 disregard of corporate separateness, the plaintiff must show the parent controls its
24 subsidiary to such a degree as to render the subsidiary a “mere instrumentality” of its parent.
25 Id. (quotation omitted). Typically, this would involve showing the parent controls the
26 subsidiary’s internal affairs or daily operations. Kramer Motors, Inc. v. British Leyland,

1 Ltd., 628 F.2d 1175, 1177 (9th Cir. 1980).

2 A parent corporation may be involved directly in certain aspects of its wholly
3 owned subsidiary's affairs without subjecting itself to alter ego status. For example, a
4 parent may provide financing to its subsidiary so long as it maintains corporate formalities
5 and properly documents loans and capital contributions to its subsidiaries, and it may act as
6 its subsidiary's guarantor. Doe, 248 F.3d at 927-28. Additionally, a parent may refer to its
7 subsidiaries as divisions of the parent in annual reports. Id. at 928. Further, a parent may
8 review and approve major decisions, place its own directors on the subsidiary's board, and
9 share offices and staff with its wholly owned subsidiary without being considered its alter
10 ego. Id.; Harris Rutsky & Co. Ins. Servs., Inc., 328 F.3d at 1135.

11 In sum, a parent may involve itself directly in its subsidiary's activities without
12 becoming an alter ego "so long as that involvement is consistent with the parent's investor
13 status." Harris Rutsky & Co. Ins. Servs., Inc., 328 F.3d at 1135 (quotation omitted).
14 Activities consistent with investor status include "monitoring of the subsidiary's
15 performance, supervision of the subsidiary's finance and capital budget decisions, and
16 articulation of general policies and procedures[.]" Doe, 248 F.3d at 926 (quoting United
17 States v. Bestfoods, 524 U.S. 61, 72 (1998)).

18 In addition to showing lack of corporate separateness, the plaintiff also must
19 show that failure to disregard the corporate form would promote fraud or injustice. The
20 fraud or injustice must relate to the forming of the corporation or abuse of the corporate
21 form, not a fraud or injustice generally. Laborers Clean-Up Contract Admin. Trust Fund v.
22 Uriarte Clean-Up Serv., Inc., 736 F.2d 516, 524-25 n.12 (9th Cir. 1984). For example,
23 undercapitalization at the subsidiary's inception may be evidence of the parent's fraudulent
24 intent. Id. However, a corporation that once was capitalized adequately but "subsequently
25 fell upon bad financial times" does not support a finding of fraud or injustice. Id. at 525.
26 Further, evidence that the corporation existed as an ongoing enterprise engaged in

1 legitimate business suggests no fraudulent intent or injustice to support piercing the
2 corporate veil. Seymour v. Hull & Moreland Eng'g, 605 F.2d 1105, 1113 (9th Cir. 1979).
3 An inability to collect on a judgment “does not, by itself, constitute an inequitable result.”³
4 Id.

5 **B. Agency**

6 A subsidiary’s contacts also may be imputed to its parent for personal jurisdiction
7 purposes where the subsidiary is the parent’s general agent in the forum. Harris Rutsky &
8 Co. Ins. Servs., Inc., 328 F.3d at 1134. A subsidiary is its parent’s agent for purposes of
9 attributing its forum-related contacts to the parent if the subsidiary “performs services that
10 are ‘sufficiently important to the foreign corporation that if it did not have a representative
11 to perform them, the corporation’s own officials would undertake to perform substantially
12 similar services.’” Doe, 248 F.3d at 928 (quoting Chan v. Society Expeditions, Inc., 39
13 F.3d 1398, 1405 (9th Cir. 1994)). The ultimate inquiry is whether the subsidiary’s presence
14 in the forum “substitutes” for its parent’s presence. Id. at 928-29 (quotation omitted).

15 Where the parent is merely a holding company, the subsidiary’s forum-related
16 contacts are not done as the parent’s agent because the holding company “could simply hold
17 another type of subsidiary” as an investment and thus the subsidiary conducts business not
18 as the parent’s agent but as its investment. Id. at 929. “Where, on the other hand, the
19 subsidiaries are created by the parent, for tax or corporate finance purposes, there is no
20 basis for distinguishing between the business of the parent and the business of the

21
22 ³ Colorado employs a similar alter ego test. Under Colorado law, “[a]n alter ego relationship
23 exists when the corporation is a mere instrumentality for the transaction of the shareholders’ own
24 affairs, and there is such unity of interest in ownership that the separate personalities of the corporation
25 and the owners no longer exist.” In re Phillips, 139 P.3d 639, 644 (Colo. 2006) (quotation omitted).
26 Additionally, the party seeking to pierce the corporate veil must show that justice requires disregarding
corporate separateness because “the corporate fiction was used to perpetrate a fraud or defeat a rightful
claim.” Id. (quotation omitted). Finally, a court applying Colorado law must “evaluate whether an
equitable result will be achieved by disregarding the corporate form and holding the shareholder
personally liable for the acts of the business entity.” Id.

1 subsidiaries.” Id. (quotation omitted). The inquiry as to whether a subsidiary is its parent’s
2 general agent in the forum is “a pragmatic one.” Gallagher v. Mazda Motor of Am., Inc.,
3 781 F. Supp. 1079, 1085 n.10 (E.D. Pa. 1992).

4 For example, where a Japanese parent company was engaged in the manufacture
5 of watches, its subsidiaries that acted as its sole sales agents in America were “almost by
6 definition . . . doing for their parent what their parent would otherwise have to do on its
7 own.” Bulova Watch Co., Inc. v. K. Hattori & Co., Ltd., 508 F. Supp. 1322, 1342
8 (E.D.N.Y. 1981). The Bulova court thus attributed the subsidiaries’ contacts to the parent
9 company. Id.; see also Chan, 39 F.3d at 1405-06 (remanding to the district court for
10 additional findings of fact regarding agency where the German parent corporation owned
11 and operated cruise ships and its local subsidiary marketed cruises and chartered cruise
12 ships and sold the cruise ticket to the plaintiffs out of which the claims arose); Modesto City
13 Schs. v. Riso Kagaku Corp., 157 F. Supp. 2d 1128, 1135 (E.D. Cal. 2001) (holding
14 subsidiary was parent’s agent for personal jurisdiction purposes where subsidiary acted as
15 sole conduit for marketing and selling parent’s products in the United States).

16 In contrast, where the parent company owned a subsidiary mining company’s
17 stock but did not itself engage in the business of gold mining, imputing the subsidiary’s
18 forum contacts to the parent was not appropriate. Sonora Diamond Corp. v. Superior Court,
19 99 Cal. Rptr. 2d 824, 840-41 (Ct. App. 2000). As the Sonora Diamond court explained, had
20 the parent company owned “the rights to the gold and used Sonora Mining as the operating
21 and marketing entity,” then perhaps general jurisdiction over the parent company would be
22 appropriate because under those circumstances the parent company “could not reap the
23 benefits of its rights unless it or someone else removed and sold the ore.” Id. But where
24 the parent simply held the mining company as an investment, the subsidiary’s forum-related
25 contacts could not be imputed to the parent company. Id.

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1 Likewise, in Doe, the Ninth Circuit concluded a foreign company’s subsidiaries
2 were not its general agents in California because the plaintiffs presented no evidence that in
3 the absence of the California subsidiaries’ involvement in petrochemical and chemical
4 operations, the parent would have conducted and controlled those operations. Doe, 248
5 F.3d at 929. The Court reached this conclusion even though the parent company issued
6 consolidated reporting, referred to a subsidiary in an annual report as its “US unit,” and
7 stated that use of the subsidiary “would enable it to expand its marketing network and
8 produce higher value-added specialty products in the United States.” Id.

9 **III. CMS CORPORATION**

10 CMS Energy Corporation (“CMS”) is a Michigan corporation with its principal
11 place of business in Jackson, Michigan. (Joint Supplemental Mem. of Defs. CMS Energy
12 Corp., Duke Energy Carolinas, LLC, & Reliant Energy, Inc. in Supp. of Mots. to Dismiss
13 for Lack of Pers. Juris. (Doc. #963), The CMS Defendants’ App. of Facts in Supp. of the
14 Joint Mot. to Dismiss for Lack of Pers. Juris. [“Sep. CMS App.”], Ex. A at 1.) CMS
15 conducts no business and has never been qualified to do business in Colorado. (Sep. CMS
16 App., Ex. B at 1.) CMS has no office, mailing address, telephone number, bank account, or
17 property in Colorado. (Id.) It has no employees in Colorado, has never paid taxes there,
18 and has never directly advertised to Colorado residents. (Id.)

19 CMS does not itself engage in natural gas trading, production, sales, purchases,
20 distribution, or transportation. (Sep. CMS App., Ex. A at 1-2.) CMS also does not report or
21 publish natural gas trade information to any trade publication. (Id.) Rather, CMS is a
22 holding company that owns subsidiaries operating in various sectors of the power and
23 energy industries, two of which engage in natural gas trading and price reporting. (Id. at 1-
24 2, Ex. B at 1.) One such indirect subsidiary is CMS Marketing, Services and Trading
25 Company (“MST”), a Michigan corporation, that changed its name to CMS Energy
26 Resource Management Company in 2004. (Sep. CMS App., Ex. A at 2-3.) MST is a

1 subsidiary of CMS Enterprises Company, a wholly owned subsidiary of CMS. (App. to
2 Pls.' Joint Opp'n to CMS's Renewed Mot. to Dismiss for Lack of Pers. Juris (Doc. #1081)
3 ["Pls.' CMS App."], Ex. B at 2.) The other is CMS Field Services, Inc. ("Field Services"),
4 a Michigan corporation with its principal place of business in Oklahoma. (Sep. CMS App.,
5 Ex. A at 3.) In July 2003, Cantera Natural Gas, LLC purchased Field Services. (Id. at 4.)
6 While CMS owned it, Field Services was a wholly owned subsidiary of CMS Gas
7 Transmission Company, which is a wholly owned subsidiary of CMS Enterprises Company,
8 a wholly owned subsidiary of CMS. (Pls.' CMS App., Ex. B at 2-3.)

9 CMS shared at least one officer or director position with MST and Field
10 Services. For example, MST's President and Chief Operating Officer from 1999 to 2001
11 was a CMS officer. (Pls.' CMS App., Ex. D at CMS-KS-001858.) Field Services'
12 President from 1998 to 2001 also was a CMS officer. (Id.) MST, Field Services, and CMS
13 maintain separate bank accounts and separate books and records, however, CMS reports
14 Field Services' and MST's operations on CMS's consolidated financial reports. (Sep. CMS
15 App., Ex. A at 2-4.) CMS's primary source of cash is dividends and other distributions
16 from its subsidiaries. (Pls.' CMS App., Ex. A at CMS-KS-003534.) CMS did not make
17 financial guarantees on its subsidiaries' behalf, but CMS's wholly owned subsidiary, CMS
18 Enterprises Company, did. (Sep. Vol. of Evid. in Supp. of the CMS Defs.' App. of Facts in
19 Supp. of the Joint Mot. to Dismiss for Lack of Pers. Juris. ["CMS Sep. Vol. Evid."] (Doc.
20 #976), Ex. 2 at 141; Pls.' CMS App., Ex. A at CMS-KS-003544, Ex. E at CMS-KS-002106,
21 Ex. G at CMS-KS-001130, CMS-KS-001146.)

22 CMS entered into Service and Management Agreements with Field Services and
23 MST under which CMS agreed to provide various services, including general
24 administrative services, accounting, statistical and financial, risk management, tax, internal
25 auditing, information management, legal communications, engineering, public affairs, and
26 human resources services. (App. of Docs. Filed Under Seal (Doc. #1142) ["Ex. M"], Ex.

1 M, Service and Management Agreement.) Pursuant to these agreements, Field Services and
2 MST appointed CMS as their “managing agent . . . to manage and direct the business” of
3 Field Services and MST “subject to the general supervision and control of the Board of
4 Directors and officers” of Field Services and MST, respectively. (Id. at 5.)

5 CMS’s powers under the agreements include establishing corporate policies and
6 procedures with respect to all operations except those specifically excluded by the
7 agreement, including making tax and regulatory filings; opening and closing bank accounts;
8 purchasing and maintaining insurance; buying, selling, leasing, or encumbering assets;
9 employing, laying off, or dismissing employees; and conducting litigation. (Id. at 5-6.) The
10 agreements precluded CMS from engaging in certain activities, such as selling, leasing, or
11 otherwise disposing of all of Field Services’ or MST’s assets; incurring indebtedness other
12 than indebtedness to trade creditors in the ordinary course of business; forming partnerships
13 or joint ventures; or taking any other “extraordinary corporate action,” without prior
14 approval of Field Services’ or MST’s boards of directors. (Id. at 8.) In exchange, Field
15 Services and MST paid CMS an annual consulting fee and reimbursed CMS for direct
16 expenses. (Id. at 9.)

17 In addition to the Service Agreements, CMS entered into Royalty and Licensing
18 Agreements with Field Services and MST pursuant to which Field Services and MST could
19 use the CMS Energy trade name and service marks. (Ex. M, Royalty and Licensing
20 Agreement.) In return, Field Services and MST agreed to pay a royalty fee. (Id. at 3, C-1.)

21 In its 1999 annual report, CMS described itself as--

22 a leading international integrated energy company acquiring,
23 developing and operating energy facilities and providing energy
24 services in major growth markets. CMS Energy provides a complete
25 range of international energy expertise from energy production to
26 consumption. CMS Energy intends to pursue its global growth by
making energy investments that provide expansion opportunities for
multiple CMS Energy businesses.

(Pls.’ CMS App., Ex. C at CMS-KS-001006.) Similarly, in its 2000 annual report, CMS

1 described itself as “an integrated energy company with a strong asset base enhanced by an
2 active marketing services and trading capability.” (Pls.’ CMS App., Ex. D at CMS-KS-
3 001795.) CMS has stated that its “vision” was to be “an integrated energy company with a
4 strong asset base, supplemented with an active marketing, services and trading capability.”
5 (Pls.’ CMS App., Ex. E at CMS-KS-002109.)

6 Additionally, CMS has stated that it “intends to integrate the skills and assets of
7 its business units to obtain optimal returns and to provide expansion opportunities.” (Id.;
8 see also Pls.’ CMS App., Ex. C at CMS-KS-001006 (stating CMS “intends to use its
9 marketing, services and trading business to improve the return on CMS Energy’s other
10 business assets”).) In a 2001 filing with the Securities and Exchange Commission (“SEC”),
11 CMS stated that it “intends to use CMS MST to focus on wholesale customers such as
12 municipals, cooperative electric companies and industrial and commercial customers.”
13 (Pls.’ CMS App., Ex. E at CMS-KS-002072.) CMS also stated that it, “through its
14 subsidiary CMS MST, engages in trading activities.” (Id. at CMS-KS-002162.)

15 In its 2000 annual report, CMS identifies certain market risks to which it is
16 exposed including “interest rates, currency exchange rates, and certain commodity and
17 equity security prices.” (Pls.’ CMS App., Ex. D at CMS-KS-001874.) In response to these
18 risks, CMS has implemented an “enterprise-wide” risk management policy. (Id.) The
19 policy is implemented by CMS’s Risk Committee which “review[s] the corporate
20 commodity position and ensure[s] that net corporate exposures are within the economic risk
21 tolerance levels established by the Board of Directors.” (Id.) The Risk Committee is
22 comprised of CMS business unit managers and is chaired by CMS’s Chief Risk Officer.
23 (Pls.’ CMS App., Ex. E at CMS-KS-002107.)

24 CMS controls commodity-related risk primarily through its Risk Management
25 Policy. (Ex. M, CMS Energy Risk Management Policy.) CMS’s Board of Directors has
26 “ultimate authority” over the Risk Management Policy. (Id. at 6.) Determination of the

1 “levels and types of risk” CMS will accept lies within the Executive Oversight Committee’s
2 authority. (Id.) The Executive Oversight Committee consists of CMS’s Chief Executive
3 Officer, President and Chief Operating Officer, and Senior Vice President and Chief
4 Financial Officer. (Id. at 3.) MST’s President has the responsibility of “authoriz[ing] the
5 individuals within [MST] responsible for executing derivative transactions on its behalf and
6 on behalf of CMS Energy and . . . establish[ing] appropriate trading limits for said
7 individuals.” (Id.) These limits are subject to approval by the CMS Risk Committee. (Id.)
8 The Risk Committee is comprised of CMS’s Senior Vice President and Chief Financial
9 Officer, the president of each business unit, CMS’s Vice President of Risk Management,
10 and other individuals representing departments with certain transactional authority. (Id. at
11 4.)

12 The Risk Management Policy assigns to each business unit an amount of dollars
13 the Risk Committee has authorized to be at risk known as “VaR.” (Id. at 12.) VaR is “the
14 total dollars that the business unit could expect to lose, in one day’s time, if energy
15 commodity prices move in a magnitude equal to historical observations against the business
16 unit.” (Id.) Each business unit must monitor and report its operations to the Risk
17 Management Group to ensure it does not exceed its allotted VaR. (Id.) The Risk
18 Management Group consists of certain individuals within CMS Enterprises Company
19 responsible for collecting and reporting all of CMS’s business units’ books into a single
20 portfolio. (Id. at 4.) The business unit must take action to correct violations of this limit
21 within one or two days or the Risk Management Group will provide notice to the Executive
22 Oversight Committee, which notifies the Authorized Trading Group of what action must be
23 taken to correct the violation. (Id. at 12.) The Authorized Trading Group is the “entity
24 within CMS Energy authorized to negotiate for and enter into derivative agreements” on
25 CMS’s behalf. (Id. at 2.) The Risk Management Policy assigns this responsibility to MST.
26 (Id.)

1 The Risk Management Policy contains similar constraints for earnings at risk for
2 each business unit as well as limits designed to minimize the total financial loss CMS or its
3 business units may incur. (Id. at 13.) Should those limits be reached, “all activity related to
4 that transaction, book of transactions or the business unit entering into said transaction shall
5 immediately cease and no new transactions will be entered into unless specifically
6 authorized by the [Executive Oversight Committee].” (Id.) The business unit may not
7 resume business activity until authorized by the Executive Oversight Committee. (Id.)

8 The Executive Oversight Committee establishes that portion of CMS’s earnings
9 which may be exposed to energy commodity risk. (Id. at 18.) The Risk Committee then
10 allocates this limit across the various business units. (Id.) Should CMS’s earnings at risk
11 exceed the set amount, the Risk Management Group “immediately” notifies the Authorized
12 Trading Group, the Risk Committee, and the Executive Oversight Committee. (Id. at 20.)
13 Within twenty-four hours, the Risk Management Group and the Authorized Trading Group
14 must recommend actions to correct the situation. (Id.) Within forty-eight hours of
15 receiving the recommendation, the Executive Oversight Committee directs the Risk
16 Management Group and Authorized Trading Group of what actions to take. (Id.) While
17 CMS set overall limits, each subsidiary “operate[s] their businesses how they see fit within
18 those parameters.” (CMS Sep. Vol. Evid., Ex. 2 at 113.)

19 The Risk Management Policy requires each business unit to create its own
20 aggregate risk reports on a daily basis. (Ex. M, Risk Management Policy at 6, 12.) These
21 reports are provided to the head of the business unit and CMS’s Vice President for Risk
22 Management. (Id.) Under the policy, CMS was to perform an audit at least annually to
23 ensure compliance. (Id. at 14.) Violations of the policy are grounds for terminating an
24 employee. (Id. at 17.) In 2001 and 2002, CMS “identified a number of deficiencies in
25 MST’s systems of internal accounting controls.” (Pls.’ CMS App., Ex. A at CMS-KS-
26 003560.) In response, CMS senior management and the CMS Audit Committee responded

1 by replacing some personnel, deploying additional accounting personnel, and implementing
2 changes to MST's internal accounting controls. (Id.)

3 In filings with the SEC, CMS disclosed that it had notified appropriate
4 governmental authorities "that some employees at CMS MST and CMS Field Services
5 appeared to have provided inaccurate information regarding natural gas trades to various
6 energy industry publications which compile and report index prices. CMS Energy is
7 cooperating with investigations by the Commodity Futures Trading Commission,
8 Department of Justice and [the Federal Energy Regulatory Commission] regarding this
9 matter." (Id.) In 2005 filings with the SEC, CMS indicated that MST engaged in "round-
10 trip trading transactions (simultaneous, prearranged commodity trading transactions in
11 which energy commodities were sold and repurchased at the same price)," and the
12 Department of Justice was investigating CMS. (Pls.' CMS App., Ex. I at CMS-KS-
13 010797.) CMS also disclosed that, pursuant to existing indemnification policies, it was
14 advancing legal defense costs to two former Field Services employees in a civil injunction
15 action filed by the Commodity Futures Trading Commission ("CFTC"). (Id. at CMS-KS-
16 010798.)

17 In November 2003, MST and Field Services entered into a settlement with the
18 CFTC. (Pls.' CMS App., Ex. B.) The CFTC found that from November 2000 through
19 September 2002, MST and Field Services reported false natural gas trade information to
20 price and volume reporting firms. (Id. at 2-3.) Under the settlement, MST and Field
21 Services agreed to cease and desist from further violations and to pay a \$16 million penalty.
22 (Id. at 5.) Additionally, MST, Field Services, CMS, and Cantera Natural Gas, Inc. agreed to
23 cooperate with the investigation, by, among other things, preserving records, fully
24 complying with inquiries or requests for records, producing witnesses, and assisting in
25 locating prior employees. (Id. at 6-7.) CMS, MST, and Field Services also agreed not to
26 make any public statement denying the CFTC's findings. (Id. at 7.)

1 By October 2002, Field Services ceased submitting natural gas price reports to
2 trade publications. (Sep. CMS App., Ex. C at 5.) In January 2003, MST sold a major
3 portion of its wholesale natural gas trading book to a third party. (Pls.' CMS App., Ex. A at
4 CMS-KS-003478.) By 2003, CMS had "eliminated virtually all of the business of [MST]." (Pls.' CMS App., Ex. J at CMS-KS-008608.) After that time, MST's remaining business
5 "focuses on buying the fuel needed by [CMS's] domestic independent power plants and
6 selling the uncontracted energy they produce." (Id.)

7
8 Plaintiffs do not contend this Court may assert personal jurisdiction over CMS
9 based on CMS's own contacts with Colorado. (Pls.' Joint Opp'n to CMS Energy
10 Corporation's Mot. to Dismiss for Lack of Pers. Juris. (Doc. #1080) at 4-5.) Consequently,
11 CMS is subject to personal jurisdiction in Colorado only if the forum acts of its subsidiaries,
12 Field Services and/or MST, are attributable to it through alter ego or agency principles.⁴

13 **A. Alter Ego**

14 Plaintiffs have failed to establish a prima facie case of personal jurisdiction based
15 on MST or Field Services being CMS's alter ego. CMS indirectly wholly owns both
16 subsidiaries. The companies did not share offices and had only one overlapping officer or
17 director. CMS did not make financial guarantees on MST's or Field Services' behalf. The
18 companies maintained separate books and records. Although MST and Field Services were
19 permitted to use the CMS trade name and service marks, they had to pay a royalty fee to do
20 so.

21 Under the Services and Management Agreements, CMS provided corporate
22 services to MST and Field Services and acted as the subsidiaries' managing agent.
23 However, MST and Field Services contractually were required to pay for those services,
24 and CMS's activities were subject to the control of the subsidiaries' boards of directors.

25
26 ⁴ The Court will assume that if Field Services' and/or MST's forum-related acts are attributable to CMS, the Colorado long-arm statute is satisfied.

1 The Services and Management Agreements set forth certain actions CMS could not
2 undertake as managing agent without the prior written approval of the subsidiaries' boards
3 of directors. Such restrictions are inconsistent with alter ego status.

4 CMS's promulgation of general policies for its subsidiaries is consistent with its
5 indirect investor status. CMS, as an investor up the corporate chain, is entitled to monitor
6 Field Services' and MST's performance and limit the risk to its investment that it is willing
7 to accept. Consequently, any daily reporting of information from Field Services and MST
8 to CMS is in accord with CMS's investor oversight role. No evidence suggests CMS gave
9 daily control commands to Field Services or MST. Rather, the record demonstrates that,
10 consistent with its investor status, CMS set general policies and guidelines regarding certain
11 overall limits, such as limits on VaR and earnings at risk. Plaintiffs present no evidence
12 that CMS played a role in the day-to-day conduct of Field Services' and MST's operational
13 business. For example, with respect to natural gas trading, while CMS set overall limits on
14 certain metrics, CMS had no role in making the day-to-day decisions of who Field Services
15 or MST was to trade with, when, for what amount of natural gas, and at what price.

16 Although the Risk Management Policy permitted CMS to cease any subsidiary business
17 activity when certain limits were exceeded, Plaintiffs present no evidence CMS ever did so,
18 much less that it did so on a daily basis with respect to Field Services and MST. Plaintiffs
19 also present no evidence CMS had any role in Field Services' or MST's price reporting to
20 indices.

21 Even if Plaintiffs had established a lack of corporate separateness, Plaintiffs have
22 not established a fraud or injustice would result if the Court failed to pierce the corporate
23 veil. Plaintiffs contend it would be unjust to permit CMS to reap the benefits of Field
24 Services' and MST's alleged unlawful behavior by enjoying profits from its indirect
25 subsidiaries' trading activities while escaping liability for their alleged misconduct.
26 However, the alleged illegal price manipulation cannot itself constitute the fraud or injustice

1 necessary to pierce the corporate veil. Rather, CMS must have had some fraudulent intent
2 at Field Services' or MST's inception or some later abuse of the corporate form such that
3 failing to treat the entities as one would be inequitable. Plaintiffs present no evidence Field
4 Services or MST was undercapitalized at its inception. Further, the fact that the two
5 companies operated as legitimate businesses for years suggests a lack of fraudulent intent or
6 perpetration of a fraud through use of the corporate structure on the parent's part.

7 Plaintiffs' fear that they may not be able to collect on a judgment in this action
8 against Field Services or MST does not constitute fraud or injustice to support piercing the
9 corporate veil. The Court therefore finds Plaintiffs have not met their burden of
10 establishing Field Services or MST is CMS's alter ego, and the Court will not attribute
11 these subsidiaries' contacts with Colorado to CMS for purposes of determining personal
12 jurisdiction based on alter ego principles.

13 **B. Agency**

14 Plaintiffs have failed to establish a prima facie case that Field Services or MST
15 was CMS's general agent in Colorado. CMS's business is not purely a holding company in
16 the sense that it does not passively hold stock in companies from an unrelated range of
17 businesses. CMS describes itself as an integrated energy company and has referred to the
18 synergistic benefits of its trading business line with the business lines of other subsidiaries it
19 owns.

20 Although CMS identifies natural gas trading and marketing as one of its business
21 segments, Plaintiffs have not established that Field Services' or MST's sales of natural gas
22 in Colorado were sufficiently important to CMS that if Field Services or MST did not make
23 the sales in Colorado, CMS would have done so itself. CMS did not conduct any
24 operational business itself. Natural gas trading activity was a separate business segment
25 operated through an indirect subsidiary. Further, CMS subsequently sold Field Services,
26 and MST ceased natural gas trading and reporting, suggesting that these subsidiaries'

1 trading activities were not sufficiently important to CMS that it would perform the activities
2 itself if its indirect subsidiaries did not do so on its behalf.

3 Moreover, Plaintiffs have presented no evidence that Field Services' and MST's
4 natural gas sales in Colorado in particular were sufficiently important to CMS's business
5 that CMS would have performed the sales in Colorado itself absent its subsidiaries'
6 representation in the forum. See Modesto City Schs., 157 F. Supp. 2d at 1135 (noting
7 twenty percent of parent's products were sold through subsidiary which acted as parent's
8 "sole conduit for marketing and selling its products in the United States"); Bulova Watch
9 Co., Inc., 508 F. Supp. at 1344 (noting that sixty percent of parent's products were sold as
10 exports and the United States was the parent company's largest export market through its
11 New York subsidiaries' sales in the United States). Consequently, Plaintiffs have not
12 shown that Field Services' or MST's Colorado natural gas sales played a significant role in
13 CMS's "'organizational life'" such that it acted as a substitute for CMS in the forum.
14 Bulova Watch Co., Inc., 508 F. Supp. at 1344. The Court therefore will not attribute Field
15 Services' and MST's Colorado contacts to CMS under agency principles.⁵

16
17 ⁵ The result would be the same under general Colorado agency law. In Colorado, "express
18 authority exists if the principal directly states that an agent has authority to perform a particular act on
19 the principal's behalf." Villalpando v. Denver Health & Hosp. Auth., 181 P.3d 357, 362-63 (Colo. Ct.
20 App. 2007). Implied authority includes the authority to perform acts incidental to expressly granted
21 authority, or acts that are "necessary, usual, and proper to accomplish or perform, the primary authority
22 expressly delegated to the agent." Id. at 363. Colorado also recognizes apparent agency upon a
23 showing the principal's words or conduct reasonably cause a person to believe the principal consents
24 to the agent acting on his behalf, and the person in good faith relies on a belief that an agency
25 relationship exists between the apparent principal and agent. Id.

26 Here, Plaintiffs have presented evidence that CMS delegated to MST the authority to conduct
derivative trading on CMS's behalf under the Risk Management Policy. However, Plaintiffs have
presented no evidence MST engaged in derivative transactions in Colorado pursuant to this authority.
Additionally, Plaintiffs have presented a comment in an SEC filing that CMS engages in trading
activity "through" MST. The statement is not an express authorization for MST to sell natural gas on
CMS's behalf as CMS's agent with authority to bind CMS. Rather, it describes CMS's business line
operationally conducted through its subsidiary. Plaintiffs present no other evidence that CMS
expressly delegated trading authority on CMS's behalf to MST. As to apparent agency, Plaintiffs have

1 The Court will not attribute Field Services' or MST's contacts with the forum to
2 CMS, and CMS has no contacts of its own sufficient to support personal jurisdiction. The
3 Court therefore will grant CMS's motion to dismiss for lack of personal jurisdiction.

4 **IV. DUKE ENERGY CAROLINAS, LLC**

5 Duke Energy Carolinas, LLC ("DEC") is a North Carolina limited liability
6 company formerly known as Duke Energy Corporation, a North Carolina corporation.
7 (Joint Supplemental Mem. of Defs. CMS Energy Corp., Duke Energy Carolinas, LLC, &
8 Reliant Energy, Inc. in Supp. of Mots. to Dismiss for Lack of Pers. Juris. (Doc. #963),
9 Separate App. of Facts Regarding Duke Energy Carolinas, LLC ["Sep. DEC App."], Ex. A
10 at 1.) Duke Energy Corporation converted to a limited liability company and renamed itself
11 DEC in April 2006. (Renewed Mot. to Dismiss for Lack of Pers. Juris. (Doc. #872) ["DEC
12 Mot."], Ex. A at 2.) DEC primarily engages in the business of generating, transmitting,
13 distributing, and selling electric energy in North and South Carolina. (Id. at 3.)

14 DEC does not maintain offices, conduct business, own property, or maintain a
15 bank account in Colorado. (Sep. DEC App., Ex. A at 2, Ex. C at 2, Ex. D at 2.) DEC has
16 not applied for or received a certificate of authority to transact business in Colorado and has
17 no registered agent for service of process in Colorado. (Sep. DEC App., Ex. B at 2.)

18 DEC wholly owns Duke Capital Corporation, which in turn wholly owns Pan
19 Energy Corp. (App. to Pls.' Joint Opp'n to Duke Energy Carolinas, LLC's Mot. to Dismiss
20 for Lack of Pers. Juris. (Doc. #1084) ["Pls.' DEC App."], Ex. F.) Pan Energy Corp. wholly
21 owns Duke Energy Services, Inc., which wholly owns Duke Energy Natural Gas
22 Corporation. (Id.) Duke Energy Natural Gas Corporation wholly owns DETMI
23 Management, Inc. (Id.) DETMI Management, Inc. owns a sixty percent interest in Duke

24 _____
25 presented evidence that CMS permitted Field Services and MST to use the "CMS" name and logo in
26 marketing natural gas in Colorado. However, Plaintiffs have presented no evidence that anyone relied
on an apparent agency relationship between CMS and Field Services or MST.

1 Energy Trade and Marketing, LLC (“DETM”), a Defendant in this action and the subsidiary
2 whose contacts with Colorado Plaintiffs seek to attribute to DEC. (DEC Mot., Ex. C at 2.)
3 Mobil Natural Gas, Inc. (“MNGI”), an indirect subsidiary of Exxon Mobil Corporation,
4 owns the other forty percent of DETM. (Id. at 2-3.)

5 DETM was created in 1996 as a Delaware limited liability company pursuant to a
6 limited liability company agreement and limited partnership agreement. (Pls.’ DEC App.,
7 Ex. E at 34-35; App. of Docs. Filed Under Seal (Doc. #1125) [“Sealed DEC App.”], Ex. L
8 at DEMDL000383; DEC Separate Vol. of Evid. in Supp. of the Separate App. of Facts
9 Regarding Duke Energy Carolinas, LCC (Doc. #968) [“DEC Separate Vol. Evid.”], Ex. 7.)
10 The company now known as DETM originally was called PanEnergy Trading and
11 Marketing Services, LLC, and was created by an agreement between PTMSI Management,
12 Inc. and MNGI. (DEC Separate Vol. Evid., Ex. 7 at 1, 6, 7, 10.) PTMSI Management,
13 Inc.’s parent company at the time was PanEnergy Corp. (Id. at 7, 10.) PanEnergy Corp.
14 was acquired by Duke Energy Corporation in 1997 and PanEnergy Trading and Marketing
15 Services, LLC was renamed to DETM. (DEC Separate Vol. Evid., Ex. 9 at 2.) DETM is
16 engaged in the purchase and sale of natural gas and electricity at wholesale. (DEC Mot.,
17 Ex. C at 3.) DETM concedes personal jurisdiction in this action. (Pls.’ DEC App., Ex. A at
18 2.)

19 DETM is run by a Management Committee consisting of three representatives
20 from the Duke Energy side and two representatives from the Exxon Mobil side. (Sealed
21 DEC App., Ex. L at DEMDL000400.) The Management Committee acts through the
22 delegation of certain responsibilities and authority to the managing member, which in 2001
23 and 2002 was DETMI Management, Inc. (Id.) Although DETMI Management, Inc. was
24 the managing member, and through its majority status on the committee could outvote the
25 MNGI members on certain matters, the limited liability company agreement mandated that
26 some actions required unanimous approval by the Management Committee. (DEC Separate

1 Vol. Evid., Ex. 7 at 17, 24, 26-27.) In at least one instance, the MNGI members refused to
2 agree to a business plan supported by the DETMI Management, Inc. members. (Pls.' DEC
3 App., Ex. E at 67-69.)

4 No DEC director serves as an officer or director for DETM. (DEC Mot., Ex. A
5 at 4.) In DEC's 2000 annual report, DEC identified a "management team" which includes
6 Jim W. Mogg ("Mogg"), Chief Executive Officer of Duke Energy Field Services; Kirk B.
7 Michael ("Michael"), Vice President and Chief Financial Officer for Finance and Planning;
8 James Donnell ("Donnell"), President and Chief Executive Officer for Duke Energy North
9 America; and Ronald Green ("Green"), President and Chief Executive Officer for
10 Duke/Fluor Daniel. (Pls.' DEC App., Ex. B at DEMDL001901.) Mogg, Michael, Donnell,
11 and Green were members of the DETM Management Committee at one point or another.
12 (Sealed DEC App., Ex. L at DEMDL001702, DEMDL001706, DEMDL001711.)

13 DEC and DETM maintain separate corporate records. (DEC Mot., Ex. A at 4.)
14 DEC provided corporate services to DETM, including administering employee health
15 insurance, human resources, computer technology, legal services, and credit risk
16 management. (Pls.' DEC App., Ex. A at 4-5.) Throughout the relevant time period, DETM
17 regularly used, and was permitted to use, the "Duke Energy" and "Mobil" logos. (Id. at 5.)
18 DETM did not have any agency agreements or power of attorney for DEC, and did not
19 register to do business on DEC's behalf in Colorado during the relevant time period. (Id.)

20 DETM was financed through a \$150 million funding facility, of which DETMI
21 Management, Inc. provided sixty percent and MNGI funded the other forty percent. (DEC
22 Separate Vol. Evid., Ex. 3 at 35.) In DETM's financial statements, it twice indicated that
23 DEC was responsible for providing operational interest-free contributions, on a
24 proportionate basis with Exxon Mobil, to fund DETM's operations. (DEC Sealed App., Ex.
25 L at DEMDL00383, DEMDL00400.) According to Richard McGee ("McGee"), former
26 general counsel for energy services for DEC and current president of DEC's international

1 business, these statements were a mistake, as PanEnergy Corp., not DEC, is responsible for
2 making contributions under the funding facility agreement. (Pls.' DEC App., Ex. E at 6,
3 138-40.) DEC's consolidated financial reports reflected sixty percent of DETM's profits
4 and losses during the relevant time period. (Pls.' DEC App., Ex A at 6.)

5 DEC describes itself, collectively with its subsidiaries, as "an integrated energy
6 and energy services provider with the ability to offer physical delivery and management of
7 both electricity and natural gas throughout the U.S. and abroad." (Pls.' DEC App., Ex. B at
8 DEMDL001846.) DEC provides these services through various "business segments," one
9 of which includes DETM's natural gas trading. (Id.) DEC describes its business strategy as
10 "develop[ing] integrated energy businesses in targeted regions where Duke Energy's
11 extensive capabilities in developing energy assets, operating electricity, natural gas and
12 NGL plants, optimizing commercial operations and managing risk can provide
13 comprehensive energy solutions for customers and create superior value for shareholders."
14 (Id.)

15 DEC has created "[c]omprehensive risk management polices" to monitor and
16 manage market, commodity price, credit, and other risks to which DEC and its subsidiaries
17 are exposed. (Id. at DEMDL001854-55.) As part of its risk management policies, DEC
18 monitors certain metrics, such as value-at risk ("VAR") and daily earnings at risk ("DER")
19 on a daily basis. (Id. at DEMDL001855.) DEC has several committees which perform risk
20 management, including the Corporate Risk Management Committee, the Energy Risk
21 Management Committee, and the Financial Risk Management Committee. (Pls.' DEC
22 App., Ex. E at 80.) DEC appointed the members of each of these committees. (Id.)
23 Through these polices and committees, DEC sets overall risk guidelines for its subsidiaries.

24 For example, DEC adopted a Code of Business Ethics which applied to every
25 DEC subsidiary. (Pls.' DEC App., Ex. J, Ex. E at 100-01.) This policy mandated
26 compliance with applicable antitrust laws. (Pls.' DEC App., Ex. J at 12.) This policy was

1 implemented and supervised by DEC's Corporate Compliance Committee. (Id. at 15.) The
2 Corporate Compliance Committee was responsible for updating the code, establishing
3 education programs for employees about ethics and compliance issues, providing guidance
4 under the code, monitoring and auditing compliance, reporting periodically to management
5 and the Audit Committee of DEC's Board of Directors, and reporting violations to the
6 appropriate governmental authorities. (Id.) DETM either incorporated this policy by
7 reference or adopted a similar policy. (Pls.' DEC App., Ex. E at 115-16.)

8 DEC also has a Corporate Credit Risk policy. (Sealed DEC App., Ex. L at
9 DEMDL001382, DEMDL001388.) Under this policy, DEC's Chief Risk Officer chairs the
10 Risk Management Committee. (Id.) The Risk Management Committee meets at least
11 monthly and is responsible for reviewing business trends and credit exposure, monitoring
12 compliance with the policy, identifying where new policies are needed, and ensuring
13 "consistent and mutually reinforcing credit and market risk management strategies through
14 various corporate risk policies and associated guidelines for implementing policy." (Id.)
15 The policy also sets forth the duties of the Chief Credit Officer, which includes the ability
16 to "stop business activity that would increase credit exposure, as is necessary, to protect
17 Duke Energy's balance sheet." (Id.) The Chief Credit Officer reports to the Chief Risk
18 Officer. (Id.)

19 DEC has a Corporate Risk Management Committee consisting of DEC's chief
20 financial officer and DEC Policy Committee members. (Id. at DEMDL001488.) This
21 Committee establishes "comprehensive risk management policies to monitor and control
22 identified risks." (Id.) DEC's Corporate Risk Management Committee delegates some
23 responsibilities to the Energy Risk Management Committee and the Financial Risk
24 Management Committee, but retains oversight responsibilities. (Id.) The Energy Risk
25 Management Committee has responsibility for overseeing energy risk management
26 practices and recommending energy commodity exposure limits, subject to approval by the

1 Corporate Risk Management Committee. (Id.) The Financial Risk Management
2 Committee is responsible for managing risks related to interest rates, foreign currency, and
3 credit. (Id.)

4 Within DETM, “[u]ltimate risk control responsibility resides with the DETM
5 Management Committee.” (Id. at DEMDL001489.) The DETM Management Committee
6 oversees the risk management and control function and approves policies and controls for
7 DETM. For example, DETM adopted its own Risk Management and Trading Policies and
8 Controls. (Id. at DEMDL001484.) DETM’s Management Committee “delegates the day-
9 to-day overview of the risk management and control function” to the DEC Energy Risk
10 Management Committee. (Id. at DEMDL001489.) “However, overall responsibility for
11 DETM’s performance targets, business plans and approved risk levels remains with the
12 Management Committee.” (Id.) Although DETM’s Risk Management and Trading
13 Policies and Controls states that the Management Committee delegates “day-to-day
14 overview” to the DEC Energy Risk Management Committee, it describes the Energy Risk
15 Management Committee’s functions as meeting “at least monthly” to establish risk
16 management policies, controls, and practices, and overseeing and approving excesses of
17 overall limits. (Id. at DEMDL001489-90.) When it comes to operational control, the policy
18 vests that authority in DETM Senior Management. (Id. at DEMDL001490.) DETM Senior
19 Management is responsible for “[d]evelopment of trading strategies; [a]ctive management
20 of trading within overall limits; [a]llocation of limits to traders and/or books; [e]nforcing
21 the risk control environment; [a]dvocating new limits and products; and [a]dvocating
22 exceptions or revisions to policy when appropriate.” (Id.) Beneath DETM Senior
23 Management, the origination and trading groups actually conduct the transactions with
24 customers. (Id.)

25 DEC’s Energy Risk Management Committee is not responsible for managing
26 energy price risk for DETM. (Separate DEC Vol. Evid., Ex. 10 at DEMDL001569.)

1 Instead, DETM manages its own energy price risk pursuant to its own risk management
2 policy. (Id.) However, that policy is subject to approval by the Corporate Risk
3 Management Committee. (Id.) In similar fashion, DETM decides whether to extend credit,
4 subject to the Financial Risk Committee's Credit Quality Guidelines. (Id. at
5 DEMDL001495.) According to McGee, DEC's risk management policies "would have
6 applied to DETM only to the extent that . . . the management committee of DETM had
7 adopted a policy that was similar to this or [DETMI,] in discharging its responsibilities as a
8 managing member of DETM . . . adopt[ed] policies that it saw fit in connection with
9 discharging those duties." (Pls.' DEC App., Ex. E at 100.) These policies "were either
10 largely consistent with or in some cases maybe identical to some of" DEC's policies. (Id.)

11 At a July 2000 DETM management committee meeting, the MNGI representative
12 expressed some concern that certain personnel now working for DETM would be shared
13 between DETM and Duke Energy North America, LLC. (Sealed DEC App., Ex. L at
14 DEMDL001707.) Specifically, the MNGI representative was concerned that because
15 DETM senior managers "would have dual responsibilities, working for both DETM and
16 Duke Energy or Duke affiliates, [they] would face conflicts because their compensation is
17 based on performance of two entities with differing Duke ownership shares." (Id.) At a
18 September 2001 DETM management committee meeting, the Exxon Mobil representative
19 "objected to the way the business had been run including a perceived lack of separation
20 between [Duke Energy North America] and DETMI." (Id. at DEMDL001718.)

21 In May 2002, DETM's outside auditor, Deloitte & Touche, sent a letter to the
22 DETM management committee highlighting certain areas of concern. (Id. at
23 DEMDL002687.) Among the concerns Deloitte & Touche highlighted was that DETM's
24 operations were "highly integrated into the overall strategy of Duke Energy North America
25 ('DENA'). There are instances where the distinctiveness between DETM and other
26

1 affiliates of its owners could be enhanced.”⁶ (Id. at DEMDL002692.)

2 In September 2003, the CFTC entered into a settlement with DETM regarding
3 allegations that DETM manipulated the natural gas market. (DEC Mot., Ex. F.) The CFTC
4 found that from January 2000 through August 2002, DETM’s Houston office reported to
5 price reporting firms false price and volume information regarding natural gas transactions.
6 (Id. at 2-3.) As part of the settlement, DETM agreed to cease and desist from any future
7 violations, and agreed to pay a \$28 million fine. (Id. at 5.) Additionally, both DETM and
8 Duke Energy Corporation (DEC’s predecessor) agreed to cooperate in any future
9 investigations arising out of this investigation, to preserve records, to produce documents
10 when requested, and to provide assistance in locating and contacting any prior employees.
11 (Id.) DETM and Duke Energy Corporation also agreed not to publicly deny the CFTC’s
12 findings of fact. (Id. at 6.) DEC attorneys and senior executives participated in internal
13 investigations into DETM’s price reporting activities. (Pls.’ DEC App., Ex. A at 6.)

14 In April 2003, DEC announced that two of its subsidiaries, Duke Energy North
15 America and Duke Energy Merchants, would cease proprietary trading of natural gas and
16 power. (DEC Mot., Ex. G.) DETM also ceased speculative natural gas trading in 2003.
17 (Pls.’ DEC App., Ex. A at 5.) After that time, DETM continued to buy and sell natural gas
18 “for the purpose of meeting and hedging its obligations to supply gas-fired power plants
19 owned by Duke Energy North America, Inc. and other affiliates and to meet natural gas
20 supply commitments it has made.” (Id.) By the end of 2004, DEC “made substantial
21 progress on winding down” the DETM joint venture with Exxon Mobil, and had
22 “completed or signed transactions to sell about 90 percent of that business.” (Pls.’ DEC
23 App., Ex. G.)

24
25 ⁶ DEC objects to the admission of the Deloitte & Touche letter as inadmissible hearsay.
26 Because consideration of the letter does not affect the outcome of this decision, the Court will deny
DEC’s objection.

1 Plaintiffs concede they are not contending this Court may assert personal
2 jurisdiction over DEC based on DEC's own contacts with Colorado. (Pls.' Joint Opp'n to
3 Duke Energy Carolinas, LLC's Mot. to Dismiss for Lack of Pers. Juris. (Doc. #1083) at 5.)
4 Consequently, DEC is subject to personal jurisdiction in Colorado only if the forum acts of
5 its subsidiary, DETM, are attributable to it through alter ego or agency principles.⁷

6 **A. Alter Ego**

7 Plaintiffs have failed to establish a prima facie case of personal jurisdiction based
8 on DETM being DEC's alter ego. DEC indirectly owns only sixty percent of DETM.
9 DETM thus is neither DEC's direct subsidiary nor its wholly owned subsidiary. The
10 companies did not share offices and had virtually no overlapping officers or directors. That
11 other officers and directors of other DEC subsidiaries may have overlapped or that DEC
12 identified certain DETM Management Committee members as part of an overall
13 "management team" does not indicate a lack of separateness between DEC and DETM.
14 Likewise, the fact that MNGI and/or Deloitte & Touche perceived a possible lack of
15 separateness between DETM and Duke Energy North America does not establish a lack of
16 separateness between DETM and DEC. Nor does the possibility that DEC was responsible
17 for making contributions under the funding facility or that DEC provided corporate
18 services, such as legal or human resources support.

19 Plaintiffs have presented no evidence that DEC controlled DETM's daily
20 operations. Under the limited liability company agreement, DETMI Management, Inc. was
21 the managing agent, not DEC. And as to DETMI Management, Inc., it did not have
22 complete control over DETM as the MNGI representatives' approval was required for any
23 material decisions. In at least one instance, DETMI Management, Inc. was unable to
24 implement the business plan it desired because it could not obtain the approval of the

25
26 ⁷ The Court will assume that if DETM's forum-related acts are attributable to DEC, the Colorado long-arm statute is satisfied.

1 MNGI representatives on the Management Committee.

2 DEC's promulgation of general policies for its subsidiaries is consistent with its
3 indirect investor status. DEC, as an investor up the corporate chain, is entitled to monitor
4 DETM's performance. Consequently, any daily reporting of information from DETM to
5 DEC is in accord with DEC's investor oversight role. No evidence suggests DEC gave
6 daily control commands to DETM or even to DETMI Management, Inc. Rather, the record
7 demonstrates that, consistent with its investor status, DEC set general policies and
8 guidelines regarding best policies and practices, as well as certain overall limits, such as
9 limits on credit risk. However, DEC's broad policies applied to DETM only to the extent
10 DETM's Management Committee adopted those policies, in whole or in part, through
11 DETMI Management, Inc.'s status as a majority member.

12 Moreover, DETM's delegation of certain risk management oversight to DEC's
13 Energy Risk Management Committee does not demonstrate daily control. The Energy Risk
14 Management Committee meets "at least monthly," and is responsible for establishing risk
15 managing practices and controls, monitoring daily reports, and overseeing and approving
16 any excesses of a risk limit. (Sealed DEC App., Ex. L at DEMDL001490.) The Energy
17 Risk Management Committee thus established broad guidelines under which DETM
18 operated and became involved, if ever, only when overall limits were exceeded. Actual
19 operational decisions, such as developing trading strategy, actively managing trading within
20 overall limits, allocating limits among traders, and enforcing risk control, were the
21 responsibility of DETM Senior Management.

22 Further, with respect to DETM's day-to-day conduct of its business within these
23 guidelines, Plaintiffs present no evidence DEC had any role. For example, with respect to
24 natural gas trading, while DEC set overall limits on certain metrics, DEC had no role in
25 making the day-to-day decisions of who DETM was to trade with, when, for what amount
26 of natural gas, and at what price. Plaintiffs also present no evidence DEC had any role in

1 DETM's price reporting to indices. Plaintiffs present evidence that DEC policies granted
2 DEC's chief credit officer with veto power over any DETM business activity, but Plaintiffs
3 present no evidence that authority ever was exercised over DETM generally or particularly
4 with respect to any natural gas trades in Colorado or anywhere else.

5 Even if Plaintiffs had established a lack of corporate separateness, Plaintiffs have
6 not established a fraud or injustice would result if the Court failed to pierce the corporate
7 veil. Plaintiffs contend it would be unjust to permit DEC to reap the benefits of DETM's
8 alleged unlawful behavior by enjoying profits from DETM's trading activities while
9 escaping liability for DETM's alleged misconduct. However, the alleged illegal price
10 manipulation cannot itself constitute the fraud or injustice necessary to pierce the corporate
11 veil. Rather, DEC must have had some fraudulent intent at DETM's inception or some later
12 abuse of the corporate form such that failing to treat the entities as one would be
13 inequitable. Plaintiffs present no evidence DETM was undercapitalized at its inception.
14 DEC was not involved in forming DETM and became its indirect parent through DEC's
15 acquisition of DETM's ultimate parent, PanEnergy Corp. Further, the fact that DETM
16 operated as a legitimate business for years suggests a lack of fraudulent intent or
17 perpetration of a fraud through use of the corporate structure on the parent's part.

18 Plaintiffs' fear that they may not be able to collect on a judgment in this action
19 against DETM does not constitute fraud or injustice to support piercing the corporate veil.
20 The Court therefore finds Plaintiffs have not met their burden of establishing DETM is
21 DEC's alter ego, and the Court will not attribute DETM's contacts with Colorado to DEC
22 for purposes of determining personal jurisdiction based on alter ego principles.

23 **B. Agency**

24 Plaintiffs have failed to establish a prima facie case that DETM was DEC's
25 general agent in Colorado. DEC's primary business is the generation and supply of
26 electricity to end users in North and South Carolina. DEC also acts as a holding company,

1 but it is not purely a holding company in the sense that it does not passively hold stock in
2 companies from an unrelated range of businesses. DEC has described itself as a “an
3 integrated energy and energy services provider with the ability to offer physical delivery
4 and management of both electricity and natural gas throughout the U.S. and abroad.” (Pls.’
5 DEC App., Ex. B at DEMDL001846.)

6 In practice, DEC itself does not perform these activities beyond the generation
7 and transmission of electricity in North and South Carolina, but holds the shares of various
8 subsidiaries which either engage in those activities or which in turn own subsidiaries which
9 perform those business operations. Among these business operations was DEC’s North
10 American Wholesale Energy business segment, which included DETM’s natural gas-related
11 activities. (Id.)

12 Although DEC identifies natural gas trading and marketing as one of its business
13 segments, Plaintiffs have not established that DETM’s sales of natural gas in Colorado were
14 sufficiently important to DEC that if DETM did not make the sales in Colorado, DEC
15 would have done so itself. DEC’s primary business was electricity generation and
16 transmission in North and South Carolina. Natural gas trading activity was a separate,
17 fragmented component of one of DEC’s other business segments operated through an
18 indirect, partially owned subsidiary. Further, the fact that DETM subsequently ceased
19 natural gas trading in 2003 suggests that DETM’s trading activities were not sufficiently
20 important to DEC that it would perform the activities itself if DETM did not do so on its
21 behalf.

22 Moreover, Plaintiffs have presented no evidence that DETM’s natural gas sales
23 in Colorado in particular were sufficiently important to DEC’s business that DEC would
24 have performed the sales in Colorado itself absent its subsidiary’s representation in the
25 forum. See Modesto City Schs., 157 F. Supp. 2d at 1135; Bulova Watch Co., Inc., 508 F.
26 Supp. at 1344. Consequently, Plaintiffs have not shown that DETM’s Colorado natural gas

1 sales played a significant role in DEC's "organizational life" such that it acted as a
2 substitute for DEC in the forum.⁸ Bulova Watch Co., Inc., 508 F. Supp. at 1344. The Court
3 therefore will not attribute DETM's Colorado contacts to DEC for personal jurisdiction
4 purposes based on agency principles.

5 The Court will not attribute DETM's contacts with the forum to DEC, and DEC
6 has no contacts of its own sufficient to support personal jurisdiction. The Court therefore
7 will grant DEC's motion to dismiss for lack of personal jurisdiction.

8 **V. RELIANT ENERGY, INC.**

9 Reliant Energy, Inc. ("REI") is a Delaware corporation with its principal place of
10 business in Texas. (Def. Reliant Energy, Inc.'s Mot. to Dismiss for Lack of Pers. Juris.
11 (Doc. #869), Ex. A ["Jines Decl.,"] at 2.) REI as it currently exists came into being in
12 response to changes in Texas regulatory laws. (Id.) The company formerly known as
13 Reliant Energy, Incorporated divided itself into CenterPoint Energy, Inc. ("CenterPoint")
14 and Reliant Resources, Inc. ("RRI"). (Id.) After CenterPoint divested itself of its RRI
15 stock, the two companies became separate entities and RRI changed its name to REI, the
16 Defendant in this action. (Id. at 2-3.) Under the Master Separation Agreement resulting in
17 RRI's existence as a separate entity, RRI agreed that it would indemnify, defend, and hold
18 harmless Reliant Energy, Incorporated, and in certain cases, that it would cause its
19 subsidiaries to do so as well, for liabilities arising out of RRI and its subsidiaries' business
20 operations, including business operations that pre-dated the agreement. (App. of Docs.
21 Filed Under Seal ["Sealed REI App.,"] (Doc. #1126), Ex. E at REILJ012883, Ex. F at
22 REILJ009719.)

23
24 ⁸ The result would be the same under general Colorado agency law. Plaintiffs present no
25 evidence of any manifestation by DEC to DETM that DETM may act on DEC's account. Although
26 Plaintiffs have presented evidence DEC permitted DETM to market natural gas using the "Duke
Energy" name and logo, Plaintiffs have not presented any evidence that any third party relied on an
apparent agency between DEC and DETM.

1 REI is a holding company that does not itself buy, sell, or transport natural gas,
2 nor does it report natural gas prices to any price reporting firms or price index publishers.
3 (Id. at 3-4; Joint Supplemental Mem. of Defs. CMS Energy Corp., Duke Energy Carolinas,
4 LLC, & Reliant Energy, Inc. in Supp. of Mots. to Dismiss for Lack of Pers. Juris. (Doc.
5 #963), Reliant Energy, Inc.'s App. in Supp. of Its Mots. to Dismiss for Lack of Pers. Juris.
6 ["REI App."], Ex. B at 2.) REI does not have any offices, employees, property, bank
7 accounts, phone listings, or mailing addresses in Colorado. (REI App., Ex. C at 2, Ex. D at
8 2, Ex. E at 2.) REI does not pay taxes in Colorado and has never sold or traded natural gas
9 in Colorado. (REI App., Ex. B at 2, Ex. F at 2.) Other than advertising in publications
10 available nationwide, REI has not directed advertising specifically towards Colorado. (REI
11 App., Ex. G at 2.)

12 REI has a wholly owned subsidiary, Reliant Energy Services, Inc. ("RES").
13 (Jines Decl. at 3.) RES formerly was known as NorAm Energy Services, Inc., and it already
14 existed as a subsidiary of NorAm Energy Corp. when a company called Houston Industries
15 Incorporated acquired NorAm Energy Corp. in 1997. (REI & RES's Stip. of Fact in
16 Connection With Pers. Juris. Disc. (Doc. #1054) ["Stip.,"] at 2.) In 1999, Houston
17 Industries Incorporated changed its name to Reliant Energy, Incorporated and NorAm
18 Energy Services, Inc. changed its name to RES. (Id.) On December 31, 2000, RES became
19 REI's wholly owned subsidiary through the Master Separation Agreement between REI and
20 Centerpoint. (Id.)

21 RES concedes personal jurisdiction in Colorado. (Id.) However, RES did not
22 have any agency agreements or powers of attorney for REI, nor did it register or file as a
23 foreign corporation to do business in Colorado on REI's behalf. (Id. at 3.)

24 REI and RES share physical offices in Texas. (Sealed REI App., Ex. D at
25 163-64.) REI and its subsidiaries, including RES, share some common officers and
26 directors. (Sealed REI App., Ex. B.) For example, Michael Jines ("Jines") was an officer

1 for REI, RES, and several other REI subsidiaries, including some for which he could not
2 recall the subsidiary's name. (Sealed REI App., Ex. D at 15-19, 107-110.) At his
3 deposition, Jines stated his duties and responsibilities as an officer and director of those
4 subsidiaries would be "no different" than his duties and responsibilities as REI's general
5 counsel. (Id. at 119-20.) As RES's one hundred percent owner, REI nominates and elects
6 the directors for RES. (Id. at 88-89.)

7 At the present time, REI and RES have no employees of their own. (Id. at 248,
8 288-89.) Rather, Reliant Energy Corporate Services ("RECS"), an REI subsidiary, acts as
9 the payroll entity for REI and all of its subsidiaries. (Id. at 9-10.) RECS employs personnel
10 who provide services to REI and RES. (Id. at 10.) For example, lawyers employed by
11 RECS provide legal services to REI and all of its subsidiaries. (Id. at 111-13.) RECS also
12 provides accounting, finance, legal, human resources, and facilities management services to
13 REI and its subsidiaries. (Id. at 20.) As part of these services, RECS prepares separate
14 financial documents, including tax filings, for RES. (Id. at 56-57, 267.) REI permitted
15 RES to use the "Reliant Resources" and "Reliant Energy" trademarks and trade names
16 during the relevant period. (Stip. at 3.)

17 In terms of financial dealings between REI and its subsidiaries, the subsidiaries
18 are funded by borrowing from or receiving equity capital infusions from REI. (Sealed REI
19 App., Ex. D at 239-40.) In turn, REI receives either loan repayments or dividends when
20 money is transferred from the subsidiaries to REI. (Id. at 291-92.) REI received dividends
21 from RES during the relevant time period. (Stip. at 4.) In some circumstances, REI
22 provides guarantees to third parties in transactions involving REI subsidiaries. (Sealed REI
23 App., Ex. D at 204-05.) REI agreed to be RES's guarantor when RES's counterparties
24 required it. (Stip. at 2.) In setting forth its financial guarantee policy, REI (then RRI)
25 described RES as a "business unit." (Sealed REI App., Ex. H at REILJ010083.)

26 ///

1 Although describing itself as a holding company, REI does not passively hold
2 stock in its subsidiaries and leave them to operate on their own. Rather, REI establishes
3 overall policies and guidelines for its subsidiaries, establishes a capital structure, and issues
4 consolidated financial reports. (Sealed REI App., Ex. D at 131.) Among the guidelines
5 REI requires its subsidiaries to follow is a policy for best principles and practices. (Sealed
6 REI App., Ex. I at REILJ012703.) This policy requires compliance with applicable laws
7 and regulations, and requires that all transactions be for a bona fide business purpose and be
8 reported accurately. (Id.) The best practices policy prohibits wash sales and fictitious
9 transactions. (Id. at REILJ012704.) This policy applied to RES during the relevant period.
10 (Sealed REI App., Ex. N at 93.)

11 Additionally, REI sets certain risk control limits on its subsidiaries. For example,
12 REI set limits on RES's value at risk ("VAR"). (Sealed REI App., Ex. F at REILJ009749.)
13 REI's board of directors sets the overall limit on VAR. (Id.) The Audit Committee of
14 REI's board meets at least three times a year to approve the risk control organization
15 structure, approve the overall risk control policy, monitor compliance with trading limits,
16 and review risk control issues. (Id. at REILJ009752.)

17 REI also has a Risk Oversight Committee consisting of REI and subsidiary
18 officers which allocates VAR to various business segments, including RES. (Sealed REI
19 App., Ex. M at 17, Ex. F at REILJ009752.) The Risk Oversight Committee meets at least
20 monthly to monitor compliance, review daily position reports for trading and marketing
21 activity, recommend to REI's board of directors adjustments to trading limits, approve new
22 trading activity, monitor information systems related to risk management, and place
23 guidelines and limits on hedging activity. (Sealed REI App., Ex. F at REILJ009752-53.)
24 Management for each business segment then allocates risk limits among individual traders
25 within the limits set by the Risk Oversight Committee. (Id. at REILJ009754.) RES
26 allocates VAR to its "head book traders" who in turn authorize other traders to execute

1 trades. (Sealed REI App., Ex. M at 17.) Thus, the VAR limit set by REI was “an overall
2 limit.” (Sealed REI App., Ex. N at 155.) RES would engage in multiple transactions in one
3 day, and the limit set by REI was evaluated against the net result of a set of RES’s
4 transactions or activities. (Id.)

5 REI oversight of its subsidiaries includes daily reporting of mark-to-market
6 valuation,⁹ VAR, and “other risk measurement metrics.” (Sealed REI App., Ex. L.) RES’s
7 VAR is reported daily to REI’s Risk Oversight Committee. (Sealed REI App., Ex. M at
8 17.) Additionally, violations of any risk limits are reported to the business segment
9 management as well as to the appropriate committees. (Sealed REI App., Ex. F at
10 REILJ009754.) While the reports from the subsidiary to the various committees may occur
11 daily, communications from REI down to the subsidiaries occurs “only to the extent that the
12 activity ended up in a violation.” (Sealed REI App., Ex. N at 156.) For example, if RES
13 exceeded its VAR limit, an REI officer may inform RES management and inquire as to
14 what RES management intended to do to correct the situation. (Id.) However, “in terms of
15 the day-to-day buying and selling of gas or power, [REI officers have] limited or no
16 interaction.” (Id.)

17 In November 2003, the CFTC entered into a settlement with RES regarding the
18 CFTC’s allegations that RES violated the Commodities Exchange Act. (Decl. of William
19 E. Fischer (Doc. #1104), Ex. B, Jines Ex. 4.) According to the settlement, the CFTC found
20 RES’s Houston offices made false price reports regarding natural gas transactions from
21 1999 through May 2002. (Id. at 4-5.) Additionally, the CFTC found RES engaged in wash
22 trades in 2000. (Id. at 6-7.) As part of the settlement, RES and REI agreed to entry of the
23 order finding violations, as well as requiring RES to cease and desist from its misconduct,
24 imposing an \$18 million civil penalty on RES, and requiring RES and REI to undertake

25
26 ⁹ “Mark-to-market” means the value of a contract relative to current market prices. (Sealed
REI App., Ex. N at 128.)

1 certain activities. (Id. at 7-9.) Specifically, REI agreed to cooperate with the CFTC in the
2 future, including preserving and producing records regarding the reporting of price or trade
3 volumes in natural gas transactions and producing RES and REI employees to provide
4 assistance in any trial, proceeding, or investigation related to the CFTC's investigation. (Id.
5 at 8-9.) Additionally, REI agreed not to make any public statements denying the CFTC's
6 findings in the order. (Id. at 9.) Jines represented both RES and REI relating to the CFTC's
7 investigation and the terms of the CFTC's order. (Sealed REI App., Ex. D at 41-44.)

8 RES stopped speculative gas trading in March 2003. (Stip. at 3.) Since then,
9 RES "has continued to buy and sell natural gas for the purpose of meeting and hedging its
10 obligations to supply gas-fired power plants owned by Reliant Energy Power Generation,
11 Inc. and other RES affiliates, and to meet gas supply commitments it has made." (Id.)

12 Plaintiffs concede they are not contending this Court may assert personal
13 jurisdiction over REI based on REI's own contacts with Colorado. (Pls.' Joint Opp'n to
14 Reliant Energy, Inc.'s Mot. to Dismiss for Lack of Pers. Juris. (Doc. #1106) at 4-5.)
15 Consequently, REI is subject to personal jurisdiction in Colorado only if the forum acts of
16 its subsidiary, RES, are attributable to it through alter ego or agency principles.¹⁰

17 **A. Alter Ego**

18 Plaintiffs have failed to establish a prima facie case of personal jurisdiction based
19 on RES being REI's alter ego. REI provided financing to RES and in return received loan
20 repayments and/or dividends, but no evidence in the record suggests REI failed to maintain
21 corporate formalities or to properly document these loans and capital contributions. Rather,
22 the evidence indicates RECS prepared separate books and records for RES and REI.

23 REI's conduct in acting as a guarantor for RES also does not support an alter ego
24 finding, and the evidence presented on this point suggests the opposite. REI had in place

25 ¹⁰ The Court will assume that if RES's forum-related acts are attributable to REI, the Colorado
26 long-arm statute is satisfied.

1 specific policies regarding when it would consider acting as its subsidiary's guarantor,
2 suggesting that the two corporations and their counterparties viewed the two as separate
3 entities not liable for the other's obligations except where they contractually agreed to such
4 an arrangement. Further, REI's reference to RES as a "business unit" in a report does not
5 suggest RES was REI's mere instrumentality. Nor does the fact that the two companies
6 shared office space and staff.

7 REI's oversight of RES is consistent with the parent's investor status. As one
8 hundred percent owner of RES's shares, REI was entitled to nominate and elect RES's
9 board of directors. Additionally, REI is entitled as an investor to monitor RES's
10 performance. Consequently, the daily reporting of information from RES to REI is
11 consistent with REI's investor oversight role. Although REI received daily reporting from
12 RES, no evidence suggests REI gave daily control commands to RES. Rather, the record
13 demonstrates that, consistent with its investor status, REI set general policies and guidelines
14 regarding best policies and practices, as well as certain overall limits, such as the limit on
15 VAR. However, when it came to RES's day-to-day conduct of its business within these
16 guidelines, REI had little to no role. For example, with respect to natural gas trading, while
17 REI set overall limits on certain metrics, REI had no role in making the day-to-day
18 decisions of who RES was to trade with, when, for what amount of natural gas, and at what
19 price. Only when RES exceeded REI's overall limits would REI become involved by
20 inquiring of its subsidiary what it intended to do to correct any violations. Plaintiffs also
21 present no evidence REI had any role in RES's price reporting to indices.

22 Finally, Plaintiffs' reference to the Master Separation Agreement does not
23 support a finding of alter ego. That RRI/REI agreed with Reliant Energy, Incorporated that
24 it and its subsidiaries would assume liability for those business operations which would
25 remain with RRI/REI post-separation does not mean REI agreed it would waive personal
26 jurisdiction with respect to claims made by other persons not a party to that contract, or that

1 it, as opposed to the relevant subsidiary, was liable for any particular claim.

2 Even if Plaintiffs had established a lack of corporate separateness, Plaintiffs have
3 not established a fraud or injustice would result if the Court failed to pierce the corporate
4 veil. Plaintiffs contend it would be unjust to permit REI to reap the benefits of RES's
5 alleged unlawful behavior by enjoying profits from RES's trading activities while escaping
6 liability for RES's alleged misconduct. However, the alleged illegal price manipulation
7 cannot itself constitute the fraud or injustice necessary to pierce the corporate veil. Rather,
8 REI must have had some fraudulent intent at RES's inception or some later abuse of the
9 corporate form such that failing to treat the entities as one would be inequitable. Plaintiffs
10 present no evidence RES was undercapitalized at its inception. RES was formed years
11 before REI became its parent company, and thus REI was not even involved in capitalizing
12 RES at its inception. Further, the fact that RES operated as a legitimate business for years
13 suggests a lack of fraudulent intent or perpetration of a fraud through use of the corporate
14 structure on the parent's part.

15 Plaintiffs' fear that they may not be able to collect on a judgment in this action
16 against RES does not constitute fraud or injustice to support piercing the corporate veil.
17 The Court therefore finds Plaintiffs have not met their burden of establishing RES is REI's
18 alter ego, and the Court will not attribute RES's contacts with Colorado to REI for purposes
19 of determining personal jurisdiction based on alter ego principles.

20 **B. Agency**

21 Plaintiffs have failed to establish a prima facie case that RES was REI's general
22 agent in Colorado. REI's business is not purely as a holding company in the sense that it
23 does not passively hold stock in companies from an unrelated range of businesses. REI
24 (then RRI) has described itself as a "provider of electricity and energy services with a focus
25 on the competitive segments of the electric power industry in the United States and
26 Europe." (Sealed REI App., Ex. K at REILJ009826.) REI describes its business as

1 acquiring, developing, and operating electric power generation facilities; trading and
2 marketing power, natural gas, and other energy-related commodities; and providing retail
3 electric services in Texas. (Id.) REI has asserted in public filings that its--

4 trading, marketing, and risk management skills complement [its]
5 generation positions. The combination provides greater scale and skill
6 associated with the management of our fuel and power positions,
7 sophisticated commercial insights and an understanding of the key
8 regions in which we participate, and a wider range of ways in which
9 we participate in the market and are able to meet customer needs.

10 (Id.)

11 In practice, REI itself does not perform these activities, but, as Jines stated in his
12 deposition, REI “holds the shares of the different subsidiaries that are actually engaged in
13 the different business operations of [REI].” (Sealed REI App., Ex. D at 129-30.) Among
14 those business operations was REI’s “wholesale” group, which included a variety of
15 subsidiaries involved in wholesale-related activities, including RES’s natural gas-related
16 activities. (Id. at 285-86.)

17 Although REI identifies natural gas trading and marketing as one of its business
18 lines, Plaintiffs have not established that RES’s sales of natural gas in Colorado were
19 sufficiently important to REI that if RES did not make the sales in Colorado, REI would
20 have done so itself. As the California Court of Appeal found in evaluating this same
21 question involving a similar lawsuit against REI and RES in California, “[t]his portion of
22 the energy business appears to be sufficiently fragmentary so that [REI] could have
23 operated without the assistance of RES.” Reliant Energy, Inc. v. Superior Court, No.
24 D049988, 2007 WL 4329488, at *18 (Cal. Ct. App. 2007) (unpublished). Further, the fact
25 that REI subsequently ceased “proprietary trading activities” due to a significant trading
26 loss arising from “the extreme volatility in natural gas prices” suggests that RES’s trading
activities were not sufficiently important to REI that it would perform the activities itself if
RES did not do so on its behalf. (Sealed REI App., Ex. G.)

1 Moreover, Plaintiffs have presented no evidence that RES's natural gas sales in
2 Colorado in particular were sufficiently important to REI's business that REI would have
3 performed the sales in Colorado itself absent its subsidiary's representation in the forum.
4 See Modesto City Schs., 157 F. Supp. 2d at 1135; Bulova Watch Co., Inc., 508 F. Supp. at
5 1344. Consequently, Plaintiffs have not shown that RES's Colorado natural gas sales
6 played a significant role in REI's "'organizational life'" such that it acted as a substitute for
7 REI in the forum. Bulova Watch Co., Inc., 508 F. Supp. at 1344.

8 The Court acknowledges that the California Court of Appeal upheld a state trial
9 court's ruling that RES was REI's agent in California for natural gas trading activity during
10 the relevant time period. Reliant Energy, Inc., 2007 WL 4329488, at *17. Although arising
11 out of the same factual background and involving the same parent and subsidiary, the ruling
12 is distinguishable on several grounds. The evidence presented to the California state court
13 indicated REI had several significant contacts with California whereas Plaintiffs concede
14 REI has no contacts with Colorado, as reflected in the evidence before this Court.
15 According to the evidence in Reliant, REI owned another subsidiary that had purchased
16 natural-gas-fueled power plants located in California. Id. at *2. Additionally, REI obtained
17 a certificate of qualification to do business and designated an agent for service of process in
18 California, acted as guarantor on seven agreements between RES and California utilities,
19 engaged in a marketing campaign in the state, subleased a small office in Sacramento which
20 was used by a lobbyist, and employed an individual who allegedly engaged in illegal
21 churning and wash trades in California. Id. at *3-4.

22 In accord with this Court's ruling, the California Court of Appeal specifically
23 rejected RES was REI's agent under the same test the Ninth Circuit employs to determine
24 whether a subsidiary is its parent's agent for personal jurisdiction purposes. Compare id. at
25 *17-18, with Doe, 248 F.3d at 928. The California Court of Appeal referred to this test as
26 the "representative services doctrine." Reliant Energy, Inc., 2007 WL 4329488, at *17-18.

1 While finding RES was not REI's agent under the representative services doctrine, the
2 Reliant court concluded RES was REI's agent in California under general agency principles
3 based on REI's control over RES. Id. at *15-17. Although not calling it the "representative
4 services doctrine," the Ninth Circuit has set forth that test as the applicable one for due
5 process purposes. The California Court of Appeal's reference to other agency principles
6 goes beyond the applicable agency test for exercising personal jurisdiction consistent with
7 due process as set forth in controlling precedent for this Court.

8 Moreover, in making its finding under general agency principles, the California
9 Court of Appeal relied on evidence not presented to this Court and not relevant to REI's
10 contacts with Colorado. For example, the Reliant court considered the fact that RES made
11 a daily report to REI of the California power plant's hedging activities, "regarding the
12 coordination of power generation and supply of natural gas," and RES's trading activities
13 impacted that supply of natural gas. Id. at *16. Additionally, evidence in the record
14 permitted an inference that the employee who allegedly engaged in wash trades and
15 churning in California was an REI (then RRI) employee. Id.

16 The California Court of Appeal also found REI's setting and raising of overall
17 limits such as VAR to be significant evidence of REI's daily control of RES. However, as
18 explained above, the evidence before this Court indicates REI sets overall limits but does
19 not involve itself in RES's day-to-day decisions as to what actions to take within those
20 limits. That RES violated those limits and requested a higher limit, to which REI agreed, is
21 not evidence of day-to-day control. It is evidence of a change in the overall limit under
22 which RES was to perform its day-to-day operations.

23 To the extent the setting and changing of VAR and other limits constitutes day-
24 to-day control, Plaintiffs have not demonstrated that REI's setting or altering of overall
25 limits on any metric constituted day-to-day interference with RES's sales in Colorado.
26 Plaintiffs have presented no evidence that REI's oversight impacted RES's daily decisions

1 regarding whether, when, to whom, in what volume, or at what price RES decided to sell
2 natural gas in Colorado. While daily oversight of trading activities may have been
3 significant in the Reliant case where an employee of REI or one of its subsidiaries allegedly
4 engaged in illegal trading activity in California, REI's daily oversight mechanisms as
5 presented to this Court do not suggest a significant level of control over RES's Colorado
6 sales activity. Because Plaintiffs have not established a prima facie case that RES acted as
7 REI's agent in Colorado, the Court will not attribute RES's Colorado contacts to REI on
8 this basis.¹¹

9 The Court will not attribute RES's contacts with the forum to REI, and REI has
10 no contacts of its own sufficient to support personal jurisdiction. The Court therefore will
11 grant REI's motion to dismiss for lack of personal jurisdiction.

12 **VI. REQUEST FOR DEFERRED DECISION**

13 Plaintiffs suggest that because the personal jurisdiction question is intertwined
14 with the merits, the Court should defer ruling on the personal jurisdiction issue until after
15 merits discovery is completed. Plaintiffs rely on Data Disc, Inc., 557 F.2d at 1285 n.2.
16 However, Data Disc, Inc. states that where the jurisdictional issues are intertwined with the
17 merits, the Court may require the plaintiff to establish "only . . . a prima facie showing of
18 jurisdictional facts with affidavits and perhaps discovery materials." Id. As the Court is
19 considering the personal jurisdiction issue on the basis of affidavits and documentary
20 evidence without holding an evidentiary hearing, the Court is following Data Disc, Inc. by
21 holding Plaintiffs to this standard, and is not requiring Plaintiffs to meet the higher burden

22
23 ¹¹ The result would be the same under general Colorado agency law. Plaintiffs have presented
24 no evidence of any express manifestation from REI to RES that RES may act as REI's agent in
25 Colorado or that RES's sales in Colorado are incidental to or necessary, usual, and proper to carry out
26 any express authority granted from REI to RES. As to apparent agency, Plaintiffs have presented
evidence that REI permitted RES to use the "Reliant" name and logo in marketing natural gas in
Colorado. However, Plaintiffs have presented no evidence that anyone relied on an apparent agency
relationship between REI and RES.

1 of demonstrating personal jurisdiction by a preponderance of the evidence, as Plaintiffs
2 would have to do at an evidentiary hearing or at trial. Id.

3 Moreover, Plaintiffs have not convinced the Court that further discovery would
4 produce a different result. Although Plaintiffs contend DEC obstructed jurisdictional
5 discovery regarding its participation in the conspiracy, DEC provided Plaintiffs with every
6 DEC document which DEC provided to the CFTC in conjunction with the CFTC's
7 investigation of DETM's natural gas trading activity in the relevant time period. (Mem. of
8 Defs. Duke Energy Carolinas, LLC & Duke Energy Trading & Marketing, LLC in Opp'n to
9 Pls.' Mot. to Compel Disc. (Doc. #935) ["Opp'n to Mot. Compel"], Ex. B at 2; Tr. of
10 Proceedings (Doc. #1138) at 55.) The documents provided to the CFTC consisted almost
11 entirely of DETM documents. (Opp'n to Mot. Compel, Ex. B at 2; Tr. of Proceedings at
12 55.) The only DEC documents consisted of general risk management policies and board of
13 director meeting minutes, which DEC has provided to Plaintiffs. (Opp'n to Mot. Compel,
14 Ex. B at 2; Tr. of Proceedings at 55-56.)

15 REI also answered Plaintiffs' discovery on the issue of conspiracy as it relates to
16 REI. REI had no documents related to communications between REI and the other
17 Defendants about natural gas prices and had no documents in which REI directed a
18 subsidiary's communications, price reporting, or trading. (Partial Tr. (Doc. #1128) at 49-
19 50.) REI objected to the extent that Plaintiffs sought every communication made by its
20 subsidiary, RES, to other alleged co-conspirators. Such communications would not
21 demonstrate REI's participation in a conspiracy, and thus would not demonstrate REI was a
22 member of a conspiracy directed at Colorado.¹²

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25 ¹² CMS objected to discovery related to the conspiracy theory. The Court is unable to
26 determine from the record whether CMS searched its own records and advised Plaintiffs it had no responsive documents as its co-Defendants have done.

1 The Court has denied Plaintiffs' motion to compel discovery raising these issues.
2 (Pls.' Mot. to Compel Disc. from Def. CMS Energy Corp. (Doc. #904); Pls.' Mot. to
3 Compel Disc. from Def. CMS Energy Corp. (Doc. #906); Pls.' Mot. to Compel Disc. from
4 Defs. Duke Energy Carolinas, LLC & Duke Energy Trading & Marketing, LLC (Doc.
5 #898) & Mem. in Supp. (Doc. #899); Pls.' Mot. to Compel Disc. from Def. Reliant Energy,
6 Inc. (Doc. #910) & Mem. in Supp. (Doc. #911); Order (Doc. #1240).) Plaintiffs seek
7 further discovery on the conspiracy theory of personal jurisdiction, a theory of questionable
8 legitimacy. See Chirila v. Conforte, 47 F. App'x 838, 842, 2002 WL 31105149, at *3 (9th
9 Cir. 2002) (unpublished). In any event, nothing suggests further discovery will establish
10 Defendants CMS, DEC, or REI participated in a conspiracy targeting known Colorado
11 residents. The Court therefore will decline Plaintiffs' request to defer the personal
12 jurisdiction issue to be resolved with the merits.

13 VII. CONCLUSION

14 IT IS THEREFORE ORDERED that Specially Appearing Defendants CMS
15 Energy Corporation, Duke Energy Carolinas, LLC, and Reliant Energy, Inc.'s Motion to
16 Dismiss for Lack of Personal Jurisdiction (Doc. #962) is hereby GRANTED. Defendants
17 CMS Energy Corporation, Duke Energy Carolinas, LLC, and Reliant Energy, Inc. are
18 hereby dismissed from this action for lack of personal jurisdiction.

19
20 DATED: February 23, 2009

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23 PHILIP M. PRO
24 United States District Judge
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