

BLOCKCHAIN ENERGIZER VOL. 6

Date: 15 June 2017

Energy Alert

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There is a lot of buzz around blockchain technology and its potential to revolutionize a wide range of industries from finance and healthcare to real estate and supply chain management. Reports estimate that over \$1.4 billion was invested in blockchain startups in 2016 alone, and many institutions and companies are forming partnerships to explore how blockchain ledgers and smart contracts can be deployed to manage and share data, create transactional efficiencies, and reduce costs.

While virtual currencies and blockchain technology in the financial services industry have been the subject of significant debate and discussion, blockchain applications that could transform the energy industry have received comparatively less attention. Every other week, the K&L Gates' Blockchain Energizer will highlight emerging issues or stories relating to the use of blockchain technology in the energy space. To subscribe to the Blockchain Energizer newsletter, please click [here](#).

BLOCKCHAIN-BASED ENERGY TRADING PILOT PROJECT LOOKS TO EXPAND

- Earlier this month, [blockchain technology company](#) BTL Group LTD ("BTL") [announced](#) the successful completion of a European energy trading pilot. The pilot project involved three energy companies: BP, Eni Trading & Shipping, and Wien Energie, which tested BTL's Interbit platform to improve many trading and back-office processes.
- The 12-week pilot project reportedly proved that BTL's blockchain platform can streamline processes throughout the energy trade lifecycle. According to BTL, its blockchain-based Interbit platform "automates many back office processes such as confirmations, actualizations, invoice generation, settlement, audit, reporting and regulatory compliance allowing enterprises to significantly reduce risk, costs and the threat of cyber-attack, as well as increasing their trading opportunities."
- In its announcement, BTL extended an open invitation to other energy companies interested in participating in the next phase of the project. As currently planned, the next phase will be a six-month trial that would launch a live, commercial version of BTL's Interbit platform for energy trading and allow companies to explore additional applications of the technology within their businesses.
- The expansion of the pilot project highlights an issue identified in a [prior volume](#) of the Blockchain Energizer: the need for collaboration and coordination among diverse groups of market participants to be able to scale-up and achieve the network effects of blockchain technology.
- As blockchain pilots and proof-of-concept demonstrations move into commercial testing and recruit additional participants, important legal issues regarding governance will need to be addressed, especially for permissioned blockchain platforms like Interbit. Governance rules will be needed to define, among

other things, how new market participants can be added to the network. Overly restrictive access rules could run afoul of market-based laws and regulations, including federal antitrust laws. This is uncharted territory that will require careful navigation.

OVER 20 ENERGY TRADING FIRMS WILL PARTICIPATE IN PEER-TO-PEER ENERGY TRADING MARKET

- Energy companies ranging from utilities and generation asset owners to energy trading firms will use a blockchain-based application developed by PONTON to conduct peer-to-peer trades in Europe's wholesale power and natural gas markets. The [proof of concept pilot program](#) will run until the end of 2017 with the goal of starting live trading by participants during the fourth quarter.
- The pilot program will use PONTON's [Enerchain](#) framework, which is designed to support a broad range of energy products, including day-ahead, monthly, quarterly, and yearly transactions. The Enerchain framework is intended to enable traders to buy and sell directly, without the need for a broker or a central exchange.
- The group of companies participating in the pilot agreed to provide funding for the costs of developing a full-scale prototype. In exchange, they will gain first-hand working knowledge of how blockchain technology can support energy trading, risk management, and reporting requirements.
- While both BTL's and PONTON's projects move forward in Europe, we have yet to see similar wholesale energy trading pilot projects with participation from major energy companies move forward in the United States. With both of these European projects set to run through the end of 2017, it is possible that companies will be able to take the lessons learned from the European projects and use them to drive testing and adoption in the United States in 2018.

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