



# Energy Brokers, Heroes or Villains?

**How many times do you get a phone call that starts “I can save you money on your energy and gas bills”. I always ask “how do you know when you don’t know what I pay now”? Although many areas of the energy industry tend to receive a mixed press, one area that always seems to produce strong views is that of third party intermediaries or brokers who are usually the people on the end of these calls. There are many horror stories about brokers and in fact, during a recent exercise, the EMA gathered a disturbing number of examples of very poor and essentially underhand behaviour by them. But what is the truth about the brokerage industry?**

As in other industries such as insurance, a good broker can help clients immensely with what can be a complicated and time-consuming process. Ideally, they could gather site data, issue termination notice, conduct a good tender with a range of suppliers, obtain prices and present them to a customer with advice on the offers. They should also follow sites through any change of supplier, dealing with problems that may arise and generally removing all the hassle from the customer.

However, in reality many brokers just want your signature on a contract, do not understand or care about the issues or undertake the tasks poorly, leading to many of the wild promises that are made, the misleading information and the poor service that is sometimes provided.

Unfortunately, as an industry, energy brokers are currently not regulated and, in my experience, a large proportion tend to be more interested in just getting access to the site data of a business and a signed letter of authority rather than proving their credentials and offering good service. You may well have been offered a “free health check” or something similar which may appear innocent and quite useful. However, what brokers really want is a copy of your bill which provides them with all the site information they need, including your all-important contract end date which they can then use to contact your business year after year at just the right time. This can lead many to operate with high pressure sales tactics

to obtain this valuable site information. Some very unethical brokers may also use the tactic of claiming to be working for or on behalf of a supplier, trying to make businesses think they are talking directly to their supplier and unwittingly signing up for a deal they did not want.

So what can you do to try to filter the bad brokers out without spending a huge amount of time on the process? My advice is to always ask a few awkward questions to see what they know and how much information they are willing to give. A good broker will always give honest answers and provide all the information you request while the poor ones will probably wander off into a sales pitch and be unwilling or unable to provide sensible answers.

The following areas may give you a start.

## Commission structure

You may quite often be told there is no charge for a broker’s services but they really just mean you will not pay them directly. As nobody works for free, how do they make their money? Most brokers operate on a

commission structure where they are allowed to add an uplift to the price customers are charged on their bill. For example, they may add 0.4 p/kWh commission to the rate quoted by the supplier and this total rate appears on your bill but with no indication how much is commission. The supplier then pays the broker their commission directly.

To give this some real numbers, for a relatively small site using 100,000 kWh of energy per year, this means a commission of £400, not a huge fee if the job is done well and saves the client a lot of time doing it themselves. However, if the same commission is applied to a site using 1,000,000 kWh, it is now £4,000 even though the basic work of tendering is pretty much the same. When you consider that these consumptions may double if electricity and gas are both used and some brokers may add 1p/kWh or more, commissions can very quickly become very large and difficult to defend in terms of service provided.

While having all costs on utility bills can very often be easier than paying a direct fee to a broker, the fact that there is commission added should always be made clear to customers and the rate should also be disclosed if not agreed. There are a number of voluntary codes of conduct



for brokers and this is always one of their key points. If you ask a broker how much their charges are and they don't want to tell you, refuse to answer or talk about how they add value, probably best to look for another one. Consider how much you think the broker's services are worth to you in time saved or hassle removed and try to agree a commission that reflects this. You may also want to ask the broker to put the commission rate in writing as proof of your agreement.

The area of commissions is one where there are regular examples of brokers acting in an underhand manner, especially with SME's or other bodies who tend to have less knowledge of energy markets. A little while ago, I was approached by a small charity who had received a renewal quote for gas from their broker. It was at 5.46p/kWh for a 5-year contract, a very high price, worse than most non-contract rates. The charity did not know if it was a good or bad offer but were being pressured by their broker to sign, with e-mails stressing how important it was to sign quickly. I obtained some equivalent quotes and the same 5-year contract with the same supplier came in at 3.6 p/kWh and an even better quote from another supplier at 3.4 was accepted by the charity. This shows the broker was trying to charge over 60% commission. Having seen their e-mails, I can confirm the broker was blatantly lying to the client, taking advantage of the fact they had little knowledge. Although their consumption levels and overall costs were not huge, this still meant a saving for the charity of over £1,000 per year, which to them and the work they do was a big deal.

Another example was a company who had used the same broker for many years and asked me to confirm they were being made a good offer, just as a cross check. I obtained a quote which was £10,000 cheaper than their normal broker in a contract that only had a total value of £60,000, again indicating a very large commission for what was a simple, single building tender.

It would be nice to say that these examples were just perhaps single individual brokers who were a couple of bad apples but unfortunately, both were large, big name brokers and not the only examples I could give. This fact is also borne out by the recent EMA study where many of the complaints featured well known brokers with one in particular the source of a number of complaints.

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### **Independence**

Another question to ask brokers is how independent they are. A good broker will have relationships with many suppliers and be able to give you a range of quotes to select from as the cheapest one may not always be from a supplier that you want to deal with due to previous customer service or billing issues for example. However, some brokers only have relationships with a small number of suppliers or perhaps, only even one or they may have far more beneficial commission arrangements with some suppliers than others. This may result in them either having or wanting to place customers with those suppliers although they may not be offering the best market rates.



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One way brokers approach this is they may tell you they have received many quotes but only send the “top 3” to choose from. How do you know how many quotes they actually gathered, what the other quotes looked like and how do you know they were not better? You may not want to review huge lists of quotes but if a broker only works with a limited number of suppliers or wants to choose a specific one, this is a good way of hiding it.

Again, ask the awkward questions before using a broker, such as who they have relationships with and do they have preferential rates with any which means they may push them above others. Always ask for the information on all quotes received just to make sure they are doing their job, even if you still only take the cheapest one.

### Market knowledge

A third question to sort out the poor brokers is to request some basic market information from them to show why it may be a good time to place a contract, rather than it just being the end of your current one. Even if you don't know what to look for yourself, a good broker will be happy to enter a discussion with you, will know exactly what wholesale markets are doing, what is driving them, will probably provide some basic market curves showing wholesale pricing patterns and provide information on the options for various length contracts.

The poor ones may not know how to answer this question and a regular response is just to tell you prices are going up so you need to sign quickly and also to potentially try to lock you in to a long duration, up to 5 years. This is a good sign that they cannot provide this information and just want a signed contract. A good broker will also be

able to provide you with this market information during your contract, allowing you to see what markets are doing and when may be a good time to contract next time around.

### Are you already stuck in a poor contract?

I am regularly asked if there is any way to get out of a contract once its signed if you realise it's poor or perhaps has been mis sold by a broker. Unfortunately, the contract you have signed will be with a licensed supplier rather than the broker and usually they cannot be cancelled.

If the broker has acted in an extremely dishonest or illegal way or breached a supplier's code of conduct and it can be proved, then it is worth speaking to the supplier, explaining the issue and asking for the contract to be cancelled. If the broker has broken the supplier's rules, they may review the sale and see if it was properly conducted.

However, and most likely, if they consider that the contract has been sold correctly or there is no evidence to the contrary, they are unlikely to cancel the contract however expensive or poor it is, so it is a case of buyer beware. One way of trying to avoid this in the first place is to record your call to the broker when you agree the contract or make them put everything in writing, so you have the evidence of what you have been told.

You may also want to tell them you are recording the conversation, as it may change their behaviour. After all, calls to suppliers are always recorded for the same reason, so they can prove they have not mis-sold contracts.



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Historically, there has been support for domestic and micro business customers with regard to complaints about suppliers but businesses have not been well served to date with very little that can be done with regard to complaints about brokers. Ofgem have recently asked for additional powers to try to address the type of issues discussed in this article so hopefully action will be taken.

The EMA has for some time been collating evidence of poor broker behaviour so any examples you have of them acting in a dishonest, misleading or illegal manner would be of interest.

Just asking the type of questions mentioned here may well put off some brokers as they will see you know some of the industry tricks but many are experienced and well trained sales people, so may have a convincing sounding answer.

Finally remember the old rule, if a broker's offer sounds too good to be true, it probably is, especially if they are pressuring you to sign. Your site information is very

valuable so don't be afraid to ask them some awkward questions before you let them have it. Perhaps talk to a few brokers to get a range of opinions and get some recommendations from other businesses who have already been through the process before you choose.

While this may take some time initially, finding yourself a good broker can lead to less time and money wasted in the long term, especially if you find yourself in a very expensive 5 year contract you cannot get out of.

“ **A GOOD BROKER WILL ALSO BE ABLE TO PROVIDE YOU WITH THIS MARKET INFORMATION DURING YOUR CONTRACT, ALLOWING YOU TO SEE WHAT MARKETS ARE DOING AND WHEN MAY BE A GOOD TIME TO CONTRACT NEXT TIME AROUND.** ”

**Author's profile:**

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