



**Your guide to working with
an energy broker.**



CONTROL
ENERGY COSTS

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Working with an energy broker

There are currently over 1,000 energy brokers operating in the UK, with the majority hopefully operating in a professional way and not charging outlandish fees for their services.

The first step to working with a broker, also known as a third party intermediary (TPI), is to understand their fee structure, level of commission and the service they will provide for this. When you work with a broker you need to ensure you are working with a partner who will offer you exactly what you need in terms of energy related support.

For example:

- If you need to comply with reporting legislation such as SECR, can your broker help with this?
- Is your business looking at things like 100% renewable energy procurement, and are they able to offer these options?
- Do they work with all energy suppliers or just a select few?
- Will you have a dedicated point of contact, should you need help or support?

How much should you be paying your energy broker?

How much you pay your broker should be appropriate and proportionate to the work they are doing, the ongoing support they are providing and the additional value they are able to add.

If they are buying energy on the wholesale market for your business, providing an energy procurement strategy and ensuring you receive regular updates and guidance on when and how much energy to buy over specific time periods, then this is going to be a higher fee than if you are just having a one off energy contract negotiated for you.

If there is invoice validation and other work that you're asking your broker to do, then again this should be considered when reviewing the fee structure on the table.

What is good value for money?

The perceived value of an energy broker is very much based on the amount of work you are expecting them to do for you.

According to a report by Cornwall Insight, businesses are frequently confused about exactly how much their broker is paid and what the payment details are, with 37% believing they are providing a completely free of charge service.

Any professional will expect to be remunerated for the work they undertake, and any broker unwilling to disclose their fees is one to be wary of. All suppliers you work with should be open and honest about the fee you are paying them, and your energy broker should be no exception.

The amount you pay, should be based on several factors:

- The level of service you receive
- The team you are working with and their experience
- The services they are providing you with
- The additional reporting, analytics and insights they offer

Tactics used by rogue energy brokers

- ✔ Cold calling with hard sales tactics
- ✔ Ensuring you agree verbally to a contract over the phone and not giving you time to consider the offer and look at alternatives
- ✔ Speaking to a junior team member and persuading them to agree to a contract over the phone
- ✔ Claiming to be from the incumbent supplier and pressuring a renegotiation of the current contract
- ✔ Claiming to be from a Government organisation
- ✔ Not disclosing the percentage commission or fixed fee they will receive from signing you up as a client

Brokers need a letter of authority to access your consumption and contract information, if they don't have this then they shouldn't be trusted if they are saying they can offer cheaper energy or save you money.

The letter of authority should be worded carefully, it should not give anyone exclusivity and it should not lock you into contracts or give the broker the ability to sign supply contracts on your behalf.

There are several ways you can mitigate the risk of working with a rogue broker

Here are some tips

- ✔ Look at Companies House: how long has the company been in operation? Look at the directors and see if they have any negative press, use Google and do some digging
- ✔ Conduct a credit check to ensure you are dealing with a reputable and well-established company
- ✔ Have they cold called you? If this is the case, then be very careful not to agree anything over the phone
- ✔ Check review sites, for example Trustpilot, and see what their clients are saying about them
- ✔ Have a look at their social media, if clients are unhappy, they will often take to Facebook or Twitter to voice their complaints and you should see this, if the comments haven't been deleted
- ✔ Look to see if they have an active LinkedIn page: what kind of content are they publishing, and you will also be able to see who works for the business
- ✔ Look at their website: is it professional? Does it offer information, advice and guidance aligned with your business needs?



TPI and a code of practice

Although a code of practice has been consulted on by Ofgem, the idea of having a code of practice was abandoned. The result of this is that many energy suppliers have implemented their own codes of practice for third party intermediaries they work with.

ofgem Making a positive difference
for energy consumers



The Ofgem proposed code of practice had guiding principles that included:

- Complete and clear information for clients, especially when it comes to commission fees and commission structure
- Honest and transparent marketing practices
- Effective monitoring of any arrangements

Codes of practice written by energy suppliers often go further and include a requirement for TPI employees to have appropriate training and ensure they have the experience, knowledge and skills necessary to deliver advice and support to their clients. These codes also mention a complaints procedure and a policy on how TPIs manage customer complaints.



Energy suppliers’ code of practice

The idea that self-regulation and compliance for TPIs will work takes suppliers honesty and transparency too.

The suppliers involved in negotiating contracts are always aware of the commission built in and are at best turning a blind eye and at worst complicit in the agreements and their negotiation.

If energy suppliers were to ensure that they had commission levels set for TPIs at a reasonable level, then it would at least be an even playing field for everyone. We would certainly welcome such an initiative.

Letter of authority

A letter of authority is a legal document that gives an energy broker the right to correspond with energy suppliers on your behalf.

All brokers should need a letter of authority (LOA) to collate consumption and contractual information before they are able to provide any prices. If they provide you with any details without the LOA, they could be accessing it illegally and should not be trusted. Additionally, you'll need to be aware of the actual wording on any LOA.

A letter of authority

- ✘ It should not give anybody exclusivity
- ✘ It should not obligate you in any way
- ✘ It should not lock you into any contracts
- ✘ It should not give the broker the ability to sign contracts on your behalf
- ✔ It should be refreshed on a regular basis to ensure your commitment has not changed

Once you have decided to work with a specific broker, you might want to include the ability for them to perform the following additional tasks on your behalf

- ✔ Gather data including metering and related data
- ✔ Speak with your current supplier and handle any billing issues
- ✔ Deal with the general administration of your account
- ✔ Handle all bills, including requesting copies of bills, statements and payment terms
- ✔ Access consumption data, including historical data, pricing details and contract end dates
- ✔ Terminate existing supply agreements
- ✔ Submit any CCL (climate change levy exemption forms)
- ✔ Arrange any necessary site visits and appointments
- ✔ Request pricing and negotiate with energy suppliers
- ✔ Handle any change of tenancy requests

On the following page you will find our letter of authority template.



Date

Dear Sirs,

Control Energy Costs Ltd, Kingsgate, 62 High St, Redhill, RH1 1SH

Please be advised that our appointed energy consultants Control Energy Costs Ltd act with our authority and approval in all matters relating to Electricity, Gas, Water and other utility related purchasing.

This authority is valid for all sites under our company name.

For clarity, this authority includes our permission to:

- Discuss and mediate in supplier billing issues
- Obtain copies of our supply invoices and access metering data, including debt and financial information
- Negotiate supply contract terms for our approval
- Terminate existing supply agreements

Control Energy Costs will ensure that our customer data is used solely for the purposes of delivering services and have permission to share our data with relevant third parties in order to do so.

This letter is valid for 12 months from the date shown above.
Your co-operation with them would be appreciated.

Yours faithfully,

Signed:

Name:

Position:

cec.uk.com | 01737 556631

Control Energy Costs Ltd, Kingsgate, 62 High Street, Redhill RH1 1SH

Registered in England and Wales. Company Number: 01549815. Registered Office: Kingsgate, 62 High Street, Redhill, Surrey RH1 1SH

Real life examples

Here are two examples of different clients, with varying needs and therefore different fee structures.

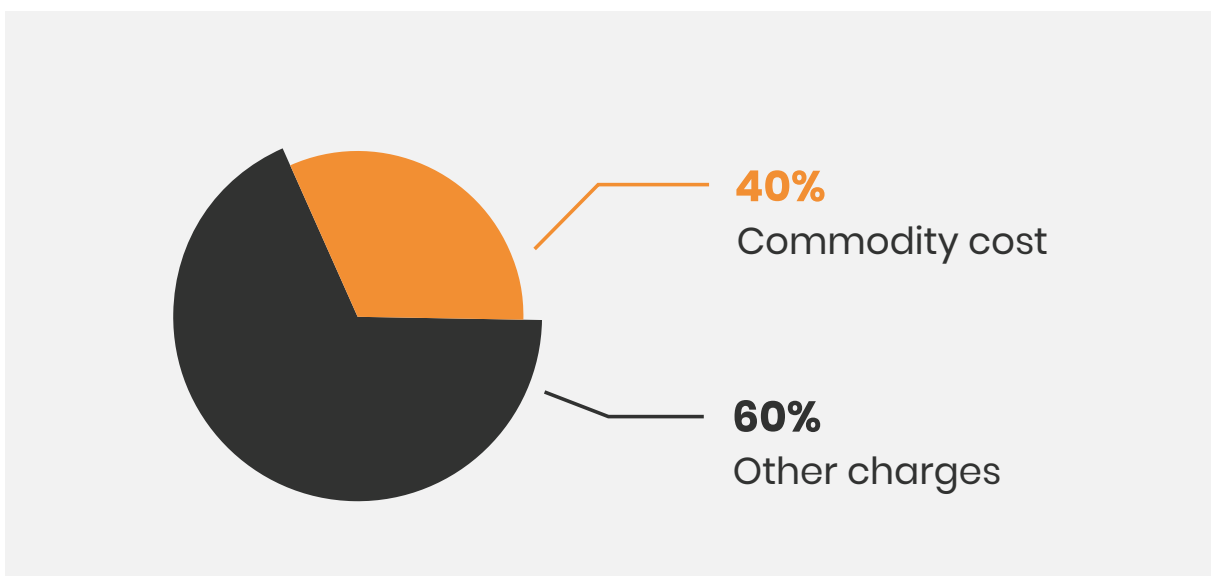
A manufacturer with three sites in the West Midlands was approached by an energy broker who asked them to sign a letter of authority and provide invoices so that they could investigate their previous energy usage.

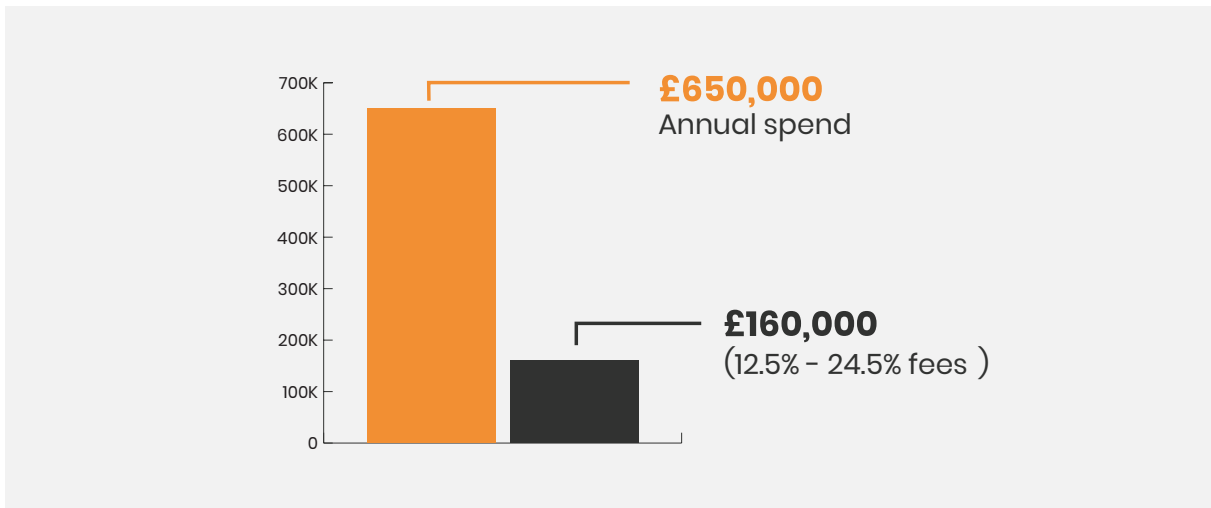
This manufacturer uses around 5,500,000 kWh per annum of electricity and 3,000,000 kWh per annum of gas. Supply proposals presented by this broker showed savings of 8% versus their current arrangements if they signed new pass through energy contracts, which at face value seemed like a good reduction and a good decision.

The business ultimately signed contracts for a new 5-year supply period without truly understanding the evaluation, or the meaning of pass through energy contract.

A pass-through contract is one that covers just the energy element of the bill. This typically only accounts for around 40% of charges, with the additional transportation, distribution, taxes and levies all passed through at cost.

Any proposal you are given based on a pass-through contract might represent good face value but as it is only covering a percentage of the total you will need to pay; you need to truly understand the consequences.





In this case, the manufacturer unwittingly signed a pass-through energy only contract and due to hidden commission within that proposal, is now seeing cost increases of around 40% compared to their previous contract arrangements when they had expected to see a reduction of 8%. Neither the energy broker nor supplier would confirm commission levels built in, as both said they are not obligated to do so.

We undertook some detailed analysis which revealed that there was been

between £80 - 160k per annum of commission built in by the broker on an estimated £650K annual spend for energy.

This represents a total commission of between approximately 12.5% and 24.5%.

These fees are completely unjustifiable, and it is no coincidence that the broker and supplier who worked together on this deal were unwilling to disclose the commission they had built into the contract.

These types of contracts are typically mis-sold and the disadvantages of them are:

- There is a risk of higher third-party charges
- Complex contract structure, such as a pass, through means complex billing that is harder for the end user to understand
- These types of contracts make budgeting and forecasting harder

Case study:

A textile manufacturer

This client initially came to us because we were offering a free, no obligation review of energy contracts and they wanted to know if they were getting good value for money from their existing arrangements, which has been negotiated by a broker.

A review of their existing contracts

Firstly, we looked over their contracts and set to work analysing the cost per unit for their energy.

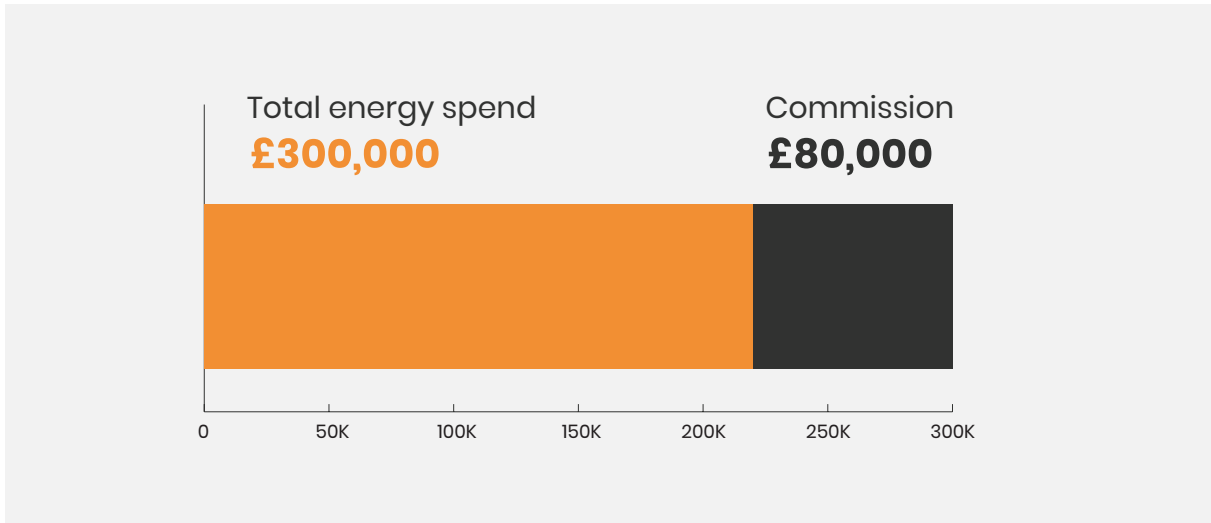
We then investigated the date the contract was signed and the wholesale energy prices at that time to see if their contract was good value for money.

This is a straightforward task that is carried out by our analyst team and it involves a comparison of the wholesale price to the unit price stated on their contract.

A pricing anomaly in the analysis

We immediately noticed that they were paying significantly higher rates than we would expect, as their deal seemed to be based on a much higher wholesale price than that of the date the contract was signed.

We initially advised them to communicate this discrepancy to their broker to find out what the justification was for this pricing difference and for further detail on how and why the deal was presented to them as the best offer at the time.



The broker in question was unable to provide a satisfactory answer and this manufacturer ultimately decided that they were not getting the good value they had been sold.

The next step was to speak with both the energy supplier and the broker to try and find out the level of commission that had been built into the contract.

This information was used to create a report giving an overview of our findings and this included our analysis of how much commission we suspected had been built into the contract.

Unreasonable commission uncovered

The total energy spend for this client was approximately £300,000 per annum and the commission included based on the information given to us from the supplier and the broker was calculated to be around £80,000 per annum.

We advised the client to question the supplier about the unreasonable commission and highlight that allowing a broker to include it at such a high level reflected poorly on them as a supplier, potentially tarnishing their reputation.

Significant cost savings

We spent time advising the manufacturer with what to say and how to position their communications with the supplier and eventually the commission level was reduced from the initial £80,000 to £20,000 for the duration of the contract.

Not a one-off experience

At Control Energy Costs, this is not a one-off for us, we often uncover unreasonable levels of commission built into energy contracts by other brokers and this is why we have transparency in work that do for all our clients.

About Control Energy Costs

At Control Energy Costs, transparency is a fundamental part of the way we work. We are open about every aspect of what and how we are paid.

Our clients depend on us

We keep our promises, take ownership of problems and provide good advice and long-term energy cost management solutions with their best interests at heart. Our clients trust our knowledge, skills and experience.

We are forensic in our approach

Investigation, analysis and attention to detail. We unpick deals so that we can help you compare different options, including our bespoke solutions, on a like-for-like basis and choose the best fit for your business.

We are progressive

Whilst we have been in business since 1981, we always have an eye on the future, with the development of new services and building our knowledge, as well as helping clients prepare for changes in technology and legislation.

Finally, we are focussed

We are committed to building long-term relationships built on trust and mutual confidence. We approach our service delivery in a manner that is both strategic and systematic and we never forget our ultimate purpose – negotiating the best deals for our clients and providing outstanding service.

**We are dependable, forensic,
progressive, transparent and focussed.**

Our expertise

We truly understand the energy market.
We work with all the major energy suppliers giving you the best possible choice and ensuring you understand the options on a like-for-like basis.

We have an experienced and dedicated team on hand to offer up solutions to any energy related requirement your business might have.





Proactive, timely, professional advice surrounding our account position and sound market data to support contract renewals aligned to our corporate energy policies.



We have compared Control Energy Costs with competitors on several occasions. In all cases Control Energy Costs were transparent in their fees and very competitive. I would be happy to recommend them!





It has been an absolute pleasure to do business with Control Energy Costs. What used to be a minefield with sorting out our energy costs for our factory has been made a breeze thanks to the CEC guys. We are now paying much better prices and they even managed to secure us a rebate from our previous supplier, who had been overcharging us for years!



CEC actually do earn their money - I had always dealt with the utility contracts myself - never trusting broker type setups - but CEC really do save you money at a reasonable cost - all of which is fully laid out clear. Professional setup - would recommend.



And breathe.

**You can contact us on 01737 556631
or by email at sales@cec.uk.com**

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