

# Questions to ask and things to do before hiring an energy broker



Finding someone to guide you to the right electricity, gas or heating oil contract starts with knowing the right questions to ask.



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The wholesale electricity and natural gas markets in many European countries are mostly de-regulated i.e. electricity and natural gas is bought and sold by energy companies, end users, energy brokers, financial organisations and others. It is a commodity market which can demonstrate significant price volatility and many businesses feel that they do not have the expertise to buy efficiently.

Energy Brokers, often known as “TPI’s” or third party intermediaries, can often provide energy market knowledge and energy purchasing expertise, for the procurement of energy. Many businesses select, use and rely on energy brokers to aid them in the procurement of electricity and natural gas as well as support on strategy development and carbon management.

However, there have been a number of concerns with the practices of some energy brokers. This includes repetitive cold calls from energy brokers, apparent promises suggesting that they can reduce your energy costs by 10% (which they are not willing to back up in writing), that their services are “free” (they never are free as they often add a fee to the energy bill from the energy companies), unwillingness to provide a copy of the energy contract, and a preference for one or selected energy providers that may provide them with a greater commission.

These practices have led Ofgem, the UK energy regulator, to launch an investigation into the energy broker market. Ofgem has issued a number of proposals to regulate the behaviour of all energy brokers which aims at eradicating poor practice. A copy of the draft code of practice can be found at <https://www.ofgem.gov.uk/ofgem-publications/75208/non-domestic-tpi-working-group-non-domestic-tpi-code-practice-draft.pdf>

As with any purchasing decision, there is a process to go through when selecting an energy broker. Businesses need to be clear on their objectives for energy procurement and to understand their options in the way they want to buy electricity and natural gas – for example a fixed price or fully price flexible contract, More information on these details can be found on the CIPS document “How to buy energy”

There are a number of key points to check when selecting an energy broker:

- 1 Does the energy broker understand your business objectives and requirements?
- 2 Can the energy broker demonstrate its experience is relevant to your needs and recommend the right solution.
- 3 The energy broker should set out, in writing, the scope of services to be provided and the basis of any fees to be paid by you or the supplier. Do you require, and does the energy broker provide contract management support – or do they simply ‘find you a supplier’?
- 4 Does the energy broker disclose all sources of payment and other benefits to be received under the contract for securing your business?

- 5 Some energy brokers have in place confidentiality/non-disclosure agreements with their key suppliers. These agreements effectively gag the supplier from disclosing commission values to the customer. The energy broker should provide a written statement that no such agreements are in place with any of the licensed electricity/gas suppliers.
  - 6 Can the energy broker provide you with references at like-minded companies or organisations that you can check?
  - 7 There are different fee arrangements with the energy broker that you need to consider - the agreement between you and the energy broker can be on a commission basis where the energy broker receives payment from an energy supplier which is then added to your energy bills, or on a professional fee basis whereby you pay the energy broker directly a fee for the services that it is to provide. You can also pay a monthly fee to the broker and a bonus if they beat the target price you set. This bonus should be as a % of the savings and have a maximum amount.
  - 8 The energy broker should provide a detailed summary of the bids received, and a written recommendation of which offer to accept, reasons for any decision not to ask specific suppliers to tender, and an outline of the risks and costs associated with the type of contract suggested, including the period of the contract; notice period required for termination; any early termination fees and the potential for any end of contract payments e.g. for under or over consumption.
  - 9 The energy broker should disclose the identity of the chosen supplier and not restrict your freedom to contact the supplier directly.
  - 10 You should include in the contract with the energy broker a clause that allows you to terminate the relationship with the energy broker at any time, giving reasonable notice, assuming that the issue has not been resolved.
  - 11 Suggest visiting the energy broker at their premises to give you a better understanding of their set up.
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- 12 If you are a public sector organisation you will need to ensure the energy broker fully understands any legislation you are subject to, in particular the Public Contracts Regulations 2015, and should satisfy yourself that any procurement undertaken by them on your behalf will comply with the legislation. You may wish to consider seeking advice on this from your legal representatives, as you will be liable for any breach of the Regulations. You may also, therefore, wish to consider including an appropriate indemnity provision in the agreement between you and the broker, and checking they have appropriate Professional Indemnity Insurance.

For more information from CIPS Energy Specialist Knowledge Group please visit <http://www.cips.org/en-GB/Community/Groups-listing/energycommittee/>

For more information on Buying Energy please visit CIPS Knowledge partnership page <http://www.cips.org/Knowledge/Categories-and-Commodities/Buying-Energy/Buying-Energy1/>

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