Third Party Intermediaries – Where To Start

Third Party Intermediaries (TPIs) cover many types of organisations including switching websites, energy brokers and energy efficiency advisers who interact with energy consumers and suppliers as a “middle man”. They can also assist with a wide range of functions including portfolio management, bill validation and asset management.

Unlike energy providers with Ofgem, TPIs are not subject to direct sectoral regulation, but are regulated by the Office of Fair Trading (OFT) and must comply with consumer protection laws, including those which relate to business customers. Along with this, the Business Protection from Misleading Marketing Regulations (BPMMRs), prohibits TPIs from carrying out misleading advertising activities and must always identify themselves and be clear about the purpose of any contact. However, even with these laws set out, it’s difficult being able to identify if you are getting a good service and price on your energy or if their commission and fees have masked the truth.

When it comes to specialised tenders and expert insights, most organisations appoint a consultant to conduct the exercises and utilise the expertise and knowledge of the consultants. This leads to a more successful & effective tender outcome as most consultants have systems and direct relationships that help the purchase of cheaper energy.

The question is, who do you go for? And are you getting a good deal? Over the last few years, with energy prices becoming less predictable and changes in infrastructure making it harder to understand what is happening, energy consultants have become more valued with this trade now being over-saturated. There are over 70 energy switch websites, energy brokers, consultants and procurement companies in mainstream media, such as Compare the Market, uSwitch and GoCompare. This is not including the less advertised companies that deal with large, complex commercial tenders. Nevertheless, it’s safe to say it can be difficult to identify if you are getting value for money when looking to select a broker and obtain new contracts for your energy supplies.

With the vast amounts of consultants in the market, it can be difficult to select the correct consultant to match the services that you require. The key point to understand is the services you will be receiving against the fee that you are changed.

There are normally three types of payment or fee structures, the first is a “supplier pays” system. This is when TPIs inform suppliers of a commission rate to be added in any quote they priced. These are added as a p/kWh rate on the unit rate, or incorporated into the standing charge. Clients would then pay their bills as normal and the supplier then provide the TPI with the agreed upon commission. This means the client never sees how much there are paying the TPI, only the invoices given to then from the supplier regarding their energy usage.

The second looks at a fixed annual sum that has been pre-agreed between the TPI and the client, with set parameters of authorisation and services. This is a more formal and corporate approach which is more extensive than the first payment structure, provides a lot more visibility on fees and in some cases both TPI and client agree upon additional services that would be covered in the agreement.

The last method looks at a combination of both, lowering both fees collectively, but overall payments from both the client and supplier leading to the TPI getting the same commission rate. This structure is best when clients wish to spread the cost of TPI commissions.

In the payment framework of “supplier pays”, broker commission in the GB non-domestic electricity and gas market is averaged at around **2.6%** of the total bill. While it is unclear what fees were agreed under a fixed or combined fee structures.

So, how do you find a ‘good’ broker? As with many other industries, there are plenty of sense checks that you can do to confirm the experience and services of brokers within the market place. Brokers with vast amounts of experience in the industry are likely to be partnered with large notable companies. However, brokers have different specialties in other areas of energy, such as smart metering, meter installation, bill validation, energy audits etc. Which means that if you have other projects that require multiple areas of energy expertise, select a broker or consultant who can provide these services.

The best way to identify the best energy consultant for your business would be to visit their website, find out the services that they can provide and go into discussions about their fees, meet the team and potentially visit their office place. However, before signing any contracts, be sure that all fees are clear and outlined, with set authority privileges for their term of service.

If you have any questions, please feel free to contact Savills’ energy experts.

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