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The importance of the energy broker

Brian Rickerby, managing director of independent energy consultants energyTEAM, explains how best to secure your energy needs

Over 60% of companies use a consultant to secure energy. Today's hard pressed businesses are often under staffed and simply do not have the resources to spend time examining the market, let alone have the ability to view the latest energy trading information, so using a specialist energy purchasing company makes sense.

However, there are literally hundreds of companies offering to secure energy on behalf of clients so how do you go about choosing a company that best suits your needs?

TPI size

Firstly, the suppliers themselves are starting to reduce their dealings with the smaller energy brokers. Some are dealing with up to 500 third party intermediaries (TPIs) and are actively working to cut this number down to around 20. Dealing with a small TPI could therefore limit the number of suppliers who are willing to quote for your business. Care should also be taken to ensure that the small 'broker' is not in fact an agent for a single supplier. It is not unknown for a small TPI to infer that they have 'trawled the market for the best deal' when in fact they are simply offering a price from their preferred supplier.

The small energy broker will simply not have the bank of experience possessed by the larger energy brokers. Equally, the larger companies with a good reputation in the market will attract staff from the suppliers themselves giving them a better understanding of how the suppliers work and better contacts within the industry.

Energy is a traded commodity with daily, weekly, monthly, seasonally and yearly price fluctuations. When a contract is placed is the single biggest factor influencing the price achieved.

The larger TPI will monitor the market closely and have regular contact with energy traders. Whilst predicting what will happen with future electricity and gas prices is not an exact science, an experienced energy consultant is familiar with market trends and knows what factors are likely to drive energy prices up or down. Having someone experienced monitoring the forward traded price curve will help you secure your energy contracts at the optimum time for a good price. For example, the table (see right) lists the changes on the various traded prices on a single day and compares them with the previous day/week or month. The graph (see right) shows a weighted average of these prices based on a one, two or three year energy contract.

Lack of resources

Smaller TPIs, often just a one or two man band, will not have the resources to track prices to any degree of sophistication and will simply work on the basis of getting the cheapest quote as and when the contract is due for renewal.

There are a number of different methods of purchasing energy - fixed contracts, tracker contracts, flexible contracts, etc. One method is not better than another, they are different. An evaluation needs to be undertaken on the type of contract that best suits the individual needs of the company. The bigger TPIs will have a larger portfolio of clients enabling smaller energy user's to be grouped together giving them access to contracts that previously only large energy users could use. Something that smaller TPIs are unable to offer.

However, recommending a particular type of purchasing that is in the best interest of the TPI and not what suits the client best is not just limited to the smaller energy consultants. Even some of the larger consultants encourage fixed or flexible contracts because it is what is best suited to their style of trading, rather than what best suits the needs of your company.

Flexible contracts allow purchase of gas or electricity throughout the contract period. The main advantage is that it allows purchases to be made throughout the length of the contract, taking advantage of any 'dips' in the market. Equally, as the customer is purchasing energy at a price based on the wholesale market, they can avoid additional margins that a supplier adds to cover their exposure to risk surrounding market volatility.

However, this sort of energy contract may not suit every business. For example, if a company requires absolute budget certainty, a fixed price contract, where the only variable is usage, would probably be a better option. Equally on a fixed price contract the supplier 'evens out' differences in summer and winter prices. A company on a flexible contract will pay more for winter use but less for summer use.

Summary

Finally, all too rarely is energy purchasing linked with energy usage. A flexible purchasing arrangement could reap huge rewards if production patterns can be varied, for example, if energy intensive equipment is used at times when energy costs less. However, this takes a coordinated approach from various department heads and senior managers, and finance needs to be involved as there are cash flow implications with this type of contract.

Energy is often the biggest expense for today's business after salary. Dealing with a reputable energy consultancy that works with the board to look at all aspects of effective energy management including formulating an effective energy purchasing strategy, is therefore essential.