



DIVERSEGY
Commercial Energy Advisory

EVERYTHING YOU NEED TO KNOW ABOUT ENERGY BROKERS



Energy Brokers: Everything You Need To Know

Energy brokers act as intermediaries between retail energy suppliers and customers in deregulated energy markets. There are typically two types of energy brokers: residential energy brokers and commercial energy brokers. In this article, we will discuss what commercial energy brokers do, how they are paid, and everything else you need to know about their careers. The same reasoning applies to residential energy brokers with the exception being the type of customer with whom they do business.

What Is An Energy Broker?

Energy brokers act as liaisons in deregulated energy markets between retail energy suppliers and end-users. In a deregulated electricity market or natural gas market, retail energy suppliers ("REP") purchase energy from the wholesale market and resell it to customers in the retail market. The REP's charges typically will appear on the customer's local utility invoice and the customer will still pay their local utility when purchasing energy supply from a third-party provider or REP. When customers decide to purchase energy from a supplier, they will enter into a retail energy supply agreement with the REP outlining the terms of the commodity supply (price, length, etc).

How Energy Brokers Grew So Fast

When energy deregulation first began, REPs hired their own salaried salespeople to acquire commercial and residential customers. In many deregulated states, there were also processes in place for Retail Energy Brokers to become licensed in order to also participate in the deregulated energy markets. Brokers set up relationships with REPs and acted as commission-only sales organizations for the suppliers. As the markets matured and more brokers became established, many REPs decided it was easier to sub-contract their sales efforts to energy brokers instead of hiring salaried salespeople. As this transition occurred, the energy broker channel grew rapidly. Today there are over 600 licensed energy brokers throughout the U.S.

Energy Broker Sales Proposition

Since energy brokers are not allowed to purchase energy but are simply permitted to sell retail energy contracts to consumers, energy brokers bring value to their customers through service and supplier competition. Since there are many retail energy suppliers offering pricing in deregulated markets, it can be overwhelming for a customer to vet supplier offers and decide which offer is the best. These offers are based on energy market prices and typically are only valid for 24 hours. It is a daunting task to obtain quotes from 30+ suppliers and compare them on the exact same day. This is where energy brokers offer value to their customers. Since brokers have established relationships with supplier price desks, it is simple for them to quickly obtain price quotes and present them to their customers. Energy brokers are also able to help their customers negotiate among suppliers to find the lowest price for energy.

How Energy Broker Quotes Work

Typically, an energy broker will put together a supplier comparison chart for his customers. This chart will display price quotes from all energy suppliers in \$/kWh (Kilowatt-Hours), outline the various contract terms, and also detail special contract provisions. These comparison charts make it easy for customers to quickly compare quotes side-by-side and do a try apples-to-apples comparison. This saves the customer time and the headache of having to organize these requests for proposal. In these ways and many more, energy brokers offer value to their commercial customers. See more on Why Use An Energy Broker below.

What Do Energy Brokers Do?

Commercial energy brokers engage in procuring energy supply for their electricity and natural gas customers. Energy brokers have agreements with multiple Retail Energy Suppliers and offer price quotes from many suppliers to their commercial customers. In addition to procuring energy supply, there are many other things energy brokers do to bring value to their customers:

Contract Language

Professional energy brokers understand the legal language in the retail energy contracts they offer to their customers. Energy supply rates can get complex with many different product offerings and conditions. Energy brokers help their customers understand things like capacity charges, bandwidth clauses, transmission charges, Kilowatt-Hours (kWh), pass-through charges, and more. Without an energy broker in their corner, customers would be forced to understand the details of the energy supply agreement themselves.

Supplier Vetting

All retail energy suppliers are not made equal. Some energy suppliers are very large, publicly-traded companies that own energy generation stations and have billions of dollars in revenue. Other suppliers are five employees in an office above an old mechanics shop (no kidding!). Helping their customers understand the prowess of the supplier deciphering whether the supplier has the financial wherewithal to honor a fixed-price agreement is a true value energy brokers deliver. Customers get enticed by very low fixed-rate offerings by “fly-by-night” energy suppliers and are later disappointed when the supplier passes-through other costs on their electric bill. Energy brokers can help their customers choose reputable suppliers since they know the market.

Customer Service

Another thing energy brokers do on a regular basis is to offer customer service to their commercial customers. Utility issues are rare, but when they occur, the energy broker is available to help guide the customer through the problem. Whether it is a billing error or a billing question, energy brokers can help rectify the situation due to their direct lines of communication with energy suppliers.

How Do Energy Brokers Make Money?

Energy brokers earn a commission from retail energy suppliers for the total energy consumed by their customers over the length of a contract. Unlike energy consultants who charge a fee directly to the customer, energy brokers build margin or fees into the total rate for energy that appears on the customer's invoice. See more on Energy Brokers vs. Energy Consultants below).

In fact, energy broker licensing allow brokers to add margin to a retail energy supplier's rate and earn a commission when the customer pays its bill. Since suppliers need to employ salaried salespeople to deal with direct customers, they add margin to their rates to cover the salesperson's costs. Typically, energy brokers are able to obtain lower rates from suppliers than customers can directly, so the added broker fee or margin is many times not passed-on to the customer. Here is an example of how energy brokers make money:



In the example above, the energy broker added a total broker fee of \$0.005/kWh to the supplier rate of \$0.060/kWh, giving the customer a total energy price of \$0.065/kWh. In this example, the supplier would pay the broker its fee of \$0.005/kWh for every Kilowatt-Hour (kWh) of electricity the customer uses for the length of the retail energy supply contract. Many times, these commissions are paid monthly as the customer uses energy, and sometimes, the supplier will advance these commissions to the broker depending on their relationship. Here is what a typical commission statement might look like:

Month	Electricity Usage (kWh)	Broker Fee (\$/kWh)	Broker Commissions (\$)
JAN	24,000	\$0.005	\$120
FEB	27,000	\$0.005	\$135
MAR	12,000	\$0.005	\$60
APR	13,000	\$0.005	\$65
MAY	17,000	\$0.005	\$85
JUN	21,000	\$0.005	\$105
JUL	30,000	\$0.005	\$150
AUG	25,000	\$0.005	\$125

Energy Brokers vs. Energy Consultants.

In the retail energy sector, there are many different companies and players. Further downstream, energy brokers and energy consultants deal directly with end-use customers to help them procure energy supply for their businesses. The main difference between an energy broker and an energy consultant has to do with how he is compensated. Energy brokers are compensated by energy suppliers by adding broker fees into retail energy rates. Energy consultants, on the other hand, are compensated by their clients for offering guidance and advice. Energy consultants, many times, also get involved in other areas of the energy industry. In addition to helping their customers with energy supply, consultants will advise on things like demand response, LED lighting, renewable solutions, wholesale products, and more.

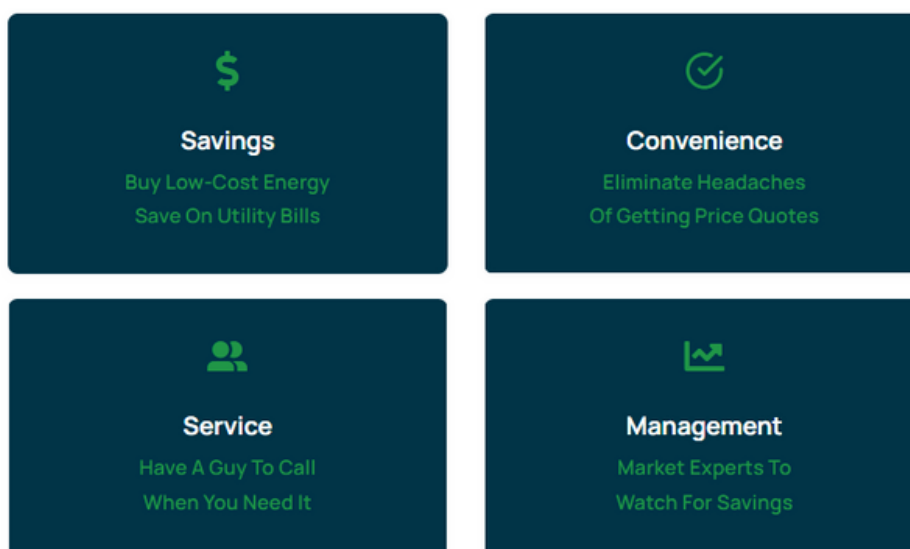
What About Licensing For Energy Consultants?

Energy brokers are required to obtain licenses in certain deregulated states in order to add margin to retail energy prices. Energy consultants, on the other hand, are never required to get licensed as they collect fees directly from their customers. Unlicensed energy consultants are not allowed to add margin to retail supplier rates.

Why Use An Energy Broker?

There are many advantages to using a broker for purchasing electricity or natural gas in a deregulated market. Most of the value a broker can deliver has to do with procuring low-cost energy for savings. After all, that's the bottom line right? Energy brokers understand commodity markets and have supplier relationships to secure a low rate for your business that can save you on your utility costs. Furthermore, energy brokers understand how commodity markets trade and can continually monitor future prices to offer savings contract over contract.

In addition to price savings, having a reputable energy broker in your corner makes your job easier. When you have a utility billing issue, question, or you're ready to shop for a new rate, simply calling your broker makes things convenient and simple. Companies that do not use energy brokers are forced to take these tasks on internally. Here are the top benefits of using an energy broker:



Becoming An Energy Broker.

So you're interested in becoming an energy broker? Great news! You've picked an exciting industry with lots of potential to have a very rewarding career. Now, there are several ways you can enter the market as an energy broker. We will explain each in detail below:

Start As An Agent

One way of entering the energy broker world is to start as an energy sales agent. Energy agents are individuals who act as energy brokers but do not need to go through the rigorous licensing process. In fact, energy agents align with a licensed energy broker and sell energy under than broker's license. Becoming an agent is quite simple and your broker will train you on everything you need to know to be successful.

Become A Sub-Broker or Channel Partner

If you have an organization with multiple salespeople and you are thinking about setting up your own broker shop, a great first step might be to become a sub-broker under a larger licensed broker organization. There are many benefits to structuring your energy broker business this way including:

- Avoid rigorous regulatory compliance
- Get overnight access to deregulated markets with no licensing
- Sell for multiple energy suppliers without having to pass application processes
- Get better payment terms with upfront commissions to improve cash flow
- Gain access to support staff without having to hire employees
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Starting an energy brokerage company is harder than ever. With more stringent supplier application processes, and less favorable commission payment terms, it is quite hard to get a new energy brokerage started. An alternative is to align with a larger broker who has a sub-broker program. These programs offer many benefits and allow you to have a turn-key energy brokerage company.

Get Licensed

If you have the experience, financial backing, and ability to get your own broker's license, we encourage you to do so. Be aware that this process is cumbersome and tedious and your application will be heavily scrutinized by each regulatory body. In addition, you will need to have staff keep up with ongoing compliance and reporting as well as handle the operations of your energy brokerage. In addition, you will need to forge relationships with energy suppliers and maintain enough deal flow with each supplier to keep your contract active. If you are interested in getting a license, here are the license requirements by state. Please refer to this key when referencing the chart on the next page:

- **License Required** = an energy broker's license is required to sell either commodity
- **No License Required** = the state is deregulated for this commodity, but a broker's license is not required to operate
- **Limited Deregulation** = the state offer limited deregulation and due to this a broker's license is not required
- **No Deregulation** = the state is not deregulated for this particular commodity

State	Electric Broker License	Nat. Gas Broker License
California	No license required	No license required
Colorado	No deregulation	Limited deregulation
Connecticut	License required	No license required
Delaware	License required	No deregulation
Florida	No deregulation	No license required
Georgia	No deregulation	No license required
Illinois	License required	No license required
Indiana	No deregulation	Limited deregulation
Iowa	No deregulation	Limited deregulation
Kentucky	No deregulation	Limited deregulation
Maine	License required	License required
Maryland	License required	License required
Massachusetts	License required	License required
Michigan	No license required	No license required
Montana	No deregulation	No license required
Nebraska	No deregulation	License required
New Hampshire	License required	License required
New Jersey	License required	License required
New Mexico	No deregulation	Limited deregulation
New York	No license required	No license required
Ohio	License required	License required
Oregon	License required	No deregulation
Pennsylvania	License required	License required
Rhode Island	No license required	No license required
South Dakota	No deregulation	Limited deregulation
Texas	License required	Limited deregulation
Virginia	License required	No license required
Washington D.C.	License required	License required
West Virginia	No deregulation	Limited deregulation
Wyoming	No deregulation	Limited deregulation