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Default Service as a Risk Management Framework

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Executive Summary

PJM's potential market reforms could materially change the risks that default-service programs are expected to manage. Default service can adapt, but states will need to reconsider how long-term procurement, retail choice, and supplier obligations fit together.

Key takeaways for states:

- **Preserve the risk-management function of default service.** Competitive procurement and laddering remain valuable tools for protecting customers from wholesale-market volatility.
- **Phase in long-term procurement.** Long-term capacity or energy commitments should be laddered across procurement dates and contract terms rather than executed all at once, particularly under current tight market conditions.
- **Define what is being procured.** States will need to determine whether long-term contracts procure capacity or another reliability attribute, and what obligations remain with default-service suppliers.
- **Address retail choice and customer migration.** Long-term costs and benefits may need to follow load through pro rata LSE allocations or, for broader reliability investments, through non-bypassable charges or credits.
- **Adapt procurement to the PJM market design** without unnecessarily redesigning default service. Path A may require long-term capacity procurement; Path B may require a separate default-service product for differentiated-reliability loads; and under Path C, states could procure the long-term reliability requirement separately while largely preserving the existing default-service framework for energy and other short-term requirements.

Introduction: Why Default Service Exists?

Electric industry restructuring separated generation from the regulated distribution utility, but it did not eliminate utilities' obligation to serve. Utilities therefore needed a mechanism to procure power from competitive wholesale markets while providing customers with a reasonably stable retail price. Default service was developed to perform that function.

Default service is a hedge. Through the default-service procurement process, utilities competitively select wholesale suppliers that assume responsibility for serving a share of the utility's default-service load[1], managing the underlying variable wholesale-market costs in exchange for a fixed price established through the procurement. Its purpose is not to eliminate market risk or guarantee the lowest price at any point in time, but to manage the price volatility faced by customers. Laddered contract terms smooth wholesale price volatility, while full-requirements[2] products transfer certain price, load, and customer-migration risks to suppliers. Procuring portions of the portfolio at different times also reduces customers' exposure to conditions prevailing on a single procurement date.

An important premise of this construct is that the underlying PJM markets work as intended. Default-service suppliers can hedge and price their obligations because energy, capacity and ancillary-service markets provide the underlying market products and price signals. When those markets have changed or their timing has become uncertain, default-service procurement has adapted. For example, delays in PJM capacity auctions created periods in which suppliers bidding fixed-price default-service contracts did not yet know the applicable capacity price. Pennsylvania and New Jersey addressed that uncertainty through capacity proxy prices and subsequent settlement adjustments rather than abandoning the default-service construct.

The changes now under consideration at PJM are fundamental. In its 2026 paper, *Powering Reliability Through Market Design,* PJM identifies three potential paths: Path A, "Stabilized Markets," which would rely on longer-term commitments and mandatory hedging; Path B, "Differential Reliability," which would allow reliability obligations to differ across loads under scarcity conditions; and Path C, an "Energy Market Transition," which would shift more revenue recovery from the capacity market to energy and ancillary-service markets while requiring long-term forward energy contracting. PJM itself notes under Path A that changes to default-service procurement may be necessary to promote longer-term contracting and greater price stability. The three paths are not mutually exclusive, and each could change the risks that default-service providers are expected to manage.

The timing and sequencing of any transition to longer-term procurement will therefore be as important as the ultimate market design. Long-term contracting can reduce exposure to future price volatility, but

[1] A default-service tranche represents a fixed percentage of actual default-service load, rather than a fixed MW quantity. As a result, the volume a supplier is responsible for can vary over time due to weather, customer migration, economic activity, electrification-driven load growth, and other changes in demand. This is part of the volumetric risk borne by the supplier, as discussed further in Section 1.1.

[2] "Full requirements" means the supplier is responsible for most wholesale supply obligations associated with its share of default-service load, typically including energy, capacity, ancillary services, and other applicable PJM charges. Specific obligations vary by program.

entering a large volume of long-term commitments during a period of unusually high market prices or high new-entry costs can instead lock those conditions into customer rates for many years. The experience following the California electricity crisis illustrates this tension: long-term contracts helped restore supply and price certainty, but contracts entered during stressed market conditions also created substantial long-term cost exposure. The same risk-management principle that underlies today's laddered default-service portfolios can therefore apply to a transition toward longer-term contracting. Rather than moving the portfolio all at once, utilities and states can phase in longer-term commitments over time, diversify procurement dates and contract terms, and preserve flexibility to respond as market conditions evolve.

1. Default Service in the Competitive Electricity Market

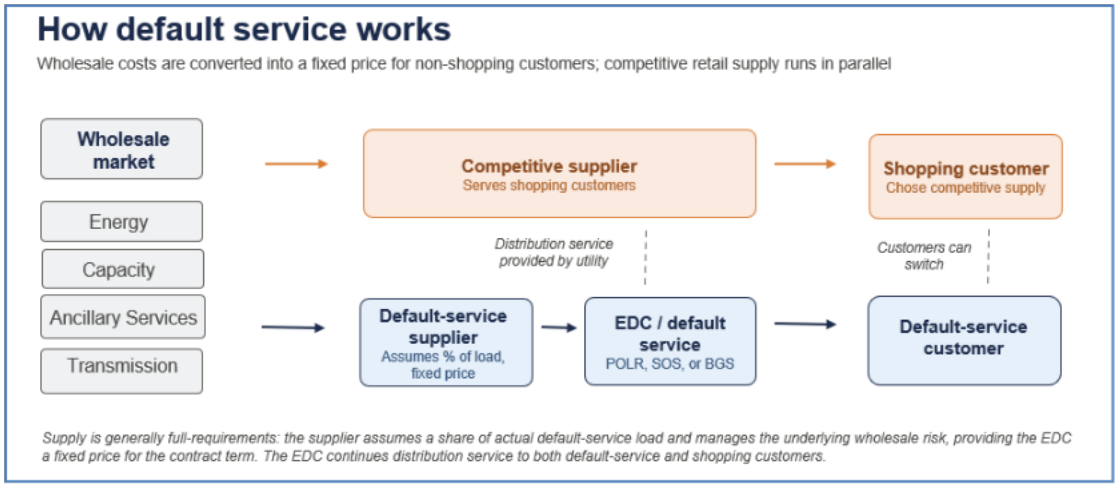
Default service sits at the intersection of wholesale electricity markets and retail choice. It performs two related functions. First, it transfers the wholesale-market risks associated with serving a fluctuating retail load from the utility to suppliers that specialize in managing those risks. Second, it establishes a competitively procured default-service price that provides a benchmark against which customers can evaluate competitive retail offers.

1.1 Default service within the market structure

Figure 1 illustrates how default service fits within the broader electricity market. PJM operates the underlying wholesale markets for energy, capacity, ancillary services, and other market products. Rather than procuring these products directly to serve default-service customers, the utility obtains supply through a competitive default-service procurement.

Winning suppliers commit to serve a specified percentage of the utility's actual default-service load and assume responsibility for procuring and managing the associated wholesale-market requirements. The prices established through those procurements are then reflected in the generation component of the default-service rate paid by customers.

Figure 1: Default Service Process



Competitive retail suppliers operate alongside this framework. They procure supply from the same wholesale market and serve shopping customers over the utility's distribution system. Customers may move between competitive supply and default service, while the utility continues to provide distribution service in either case and retains the obligation to serve customers that do not select, or cease taking service from, a competitive supplier.

1.2 Default service as a risk-management mechanism

The default-service product bridges two very different price structures. Retail customers receive generation service at a price established in advance and adjusted only periodically, while the underlying wholesale costs of serving those customers vary continuously.

Two risks that default service mitigates:

- **Price risk.** Energy prices vary hourly and can rise sharply during periods of scarcity. Capacity, ancillary service, and other PJM costs also change over time. Under a fixed-price full-requirements product, the supplier assumes the relevant wholesale-price exposure for the term of the contract and incorporates that risk into its bid. We will discuss how this has evolved.
- **Volume and load-shape risk.** A default-service tranche is not a fixed number of megawatts. It represents a percentage of the actual default-service load. The supplier's obligation therefore changes with hourly and seasonal load, weather, economic activity, and customer migration between default service and competitive supply. Wholesale forward instruments, by contrast, provide fixed-MW blocks and cannot perfectly hedge a load-following obligation. The supplier must manage the resulting mismatch between its hedges and realized load.

In the full-requirements procurements surveyed in this paper, auction tranches are defined as percentages of realized load rather than fixed quantities. Suppliers therefore act as portfolio managers, assembling and continuously managing the wholesale positions required to meet their load obligations.

Without this transfer, that portfolio-management function, and the associated price, volume, and load-shape exposure, would remain with the utility.

1.3 Default service as the pricing benchmark

Default service also provides an important reference price for retail competition. In Pennsylvania, this benchmark is called the Price to Compare (PTC). Default-service prices are posted on the Pennsylvania Public Utility Commission's PA Power Switch website alongside competitive supplier offers, providing customers with a readily observable benchmark against which to evaluate those offers and make an informed choice on whether to remain on the default service or move to a competitive supplier.

Because default-service supply is competitively procured from qualified wholesale suppliers, the resulting price is itself subject to competitive pressure. At the same time, there has long been a tension between the role of default service as a risk-management mechanism and its role as a benchmark for retail competition. A laddered default-service portfolio is intentionally not a contemporaneous wholesale-market price. Depending on market movements, the PTC may therefore be either above or below the price implied by current market conditions. Competitive suppliers have argued that this can inhibit competition, particularly when previously procured default-service contracts produce a PTC below then-current market prices.

That concern must be balanced against the risk-management objective of default service**.** The purpose of laddering is precisely to avoid exposing customers to market conditions prevailing at a single point in time. Pennsylvania's default-service framework reflects this tradeoff: rather than requiring default-service rates to track current wholesale prices as closely as possible, it emphasizes a prudent mix of contracts, least cost over time, reliability, and price stability.

That balance may become even more important as PJM considers greater reliance on forward contracting**.** PJM's current market-design proposals contemplate substantially greater and possibly laddered long-term hedging by Load Serving Entities (LSEs) to protect customers from scarcity-price volatility while supporting investment in new supply. Under such a framework, the relevant competitive benchmark may increasingly be not whether default service tracks the short-term market most closely, but whether both default and competitive supply provide customers with appropriately priced and managed exposure to wholesale-market risk.

2. Components of a Default Service Program

A default service program translates the utility's obligation to serve into a defined procurement framework. Although terminology differs across jurisdictions, the core components are similar: a commission-approved procurement plan, a contractual allocation of responsibilities between the utility and suppliers, defined products and contract terms, supplier qualification and credit requirements, and a competitive procurement mechanism.

2.1 Regulatory framework and procurement plan

The process begins with a regulatory filing establishing how the utility will procure default supply over a multi-year period. Depending on the jurisdiction, this may be called a Default Service Program, Standard Offer Service plan, Standard Service Offer plan, or another jurisdiction-specific name.

The filing typically defines the customer classes to be served, products to be procured, contract lengths, procurement schedule, auction or RFP design, cost recovery, and the roles of the utility, procurement administrator, independent monitor, and other parties. The plan and supporting documents are reviewed through a commission proceeding, where intervenors may comment before the framework is approved.

In Pennsylvania, for example, each Default Service Provider files a Default Service Program with the Pennsylvania Public Utility Commission. Major EDCs commonly operate under multi-year programs that establish the framework for the procurements conducted during the plan period, which typically ranges from 3 to 5 years.

2.2 Supplier agreement and allocation of responsibilities

The relationship between the utility and each winning supplier is governed by a supply agreement. The name varies by jurisdiction; in Pennsylvania, for example, the procurements use the term Supplier Master Agreement, while in Ohio the term is Master SSO (Standard Service Offer) Supply Agreement.

The agreement defines the product being purchased and allocates the financial and operational responsibilities associated with serving default-service load. It specifies which wholesale-market obligations are assigned to the supplier, which remain with the utility, how suppliers are paid, settlement and invoicing provisions, credit requirements, and remedies in the event of supplier default.

The allocation of PJM charges such as energy, capacity, ancillary services, transmission, and other PJM charges differs across programs. Moving a cost into or out of the default-service product changes both the risks borne by suppliers and the costs they must reflect in their bids.

2.3 Product and portfolio design

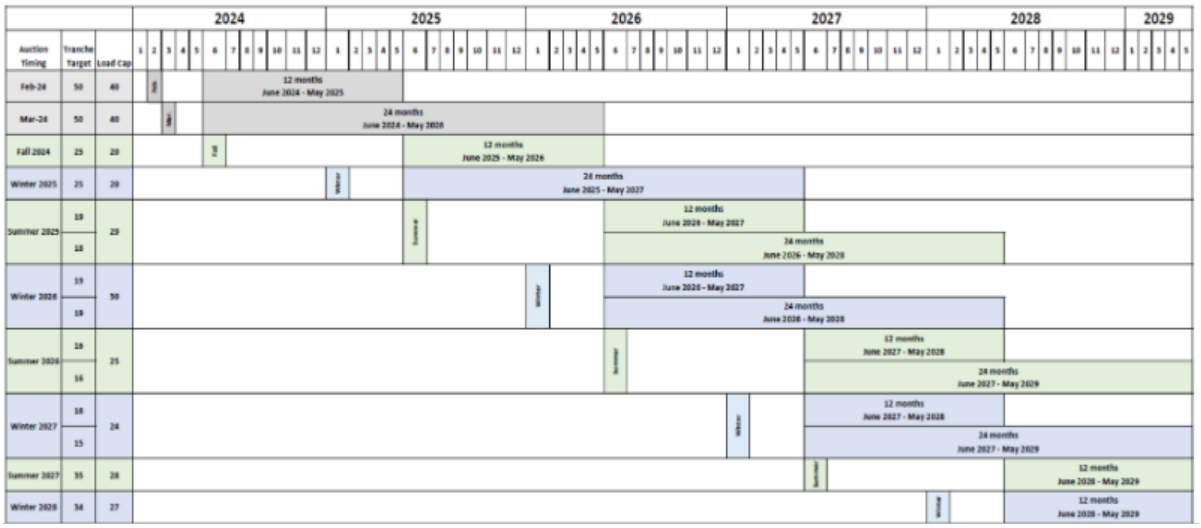
The approved program also defines what products will be procured and how they will be combined into the default-service portfolio.

Key design choices include:

- **Pricing structure.** Residential and small commercial load is commonly served through fixed-price full-requirements products. Larger commercial and industrial customers may instead receive hourly-priced service or a combination of fixed and variable charges.
- **Contract term.** Contract terms can range from several months to multiple years, with one- and two-year products among the most common.
- **Procurement frequency.** Solicitations may occur annually, semi-annually, quarterly, or on another approved schedule.
- **Laddering.** Utilities typically procure portions of the portfolio at different times using overlapping contracts. This reduces exposure to market conditions on any single procurement date and smooths the effect of wholesale-price changes on retail rates.
- **Product mix**. A program may combine contracts of different durations or pricing structures rather than rely on a single product.
- **Tranche structure.** Full-requirements products are typically procured as percentages of actual default-service load rather than as fixed MW quantities.

Together, contract length, procurement frequency, tranche structure, and product mix determine the timing and degree of the hedge provided to default-service customers.

Figure 2: Example: FirstEnergy Ohio Procurement Schedule



Source: https://www.firstenergycbp.com/

2.4 Procurement administration and supplier qualification

The program also establishes who will administer the procurement. Some utilities manage solicitations internally, while others retain an independent auction manager or procurement consultant.

Prospective suppliers must qualify before bidding. Qualification is intended to establish that a supplier has the financial and operational capability to assume responsibility for a significant share of default-service load.

Requirements commonly include PJM and FERC eligibility, financial information, creditworthiness, certifications concerning bidder conduct, and financial security. Some procurements use a two-stage process, with an initial qualification followed by final registration and submission of pre-bid security.

Pre-bid security supports the supplier's bidding commitment and helps ensure that a winning bidder will execute the applicable supply agreement. Once a supplier begins serving load, additional collateral and credit requirements protect against the utility's exposure if the supplier defaults. These requirements may include unsecured credit limits, letters of credit, cash collateral, and ongoing mark-to-market calculations.

2.5 Procurement format

Default-service procurements generally use either a multiple-round descending-price clock auction or a sealed-bid RFP. The key distinction is the amount of price discovery that occurs during the procurement process.

In a descending-price clock auction, the Auction Manager announces a price for each product in each round, and bidders respond with the number of tranches they are willing to serve at that price. Prices decline as long as aggregate supply exceeds the procurement target. Multiple products can be offered simultaneously, with switching between products permitted subject to the auction rules. Bidders receive information on aggregate bidding activity as the auction progresses and remain in the auction until the announced price falls below the level at which they are willing to supply. The process therefore provides continuous price discovery: bidders do not need to independently estimate the bids of their competitors to determine whether they remain competitive.

A sealed-bid RFP is typically a one-shot process. Bidders submit price and quantity offers, which may include multiple price-quantity combinations, without observing competing bids. A bidder must therefore determine both the minimum price at which it is willing to serve the load and the price likely required to win. This makes the bidder's assessment of competitor behavior more important than in a clock auction.

Neither format is inherently preferable in all circumstances. Clock auctions are particularly useful where there are multiple qualified bidders, standardized products, and value in allowing competition to reveal the market-clearing price over successive rounds. Sealed-bid RFPs can be more appropriate where bidder participation is limited, products are less standardized, or procurement terms require greater flexibility in evaluating offers.

3. Default Service Evolution

The default-service construct described above depends on well-functioning PJM wholesale markets. Suppliers can offer fixed-price, full-requirements service because energy, capacity, and other obligations can be priced or hedged through those markets. But the traditional construct was designed around relatively short procurement horizons (generally one to three years) and substantial reliance on PJM itself for capacity. PJM's February 2026 review of default service[3] concludes that restructured states generally hedge energy and ancillary-service costs while purchasing capacity at the PJM wholesale price, and today they rely heavily, in some cases almost entirely, on the capacity market to meet resource-adequacy needs.

That distinction has become more important as PJM capacity prices have increased and the capacity-market design itself is under review. Default service can smooth electric bill volatility when market costs reach customers, but hedging does not eliminate a high underlying market price; it changes the timing and variability of customers' exposure to that price. PJM has argued that the standard one- to three-year default-service structure is insufficient to protect consumers from a sustained capacity shortage and has explicitly suggested longer-term contracting and reduced reliance on the annual Base Residual Auction (BRA) cycle. Its broader Powering Reliability Through Market Design paper now presents three potential paths: Path A, longer-term commitments and mandatory hedging; Path B, differentiated reliability; and Path C, greater reliance on energy and ancillary-service markets paired with long-term forward energy contracting. PJM specifically identifies changes to default-service procurement as one possible means of supporting longer-term contracting and price stability.

Default service, however, has adapted to market changes before. Two examples are particularly relevant: the incorporation of long-term PPAs into default-service portfolios, discussed below, and the development of capacity proxy prices when PJM capacity-auction timing no longer aligned with default-service procurement.

3.1 PPAs in Default Service

Long-term PPAs are not new to default service. In several jurisdictions, they were introduced to advance renewable-energy objectives and support development of new renewable resources. Their use also established an important precedent: selected components of default-service supply can be procured under long-term contracts while the remaining PJM line items required to serve default service continue to be procured through conventional wholesale solicitations.

3.1.1 Example: District of Columbia

The District of Columbia provides a useful example. In 2019, the DCPSC established a pilot program for Pepco to procure renewable energy through long-term PPAs for 5% of Standard Offer Service (SOS) load. In 2025, the Commission approved a 25-year PPA for 172,000 MWh

[3] https://www.pjm.com/-/media/DotCom/library/reports-notices/special-reports/2026/20260218-considerations-for-default-service-programs-to-better-align-with-pjm-wholesale-markets.pdf

annually from a 75-MW solar project, with deliveries expected to begin in December 2027. The contract includes energy and RECs, but not capacity.

The PPA does not function as a 5% full-requirements tranche. Instead, it carves selected products out of Pepco's conventional Wholesale Full Requirements Service (WFRS) procurement. Remaining 95% of SOS supply continues to be procured through WFRS contracts, while the PPA provides energy and RECs for the remaining 5%. Pepco separately procures the capacity and other requirements needed to serve that portion of load. The PPA costs, residual WFRS costs, and complementary procurement costs are then incorporated into SOS rates.

In Order No. 22702, the Commission removed the 5% cap and directed Pepco to seek PPAs covering a "target of 25% of SOS load". Implementation is ongoing. If the target is reached, a substantially larger portion of SOS energy and renewable attributes would be supplied under long-term contracts, with the residual requirements continuing to be procured through WFRS and PJM markets. The expansion has highlighted the tradeoffs of long-term contracting. Longer contracts provide greater price certainty but create the risk that customers remain committed to above-market prices. The Commission has included protections intended to manage this risk. For the expanded procurement, Pepco may solicit "*15-, 20-, or 25-year PPAs*", and the procurement includes a pricing-collar review. If the PPA price at the specified review point is more than 15% outside the prevailing market price, Pepco and the seller may reopen the contract and renegotiate the price.

3.1.2 Other Examples

These examples in Table 1 below show that long-term contracts can be incorporated into default service in different ways. They were initially used primarily to support renewable-policy objectives, but they also demonstrate how long-term and short-term procurement can coexist within the same default-service portfolio. This precedent is relevant to the current discussion of longer-term energy and capacity hedging.

Table 1: Long Procurement Product Examples in PJM

Program	Long-term product	Products procured	Treatment in default service
Pepco – D.C.	25-year PPA; current contract covers ~5% of SOS, with a 25% target	Energy + RECs	PPA portion is carved out of WFRS; capacity and other requirements are procured separately.

Duquesne Light – PA	15-year solar PPA	Energy + solar AEC[4]s	Energy is sold into PJM and revenues are credited to default-service customers; AECs reduce suppliers' renewable-compliance obligations.
PECO – PA	10-year solar PPAs	Energy + capacity + solar AECs	A more bundled product that offsets a portion of supply otherwise procured for default service.
PPL Electric – PA	Long-term solar AEC contracts	Solar AECs only	Renewable attributes are procured long term while energy and capacity remain separately procured.

3.2 Capacity Proxy Price

Capacity proxy prices are another example of default service adapting to changes in PJM markets. When PJM began delaying capacity auctions in 2019, default-service suppliers were being asked to submit fixed-price bids before the applicable capacity price was known. This created significant risk: suppliers could either include a large risk premium in their bids or choose not to participate.

New Jersey first addressed this problem by introducing a Capacity Proxy Price (CPP), and similar mechanisms are now used in multiple states including Pennsylvania, Ohio, and Maryland. When the PJM capacity price is not known at the time of the default-service auction, suppliers use a predetermined proxy price in their bids. Once PJM conducts the capacity auction and the actual price becomes known, the difference between the proxy and actual price is trued up. If the actual price is higher, suppliers receive the difference; if it is lower, they return it.

The CPP therefore removes capacity-price uncertainty from suppliers' bids, supporting competition and reducing the need for risk premiums. It does not, however, hedge customers against high capacity prices: customers ultimately pay the actual PJM capacity cost[5].

[4] Alternative Energy Credit (AEC) the tradable certificate used to demonstrate compliance with Pennsylvania's Alternative Energy Portfolio Standards

[5] The other fixed-price components of the full-requirements product generally remain hedged, so customers continue to receive price protection for energy and other included wholesale costs even though capacity is ultimately trued up to the actual PJM price

The CPP removes capacity-price uncertainty from the default-service supplier and places that exposure with the utility, which ultimately reconciles the actual PJM capacity cost through customer rates.

4. Default Service and Long-Term Capacity Hedging

PJM's 2026 default-service paper recommends reducing reliance on the annual Base Residual Auction for capacity. PJM notes that restructured states now rely heavily on the BRA and recommends that at least 25% of default-service obligations be supported by contracts of five years or longer, with some capacity secured before the BRA.

This would not require replacing the existing default-service construct. Long-term procurement already coexists with shorter-term default-service procurement in several jurisdictions. The question is how a new long-term capacity hedge would be structured and how it would interact with the existing default-service product.

The treatment of competitive LSEs would also matter. To the extent that competitive suppliers are subject to similar long-term hedging requirements, differences in procurement horizons between default and competitive supply may narrow. Migration risk would not disappear, since contract timing, portfolio costs, and retail pricing could still differ across suppliers. These issues, including the allocation of long-term costs as customers move between default and competitive supply, are discussed further in Section 4.3.

4.1 Structure of the long-term hedge

The long-term hedge would be a separate procurement. It could be structured as a capacity-only contract, fixing the price of a specified amount of capacity for a defined term. Alternatively, it could include capacity together with energy or other attributes, similar to a bundled PPA.

The amount could also be procured in layers rather than all at once. For example, portions of the long-term capacity requirement could be contracted at different times or for different terms, reducing exposure to conditions prevailing on a single procurement date.

4.2 Interaction with default-service procurement

A separate question is how the long-term capacity position would affect the obligations of default-service suppliers.

One option is to remove the corresponding capacity obligation from the default-service product. Suppliers would then bid to provide energy and the remaining requirements, while the utility would separately provide the capacity secured under the long-term contract and through BRA directly.

Alternatively, default-service suppliers could retain the capacity obligation, but receive a pro rata allocation or credit for the capacity already procured (by either state of utility) under the long-term contract. For example, if 25% of the capacity requirement had been secured long term, each supplier's capacity exposure could be reduced proportionally for the tranches it serves. The supplier would remain responsible for the residual capacity requirement.

These approaches preserve the existing competitive procurement while allowing part of the capacity exposure to be fixed over a longer horizon. The design question is therefore not simply whether capacity is procured long term, but how that long-term position is incorporated into the supplier's full-requirements obligation.

4.3 Retail migration and cost allocation

Long-term contracting also creates an important issue in a retail-choice market: customers can move between default service and competitive supply, while the long-term contract remains in place.

If wholesale market rates fall below the executed default service contract costs, the default-service rate becomes less attractive than competitive retail offers. Customers could then migrate away from default service, leaving the fixed contract costs to be recovered from a smaller default-service customer base. That could further increase the default-service rate and encourage additional migration.

The opposite can occur when the contract is priced below the market. Default service could become more attractive than competitive supply, encouraging customers to return and affecting the competitive retail market.

One approach is to assign the long-term default-service contract costs exclusively to default-service customers, who would then bear the risk of higher prices should there be a migration from default service to competitive suppliers. Another is to treat some or all of the long-term capacity hedge as a broader system obligation, with its costs and benefits allocated to both default-service and shopping customers through a non-bypassable charge or credit. Under that approach, a customer's decision to switch suppliers would not change its responsibility for, or benefit from, the long-term capacity position.

The key design decisions are:

- what the long-term contract should procure
- how it should interact with default service supplier obligations
- what proportion of load should be hedged long-term
- which customers should bear the resulting costs and benefits.

5. PJM's Three Paths Forward and Default Service

In May 2026, PJM issued *Powering Reliability Through Market Design*, outlining three potential paths for redesigning its markets in response to rapid load growth, constrained supply, and increasing capacity-market price volatility. PJM does not select a preferred path and notes that elements of the approaches could be combined. Each path has different implications for default service, retail choice, and issues that states and stakeholders would need to address.

5.1 Path A: Stabilized Markets

Under Path A, the capacity market remains, but the vast majority of load would be covered by long-term forward capacity commitments before the final capacity auction. The BRA would increasingly serve as a residual market, preserving a scarcity price signal while insulating most load from that price through forward commitments. PJM identifies mandatory LSE hedging requirements and PJM-administered long-term procurement as potential approaches for achieving this outcome.

For default service, this could mean procuring a portion or all of the capacity requirement under long-term contracts rather than leaving the full capacity obligation with the default-service supplier. The long-term capacity could be procured separately by the utility, state, or another central procurement entity, with default-service suppliers remaining responsible for the residual capacity requirement and other components of full-requirements service.

A centralized procurement would not necessarily require assigning the resulting contracts permanently to default-service customers. One approach would be to establish a long-term capacity pool and allocate the capacity and associated costs or benefits among LSEs on a pro rata basis according to their load responsibility. Allocations could be reset periodically, for example annually, as customers move between default service and competitive suppliers. A competitive supplier gaining load would assume a greater share of the centrally procured position, while a supplier losing load would receive a smaller share. In this way, the long-term capacity commitment would effectively follow the load rather than remain attached to the supplier or customer group that happened to be serving the load when the contract was originally executed.

This approach could materially reduce, although not eliminate, the customer-migration risk associated with long-term contracting. Customers could continue to move between default and competitive supply without leaving the full cost or benefit of a long-term contract with a shrinking default-service customer base. Implementation would still require rules governing the timing of allocations, true-ups, supplier entry and exit, credit requirements, and differences between the amount procured long term and actual capacity obligations.

The transition to such a structure would also require careful consideration. Moving toward long-term procurement does not mean that the entire future capacity requirement should be contracted at once. Indeed, doing so could replace one form of market risk with another by locking customers into the conditions prevailing at a single point in time. This concern is particularly important in the current PJM market. The 2026/2027 and 2027/2028 BRAs cleared

at their applicable RTO-wide price caps, while forecast load growth has continued to outpace additions of new supply. At the same time, development of new generation faces significant equipment constraints and long lead times; gas-turbine equipment, for example, is experiencing particularly tight supply conditions. Procuring a very large volume of long-term capacity immediately could therefore be expensive and may be constrained by the number of projects capable of offering credible long-term commitments.

The laddering principles already used in default service provide a natural model for managing this transition. Rather than procuring the full long-term requirement in a single solicitation, a state could establish a multi-year procurement schedule under which portions of the target are contracted at different times and potentially for different durations. The long-term position would build gradually, while some capacity would continue to be procured through shorter-term arrangements and the BRA during the transition. This would diversify procurement timing, reduce the risk of locking the portfolio into unusually high prices, and allow the procurement strategy to adjust as supply conditions change.

Publishing that procurement schedule in advance could provide an additional benefit. Developers would have visibility into the amount and timing of future contracting opportunities and could incorporate those opportunities into development and financing decisions. Where the resulting contracts provide sufficiently durable revenue commitments, they could help support the investment that Path A is intended to encourage. Thus, gradual procurement does not necessarily weaken the investment signal: a credible, transparent schedule of future procurements may provide developers with a clearer view of future offtake opportunities while allowing consumers to avoid making the entire long-term commitment under today's market conditions.

An alternative would be to require each LSE, including competitive retail suppliers, to satisfy its own forward-hedging requirement. That approach would preserve greater procurement flexibility for individual LSEs, but it presents a different challenge in a retail-choice market: suppliers may have relatively short customer commitments and uncertain future load while being required to hold much longer-term capacity positions. Transferability of contracts, periodic compliance requirements, or a centralized procurement or backstop mechanism could therefore be needed to accommodate customer migration and supplier entry and exit.

State Decision Checklist. Path A:

- **How much capacity should be procured long term?** States would need to establish the target share of load to be hedged before the residual capacity auction and determine whether that target increases over time.
- **How quickly should the transition occur?** Rather than moving immediately to the ultimate target, states could establish a phased, laddered procurement schedule that spreads commitments across multiple procurement dates and market conditions.
- **Who should procure the long-term capacity?** The obligation could rest with individual LSEs, the distribution utility, a state procurement entity, PJM, or some combination of these approaches.

- **How should centrally procured capacity follow customer load?** A pro rata allocation mechanism could periodically assign capacity and its associated costs or benefits to default-service and competitive LSEs based on their actual load responsibility.
- **What should remain in the default-service product?** States would need to determine whether suppliers retain responsibility for residual capacity, energy, ancillary services, and other requirements after the long-term position is allocated.
- **How should the procurement schedule support new investment?** Publishing expected procurement volumes and timing in advance could provide developers with visibility into future contracting opportunities while preserving the ability to adjust future solicitations as market and supply conditions evolve.

5.2 Path B: Differential Reliability

Path B would allow different loads to receive different levels of reliability during periods of scarcity. PJM describes the concept as potentially differentiating reliability geographically or by customer class, including curtailing new large loads that have not brought or funded supporting supply before legacy load. More recently, PJM's proposed Interim Resource Adequacy Service provides a concrete version of this concept for new Large Loads that cannot be served at the traditional 1-in-10 reliability standard: those loads would be subject to reductions before Pre-Emergency Load Management.

The immediate effect on existing default service may be limited because large data center customers in states such as Ohio generally procure generation competitively today. However, there is no inherent reason that a large customer eligible for default service could not take or return to that service, subject to the applicable state tariff. If differentiated reliability becomes a formal service option, states would therefore need to determine what default service means for a customer that is not purchasing the same reliability product as ordinary residential and commercial load.

In many cases, the appropriate answer may be a separate default-service product. A large flexible load has a materially different obligation from conventional full-requirements load. The supplier would still need to provide the customer's energy and other applicable wholesale requirements when the customer is consuming, but the treatment of capacity could be substantially different. If the customer's flexible or unbacked load is excluded from the capacity requirement and subject instead to curtailment during resource-adequacy shortages, the default-service supplier should not simply be assigned the same capacity obligation that applies to firm load. Conversely, if a portion of the customer's demand is supported by qualifying long-term capacity, that portion could receive firm treatment while the remaining portion is subject to differentiated reliability. PJM's July 2026 direction similarly contemplates returning new Large Load to RPM demand once sufficient new capacity has been brought forward to cover it.

The retail tariff therefore has to come first. The state and utility must define the reliability service being offered: which customers qualify; how much of their demand is firm versus flexible; under what conditions load can be curtailed; how quickly and for how long it must respond; and how a customer can move from differentiated to firm service by obtaining supporting capacity. The default-service procurement can then be designed to match those obligations. PJM itself recognizes that wholesale curtailment and capacity rules must ultimately interact with state retail

tariffs and service contracts; PJM cannot independently determine which individual retail customers are curtailed.

A separate procurement could be conducted concurrently with the utility's regular default-service auctions but treated as a distinct process. Suppliers could bid specifically to serve eligible large-load customers under the differentiated-reliability tariff for a defined period. Separating the product would allow its price to reflect its distinct load profile, curtailment provisions, capacity treatment and customer-migration risk rather than embedding those risks in the price paid by conventional default-service customers. The bidder pool and qualification requirements could also differ because the size and concentration of data center load, as well as the contractual obligations associated with curtailment, may create different credit and collateral requirements from a conventional residential tranche.

Ohio is already moving in this direction. AES Ohio has taken the position that any default supply for data centers should be procured separately from its existing competitive bid process for other SSO[6] customers and has discussed periodic auctions for standby default suppliers for data centers. More recently, a July 2026 stipulation in AES Ohio's rate case provides that the company will file an application for a new and separate SSO generation product for Data Centers served under its Data Center Tariff. The exact structure remains to be determined and is subject to Commission review, but it provides an emerging example of separating large-load default supply from the conventional SSO product rather than forcing a materially different load into the existing auction.

A separately procured product would also allow the service to evolve with the customer's reliability status. For example, a customer initially taking differentiated service could have little or no conventional capacity component associated with its flexible load. If it subsequently contracts for sufficient qualifying capacity, some or all of its demand could transition to firm service, and the corresponding capacity obligation could move into the appropriate procurement. For customers whose load is only partially backed by capacity, the procurement and tariff could similarly distinguish between the firm and flexible portions of the customer's demand.

The key is that default service should not determine the reliability product; it should procure supply consistent with the reliability product established by the state tariff and PJM framework. Path B therefore requires much closer alignment among PJM's capacity and curtailment rules, state large-load tariffs, and the products utilities procure for customers that remain on default service.

State Decision Checklist. Path B

- Which customers are eligible for differentiated reliability? States would need to define whether the service applies only to new Large Loads, particular size thresholds or customer classes, or customers that voluntarily elect a lower reliability level.
- What exactly does “flexible” service mean? The tariff should specify the quantity of load subject to curtailment, triggering conditions, notification requirements, duration and

[6] Standard Service Offer (SSO)

frequency of interruptions, performance requirements, and consequences for failure to curtail.
- How much of the customer's load is firm? A customer may have supporting capacity for only part of its demand. States would need a mechanism for distinguishing the firm portion from the flexible portion and updating that allocation as additional capacity is contracted.
- What capacity obligation attaches to the flexible load? The retail product should align with PJM's treatment of the load in RPM. Capacity should not simply be embedded in the default-service product in the same manner as for conventional firm load if that load is being treated differently for resource-adequacy purposes.
- Should differentiated-reliability default service be separately procured? A distinct product would allow suppliers to price the specific load profile, capacity treatment, curtailment requirements and migration risk without transferring those risks to ordinary default-service customers. It could still be auctioned at the same time as other default-service products.
- What contract term and procurement structure should apply? States could procure the product for one or several years, potentially with periodic solicitations or standby suppliers, while retaining flexibility as PJM's differentiated-reliability framework develops.
- What supplier qualification and security requirements are appropriate? Large, concentrated loads and potentially large swings in obligation may warrant product-specific credit, collateral and bidder-qualification requirements rather than automatically applying those used for standard residential tranches.

5.3 Path C: Energy Market Transition

Under Path C, PJM would shift a greater share of generator revenue recovery from the capacity market to the Energy and Ancillary Services markets. The capacity market would remain as a resource-adequacy backstop, while longer-term forward contracting would become increasingly important to support investment and manage customers' exposure to market volatility.

For default service, an important design question would be what products are included in those longer-term contracts. Longer-term commitments could take at least two broad forms.

One approach would be a reliability- or capacity-oriented contract. The long-term procurement could secure capacity, or another defined reliability attribute, without procuring the associated energy. Energy from the underlying resources would continue to be settled through PJM's Energy Market. In that structure, the default-service supplier could continue to procure and manage energy for its actual load, but its capacity or reliability obligation would be removed or substantially reduced to reflect the amount secured through the separate long-term procurement. Conceptually, the traditional default-service product would remain largely intact, but with capacity carved out.

A second approach would be a more comprehensive long-term contract, such as a PPA that includes energy as well as capacity or other reliability attributes. In that case, a portion of the energy requirement would also be removed from the conventional default-service procurement. The default-service supplier would then be responsible primarily for the residual position—the difference between actual customer load and the hourly output or financial position created by

the long-term contracts, together with the associated shaping, balancing, congestion, and other short-term requirements.

That distinction could be significant. A long-term generation contract does not necessarily produce energy in the same hours or quantities in which default-service customers consume it. A solar, wind, nuclear, or other generation resource will have its own production profile, while default-service load follows a different hourly and seasonal shape. As the share of energy supplied through long-term contracts increases, managing the residual portfolio could therefore become a more important and potentially more complex function of the default-service supplier.

The reliability-only approach would preserve more of the existing default-service structure. The long-term contract would provide the investment and reliability commitment sought under the new market design, while energy would continue to be purchased and hedged through PJM and the competitive default-service procurement. The bundled approach would move a larger share of both reliability and energy procurement outside the traditional default-service product, leaving suppliers with a narrower but potentially more actively managed residual obligation.

There is precedent for separating these components. As discussed earlier, default-service programs have already incorporated long-term contracts that procure different combinations of energy, capacity, and renewable attributes, while conventional suppliers continue to serve the remaining requirements. Path C could significantly expand that concept.

As under Path A, the long-term contracts could be procured by individual LSEs or through a utility-, state-, or PJM-administered procurement. Where contracts are intended primarily to support system reliability rather than only customers currently taking default service, their costs and benefits could be allocated across applicable load through a non-bypassable charge or credit. Alternatively, centrally procured positions could be periodically allocated among LSEs based on their load responsibility, allowing the obligation to follow customers as they migrate between default and competitive supply.

The transition should also be laddered. Whether states pursue reliability-only contracts or broader PPAs, committing the entire requirement at one time would expose customers to significant market-timing risk. A staged procurement program could build the long-term portfolio over several years and across different contract terms. As discussed under Path A, publishing that schedule in advance could also provide developers with visibility into future offtake opportunities while allowing states to diversify procurement timing and adjust the mix of products as PJM's market transition develops.

State Decision Checklist. Path C

- What is the long-term contract actually buying? States would first need to decide whether the objective is primarily to secure a reliability/capacity attribute or to procure a broader package including energy.
- Should energy remain in the default-service product? Under a reliability-only structure, the default-service supplier could continue to procure and hedge energy largely as it does today, with capacity or an equivalent reliability obligation carved out.

- If energy is included, who manages the residual portfolio? Where PPAs or other long-term contracts supply energy, the default-service supplier would need to manage the mismatch between contracted generation and actual customer load, including shaping, balancing, congestion, and excess or deficient energy.
- How much capacity remains with the default-service supplier? Because Path C retains some form of capacity backstop, states would need to determine which residual resource-adequacy obligations remain in the competitive product.
- Who procures the long-term contracts? Procurement could be undertaken by individual LSEs or centrally by a utility, state entity, PJM, or some combination.
- How are costs and benefits allocated? Centrally procured contracts could be allocated periodically among LSEs based on load responsibility or, where they support broader reliability objectives, recovered through a non-bypassable charge or credit.
- How should the portfolio be laddered? States could phase both the volume and type of long-term commitments over time rather than choosing the ultimate portfolio structure all at once

6. Conclusion: Default Service Under Alternative PJM Market Designs

Default service can remain an effective risk-management framework under each of PJM's three potential market paths. The principal state-level question is not whether default service continues, but what remains within the default-service product, what is procured separately over longer horizons, and how those obligations interact with retail choice.

Table 2: Summary of State Considerations

	Path A: Stabilized Markets	Path B: Differential Reliability	Path C: Energy Market Transition
Primary PJM change	Greater reliance on long-term capacity commitments	Different reliability levels for different loads	Greater reliance on Energy and Ancillary Services, with long-term reliability commitments
Default service can remain?	**Yes**	**Yes**	**Yes**
What may change?	Part of the capacity obligation may move outside the traditional full-requirements product	Flexible or differentiated-reliability load may require a separate default-service product	Long-term reliability can be procured separately while energy remains largely within default service
Key state decision	Who procures long-term capacity and how it is allocated among LSEs	Define the reliability product, firm/flexible load, curtailment obligations, and capacity treatment	Determine what the long-term reliability contract buys and what remains with default-service suppliers
Retail-choice issue	Long-term positions should follow load or be recovered through an appropriate non-bypassable mechanism	Avoid shifting the costs or risks of flexible load to conventional default-service customers	Allocate system-level reliability costs so they are not distorted by customer migration
Transition issue	Phase and ladder long-term capacity procurement	Coordinate implementation with development of PJM rules and state tariffs	Phase and ladder long-term reliability contracting

Default service as a hedge	Continues to hedge energy and other included costs; capacity hedge may increasingly be separate	Continues for conventional customers; separate product can manage price risk for differentiated-reliability customers	Continues to hedge energy and other short-term wholesale costs if reliability is procured separately

Across all three paths, the existing default-service framework provides states with substantial flexibility to adapt procurement while preserving competitive supply and customer risk management.

7. Appendix: Overview of Select Default Service Processes in PJM

The following section compares how selected PJM states structure and administer default-service procurement, highlighting common features and key differences in auction design, contract terms, and supplier obligations.

Figure 3: Utilities with Default Service Auction Processes

Table 3: Key Attributes of Default Service Auctions by State

Key Information	Delaware	District of Columbia	Maryland	New Jersey	Ohio	Pennsylvania
Regulator	Delaware Public Service Commission	District of Columbia Public Service Commission	Maryland Public Service Commission	New Jersey Board of Public Utilities	Public Utilities Commission of Ohio	Pennsylvania Public Utility Commission
Retail Choice	Yes	Yes	Yes	Yes	Yes	Yes
Investor-Owned Utility Structure	Wires Only	Wires Only	Wires Only	Wires Only	Wires Only	Wires Only
Default Service Offering Title	Standard Offer Service	Standard Offer Service	Standard Offer Service	Basic Generation Service	Standard Service Offer	Default Service

Primary Auction Method	Competitive RFP (Reverse Auction Process)	Competitive RFP/ Sealed Bid	Competitive RFP/ Sealed Bid	Multi-Round Descending Price Clock	Multi-Round Descending Price Clock	Utility-Specific (Descending clock or sealed bid)
Procurement Lead	Utility-administered	Utility-administered	Utility-administered	Statewide coordinated procurement	Utility-administered	Utility-administered
Number of Utilities that have a Default Service Process	1	1	6[7]	4	6	11
Auction Frequency	Semi-Annual	Semi-Annual	Semi-Annual (Residential/Small Commercial); Quarterly (Large C&I)	Annual	Semi-Annual	Semi-annual procurements (some utility-specific variation)
Product Time Horizon	12-24 months	12-36 months	3 and 24 months	12 and 36 months	12-36 months	3-120 months

7.1 Delaware

Table 4: Delaware Default Service Auction Framework

Default Service Auction Framework	Details
Obligation & Scope	Delmarva Power & Light (DP&L) serves as the Standard Offer Service (SOS) provider for customers who do not choose a competitive supplier (3). The service covers four classes: Residential/Small C&I (RSCI), Medium General Service (MGS), Large General Service (LGS), and General Service-Primary (GS-P) (2)
Legal Foundation	Governed by the Electric Utility Retail Customer Supply Act of 2006 (4). Key regulatory frameworks were established by PSC Order No. 6746 and subsequent orders (5)
Governance	Overseen by the Delaware Public Service Commission (PSC). An independent Technical Consultant monitors each procurement to ensure fairness and competitiveness (2)

[7] Includes two cooperatives. Choptank Electric Cooperative purchases power through long-term wholesale contracts while Southern Maryland Electric Cooperative (SMECO) uses a managed supply portfolio to procure power.

Plan & Approval	DP&L files an Integrated Resource Plan (IRP) biennially (every 2 years) with a 10-year planning horizon (6). Up to two tranches are typically planned annually with auction results submitted to the PSC which are deemed approved within two business days unless the Commission intervenes (3)
Procurement	Conducted via an annual, multi-tranche competitive reverse auction (typically two rounds in November and January/February) using the Enel X electronic platform (2,3)
Product & Terms	Full Requirements Service; currently 24-month terms for residential/small commercial (RSCI) and 12-month terms for larger classes. RSCI load is laddered to ensure price stability (2,3)
Bidder Rules	Bidders must pass technical (PJM/FERC) and credit vetting. Pre-bid collateral of $300,000 per block is required. Identities remain strictly confidential until 21 days after the final tranche (3)
Supplier Obligations	Full Requirement wholesale supply service generally including energy, capacity, ancillary services, renewable energy obligations and losses, but excluding network integration transmission service (3)
Policy & Takeaway	Designed to ensure a cost-effective, price-stable, and reliable energy supply through competitive market-based procurement and rigorous regulatory oversight
Sources	1. Delmarva Power & Light Company. “SOS Procurement”. n.d. https://www.delmarva.com/doing-business-with-us/energy-suppliers/wholesale-energy-suppliers/sos-procurement 2. The Liberty Consulting Group, Inc. “Technical Consultant’s Final Report to the Delaware Public Service Commission: Delmarva Power & Light’s 2026 Request for Proposals for Full Requirements Wholesale Electric Supply for Standard Offer Service”. February 18, 2026. https://depsc.delaware.gov/wp-content/uploads/sites/54/2026/02/Liberty-DE-PSC-2026-DE-SOS-Technical-Consultant-Final-Report-02-18-2026.pdf 3. Delaware Public Service Commission. “Phase III Order No. 7284”. September 18, 2007. https://depsc.delaware.gov/wp-content/uploads/sites/54/2017/03/7284.pdf 4. Delaware General Assembly. “Title 26, Chapter 10: Electric Utility Restructuring”. n.d. https://delcode.delaware.gov/title26/c010/ 5. Delaware Public Service Commission. “Findings, Opinion, and Order No. 6746”. October 11, 2005. https://depsc.delaware.gov/wp-content/uploads/sites/54/2017/03/6746.pdf 6. Delaware Office of the Registrar of Regulations. “Delaware Administrative Code, Title 26, Regulation 3010: Integrated Resource Planning for the Provision of Standard Offer Service by Delmarva Power & Light Company.” n.d. https://archive.regulations.delaware.gov/AdminCode/title26/3000/3010.shtml

Delaware's default electricity supply, known as Standard Offer Service (SOS) is governed by the Electric Utility Retail Customer Supply Act of 2006 and primarily managed by the state's sole Investor-Owned Utility Delmarva Power and Light (DP&L) (4). Delmarva Power is required to file a comprehensive Integrated Resource Plan (IRP) every two years with a 10-year planning horizon to ensure a reliable and cost-effective energy supply for default service customers. This long-term strategy is supported by annual RFP or "Bid Plans" that define the specific load blocks and auction parameters used to execute the competitive procurement process (5).

To secure power for customers who do not choose a third-party supplier, the utility utilizes a multi-tranche reverse auction process typically held twice a year in January or February and November hosted on the Enel X electronic platform (2). This competitive wholesale bidding process is overseen by the Delaware Public Service Commission (PSC) and monitored by an

independent technical consultant (currently The Liberty Consulting Group in 2026) to ensure that the resulting prices are reflective of regional market conditions.

The auction procures Full Requirements Service as outlined by PSC Order No. 7284, which includes energy, capacity, ancillary services and more, for four customer classes: residential/Small C&I (RSCI), Medium General Service, Large General Service, and General Service-Primary. Contracts for the RSCI class currently feature a 24-month laddered term to promote price stability, whereas the larger commercial classes typically utilises 12-month terms (2). While winning suppliers are responsible for most PJM-related costs, certain charges such as Network Integration Transmission Service (NITS) and, more recently, Renewable Energy Credits (RECs) are excluded from wholesale bids and recovered or procured separately from retail customers (2, 3).

7.2 District of Columbia

Table 5: District of Columbia Default Service Auction Framework

Default Service Auction Framework	Details
Obligation & Scope	Potomac Electric Power Company (Pepco) serves as the Standard Offer Service (SOS) provider for customers who do not choose a competitive supplier. SOS has been available in the District since February 8, 2005 (7). Load is procured under three service types: Residential SOS, Small Commercial SOS, and Large Commercial SOS, each covering a defined set of retail rate classes (1, 2).
Legal Foundation	The statutory basis is the Retail Electric Competition and Consumer Protection Act of 1999. Implementation requirements are set out in Chapter 41 of Title 15 of the District of Columbia Municipal Regulations (“The District of Columbia Standard Offer Service Rules”), supplemented by Commission orders issued in Formal Case No. 1017 and Pepco's SOS tariffs (3, 4).
Governance	The Public Service Commission of the District of Columbia (DCPSC) oversees the process, while Pepco administers the procurement as SOS Administrator. An independent Market Monitoring Consultant (Bates White for the 2024-2026 period) reviews the solicitation and provides the Commission and the Office of the People’s Counsel with a final report on supply procurement awards for approval (3, 5).
Plan & Approval	Pepco files its procurement framework, RFP documents, model contract (WFRSA), and bidder qualification rules with the Commission annually (traditionally by August 1). Post-auction, it files the resulting retail SOS rates and administrative charges for an effective date of June 1. The Commission, assisted by Staff and the Market Monitor, reviews the filing and issues an order accepting or modifying the rates and directing tariff compliance (2, 3, 6).
Procurement	Supply is obtained through a competitive wholesale solicitation conducted by Pepco using a sealed-bid, multi-round RFP rather than a descending-clock auction. Bidding proceeds in rounds referred to as tranches: up to three are planned, with 100% of the load solicited across the first two and a third held in reserve for any unfilled load. Load in each solicitation is divided into blocks of roughly 50 MW, and suppliers may bid on as many blocks and service types as they choose (1, 7).

Product & Terms	The product is Wholesale Full Requirements Service, priced on a fixed-price basis for all three service types. Residential and Small Commercial load is laddered through 36-month contracts, with roughly 37% of the combined load re-procured each year; Large Commercial load is procured under 12-month contracts covering 100% of that service type annually. Within each tranche, load is solicited separately by contract term in prespecified proportions (1, 3).
Bidder Rules	Bidders must submit an expression of interest, clear pre-bid qualification and creditworthiness screenings, and execute the standard WFRSA. Generation ownership is not required, and financial institutions, energy marketers, competitive suppliers, and trading companies may participate. Bidder identities are not disclosed before the procurement; eight suppliers participated in the solicitation concluded in January 2026, of which seven secured load (3, 8, 9).
Supplier Obligations	Winning suppliers must provide all energy, losses, generation capacity, ancillary services, transmission and congestion costs up to the delivery point, and Renewable Portfolio Standard compliance for their share of Pepco's retail load. Network Integration Transmission Service is excluded and obtained by the SOS Administrator, as are PJM transmission-enhancement (RTEP) and through-and-out transition charges. Under the separate long-term renewable PPA track, the seller supplies energy and renewable energy credits only, with capacity and ancillary services procured separately by the SOS Administrator (3, 10, 11).
Policy & Takeaway	The District pairs a conventional annual full-requirements auction with an expanding long-term, policy-driven procurement track. A 25-year PPA for a 75 MW solar facility, approved in Order No. 22702 (August 2025), is expected to serve roughly 5% of SOS load beginning in December 2027, and in November 2025 the Commission approved an expansion targeting up to 25% of SOS load under long-term contracts. The 2025 SOS Biennial Review in Formal Case No. 1017 is examining whether to unbundle capacity, RECs, and energy, revise contract lengths and rate classes, change auction timing, or coordinate procurement with other PJM states, with affordability and PJM capacity-price exposure as the central drivers (11, 12, 13, 14).

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In the District of Columbia, Standard Offer Service (SOS) is the default electricity supply for customers who do not select a competitive retail supplier, and has been available since February 8, 2005 in accordance with orders issued in Formal Case No. 1017 (4). The District has a single distribution utility, Potomac Electric Power Company (Pepco), which acts as SOS Administrator and obtains supply through a competitive wholesale procurement process. The framework is a combination of statute, regulation, and commission order: it rests on the Retail Electric Competition and Consumer Protection Act of 1999, is governed by Chapter 41 of Title 15 of the District of Columbia Municipal Regulations ("The District of Columbia Standard Offer Service Rules") and is codified into customer bills through Pepco's tariffs (2, 3). Supply is procured through a sealed-bid, multi-round RFP rather than a descending-clock auction, with bidding on each service type conducted in rounds referred to as tranches and up to three tranches planned. The product is Wholesale Full Requirements Service, obliging winning suppliers to provide all energy, capacity, transmission, ancillary services, and Renewable Portfolio Standard compliance needed to serve a specified percentage of Pepco's retail load.

Residential and Small Commercial load is laddered under 36-month contracts representing roughly 37% of that combined load, while Large Commercial load is procured under 12-month contracts covering 100% of the service type, all on a fixed-price basis (1, 3, 7).

Competition remains solid: eight suppliers participated in the auction concluded in January 2026, of which seven secured load beginning June 1, 2026. Alongside the full-requirements auction, the District runs a separate long-term renewable PPA track, established as a pilot program in Order No. 19897 (April 12, 2019) to procure energy and renewable energy credits from solar or wind facilities in PJM under long-term contracts covering a target of five percent of SOS load (15). The Commission has repeatedly loosened bidder-experience thresholds on that track (from 1,000 MW down toward 100 MW and 10 MW) to attract more qualified bidders, and in Order No. 22702 (August 2025) it lifted the pilot cap and directed Pepco to pursue a target of twenty-five percent of SOS load under renewable energy PPAs, a volume Pepco is now procuring through a further solicitation (11). The Commission's 2025 Biennial Review is the principal reform vehicle, asking whether to move away from the bundled full-requirements auction, unbundle capacity, RECs, and energy, change contract lengths and rate-class structure, revise auction timing and frequency, or combine procurement with other PJM states, with affordability and price stabilization the paramount concern (9, 11, 14).

7.3 Maryland

Table 6: Maryland Default Service Auction Framework

Default Service Auction Framework	Details
Obligation & Scope	Four Investor-Owned Utilities-Baltimore Gas and Electric Company (BGE), Delmarva Power & Light Company (Delmarva), The Potomac Edison Company (PE), and Potomac Electric Power Company (Pepco) and two cooperatives serve as Standard Offer Service (SOS) providers for customers who do not choose a competitive supplier. The service covers several customer classes: Residential, Type I (small commercial, less than 25 kW), Type II (mid-sized commercial, 25–600 kW), and Large Commercial/Industrial (greater than 600 kW) (1, 2, 5).
Legal Foundation	Maryland Public Utilities Article § 7-510 and related retail-choice provisions establish the SOS obligation. Detailed implementation requirements are set forth in COMAR Title 20, Subtitle 52 (Electric Standard Offer Service) and various PSC orders (2, 3, 4).
Governance	The Maryland Public Service Commission (PSC) oversees SOS, establishes procurement requirements, approves utility procurement plans and contracts, and regulates the procurement process. Utilities administer procurements within the PSC-approved framework (1, 2, 4).
Plan & Approval	Each utility develops utility-specific procurement plans, solicitation schedules, and contract structures subject to PSC review and approval. The statewide framework is informed by PSC proceedings, including Case No. 9064 and subsequent orders (2, 4, 5).

Procurement	Supply is obtained through competitive wholesale solicitations conducted by utilities. Procurement is generally tranche-based and designed to secure full-requirements service from qualified wholesale suppliers. The auction structure is sealed-bid procurement, awarded to the lowest evaluated bids. Residential and Type I load is generally procured semi-annually through overlapping 24-month contracts, with approximately one-quarter of the portfolio acquired in each solicitation. Type II load is typically procured quarterly under three-month contracts (1, 4).
Product & Terms	Winning suppliers provide full-requirements service, including energy, capacity, ancillary services, and other PJM-related obligations. Maryland commonly uses laddered procurements with overlapping contracts to mitigate market-price volatility. Contract terms vary by utility and customer class but are typically two-year contracts for Residential and Type I load and three-month contracts for Type II load (1,4).
Bidder Rules	Applicants must submit an expression of interest and confidentiality agreement, certify their PJM and FERC qualifications, provide financial and credit information, execute a binding bid agreement, and satisfy bid-assurance and performance-security requirements established in the applicable utility RFP and Full Requirements Service Agreement. Bid evaluation and selection procedures are governed by PSC-approved procurement rules (2, 5, 7).
Supplier Obligations	Winning suppliers provide firm, load-following full-requirements service for an awarded percentage of actual retail load. Depending on the utility contract, the product generally includes energy, capacity, ancillary services, losses, transmission-related obligations other than NITS, and Maryland renewable-compliance obligations (6,7).
Policy & Takeaway	The Commission selected this framework to allow SOS rates to reflect long-term changes in market prices while maintaining price protection by reducing rate volatility and ensuring gradualism in rate changes (1, 5). More recently, retail-choice participation has declined, and the Montgomery County Community Choice Aggregation pilot is forthcoming (1).
Sources	1. Maryland Public Service Commission. “Five-Year Standard Offer Service and Retail Supply Market Report”. 2023. https://psc.maryland.gov/wp-content/uploads/2025/11/5-Year-SOS-and-Retail-Market-Report-2023_FINAL.pdf 2. Maryland Office of the Secretary of State. “Code of Maryland Regulations, Title 20, Subtitle 52: Electric Standard Offer Service”. n.d. https://regs.maryland.gov/us/md/exec/comar/20.52.02 3. Maryland General Assembly. “Public Utilities Article § 7-510”. n.d. https://mgaleg.maryland.gov/mgawebsite/Laws/StatuteText?article=gpu&section=7-510&enactments=false 4. Delmarva Power & Light Company. “Maryland SOS Regulatory Background”. 2025. https://www.delmarva.com/cdn/assets/v3/assets/blt47b6e332b18fb457/blt8e676ee09c2381ba/66db323f4241153ac5dd7b3d/2025_DPL_Maryland_SOS_Regulatory_Background.pdf?branch=prod_alias 5. Maryland Public Service Commission. “Order No. 81102, Case No. 9064”. n.d. https://www.firstenergycorp.com/content/dam/upp/files/md/power/mdsosrfp/regulatory/9064%20Order%2081102.pdf 6. The Potomac Edison Company. “Full Requirements Service Agreement”. 2026. https://www.firstenergycorp.com/content/dam/upp/files/md/power/mdsosrfp/supplierdocs/PE%20FSA.pdf 7. The Potomac Edison Company. “2026 Request For Proposals for Full Requirements Wholesale Electric Power Supply”. September 5 2025. https://www.firstenergycorp.com/content/dam/upp/files/md/power/mdsosrfp/supplierdocs/PE_RFP.pdf

Maryland uses a standardized statewide regulatory framework implemented through coordinated, utility-administered sealed-bid procurements. The procurement process for the state's four investor owned utilities (Baltimore Gas and Electric (BGE), Potomac Electric Power

Company (PEPCO), Delmarva Power and Light (DP&L), and Potomac Edison (PE)) and two participating cooperatives (Choptank Electric and Southern Maryland Electric Cooperative) is governed by Maryland's Public Service Commission (PSC) and rooted in the Electric Customer Choice and Competition Act of 1999 which is codified in Public Utilities Article § 7-510 (3).

To ensure price stability, the PSC utilizes staggered sealed-bid wholesale auctions to acquire supply. For Residential and Type 1 (Small Commercial) customers, these auctions typically occur twice annually for two-year contracts, with each round covering approximately 25% of the total class load. Type 2 (Mid-Sized Commercial) load is bid quarterly for shorter three-month terms to reflect current market conditions (1, 2).

The supply offered by bidders is defined as Full Requirements Service, which mandates that winning wholesale suppliers provide all necessary components of electric supply on a firm and continuous basis. While the specific details of the requirements may vary by utility, they typically cover energy, capacity, transmission (excluding Network Integration Transmission Service), ancillary services, and compliance with Maryland's Renewable Energy Portfolio Standard (RPS) (6). Suppliers are awarded a specified percentage of the actual retail load rather than a fixed megawatt amount, which manages migration risk as customers move between default service and competitive retail choice.

Participation in these auctions is limited to qualified wholesale suppliers and utility affiliates who meet rigorous financial and technical standards. Bidders must be members of good standing in PJM, hold FERC authorization to sell at market-based rates, and demonstrate creditworthiness within their applications (7). The integrity of the process is assessed by an independent Bid Monitor and PSC Technical Staff who ensure that bid process remains competitive (1). Each year the Commission engages in a Procurement Improvement Process (PIP) to ensure the process remains as competitive as possible (1). While the bidding process is anonymous, the identities of bidders and load allocations of winning suppliers are publicly disclosed 90 days after contracts are executed (3).

More recently, the Montgomery County Community Choice Aggregation pilot represents a county-specific alternative to conventional utility default service. Once implemented, eligible customers may receive generation supply through the county aggregation unless they opt out, remain with or return to utility SOS, or select a competitive supplier. The pilot therefore supplements rather than replaces Maryland’s statewide SOS framework (1).

7.4 New Jersey

Table 7: New Jersey Default Service Auction Framework

Default Service Auction Framework	Details
Obligation & Scope	New Jersey's default supply is called Basic Generation Service (BGS) and is provided by the state's four investor-owned electric distribution companies (EDCs): Public Service Electric and Gas (PSE&G), Jersey Central Power & Light (JCP&L), Atlantic City Electric (ACE), and Rockland Electric (RECO). Load is procured under two products: BGS-Residential Small Commercial Pricing (BGS-RSCP) and BGS-Commercial and Industrial Energy Pricing (BGS-CIEP) (1, 2).
Legal Foundation	The structural foundation is the Electric Discount and Energy Competition Act of 1999 (EDECA), P.L. 1999, c. 23, which obliges the EDCs to provide the service. It is operationalized through annual NJBPU Decision and Orders approving the procurement process, and the resulting auction clearing prices are translated into retail rates through compliance tariff sheets filed by each EDC, effective at the start of the energy year on June 1 (3, 4).
Governance	The New Jersey Board of Public Utilities (NJBPU) oversees the process. NERA Economic Consulting serves as Auction Manager, and an independent monitoring consultant (Bates White for the 2026 cycle) advises the Board on whether the auctions were open, fair, transparent, and sufficiently competitive before results are certified (4, 8).
Plan & Approval	The four EDCs file a combined Joint EDC Proposal for BGS on July 1 each year, with each utility submitting a company-specific addendum addressing its own accounting and regional needs. The Board renders a decision approving the main elements of the statewide auction process, and following the auction it reviews the competitive outcomes and must formally approve the results within a tight window (typically two business days) before costs can be passed into rate tariffs, without any utility profit markup (8).
Procurement	Supply is procured through a descending-clock reverse auction held annually. The process is conducted jointly and centrally for all four EDCs through a single synchronized statewide auction rather than utility by utility, with load solicited in tranches representing a fixed percentage of load (2).
Product & Terms	BGS-RSCP is procured under 36-month contracts and laddered, with roughly one-third of the load expiring and being re-procured each year; suppliers receive an all-in payment based on the auction price for an EDC, and retail rates vary by season and in some cases by time of day. BGS-CIEP is procured annually under 12-month contracts and is not a fixed bid price: suppliers receive a capacity price determined at auction ($/MW-day), an ancillary service payment rate, the hourly real-time spot price for load served, and a CIEP Standby Fee (2, 8).
Bidder Rules	Bidders need not own generation, and financial institutions, energy marketers, competitive suppliers, and trading companies may all participate, but they must be registered PJM market participants. Applicants must fulfil pre-bid credit requirements and winning bidders have three business days after certification to execute the Supplier Master Agreement and post full long-term credit security. Bidder identities are not disclosed before the procurement, though winning-supplier rosters are published after each cycle, and auctions historically average between eight and fourteen distinct winning suppliers (9, 10).
Supplier Obligations	Winning suppliers provide energy, capacity, ancillary services, and Renewable Portfolio Standard compliance for the tranches they serve. Transmission and all transmission-related costs were deliberately removed from the BGS product in the 2021 BGS proceeding and are the EDCs' responsibility. Any PJM charge or credit not specifically assigned to the EDCs in the Supplier Master Agreements remains the supplier's responsibility (8).

Policy & Takeaway	New Jersey has run the same statewide descending-clock auction since 2002, and policy-driven procurement has mainly been placed outside BGS rather than inside it (2).
Sources	1. New Jersey Board of Public Utilities. “Basic Generation Service”. n.d. https://www.nj.gov/bpu/about/divisions/energy/bgs.html 2. New Jersey Basic Generation Service Auction. “BGS Auction Overview”. n.d. https://www.bgs-auction.com/bgs.auction.overview.asp 3. New Jersey Legislature. “Electric Discount and Energy Competition Act, P.L. 1999, c. 23”. n.d. https://pub.njleg.gov/Bills/2014/S3000/2542_I1.HTM 4. New Jersey Board of Public Utilities. “Order on the 2026 Basic Generation Service Auction Results, Docket No. ER25040190”. 2026. https://www.nj.gov/bpu/pdf/energy/bgs/ER25040190-%202026%20BGS-%20Order%20on%20Results.pdf 5. NERA Economic Consulting. “2025 BGS Auction Bidder Information Session”. December 3, 2024. https://www.bgs-auction.com/documents/2025%20BGS%20Auction%20-%20Bidder%20Information%20Session_03%20DEC%202024.pdf 6. New Jersey Board of Public Utilities. “Public Board Minutes”. January 25, 2017. https://www.nj.gov/bpu/pdf/boardmin/20170125m.pdf 7. NERA Economic Consulting. “Bidder Guide to the Auction Rules”. January 23, 2018. https://bgs-auction.com/bubid/3_C_Bidder_Guide_to_the_Auction_Rules_23_Jan_2018.pdf 8. New Jersey Electric Distribution Companies. “2026 Joint EDC Basic Generation Service Proposal”. July 1, 2025. https://bgs-auction.com/documents/2026%20BGS%20Front%20Part%20of%20Filing_01%20JUL%202025.pdf 9. New Jersey Electric Distribution Companies. “2026 BGS-RSCP Supplier Master Agreement”. December 9, 2025. https://bgs-auction.com/documents/Final%202026%20BGS-RSCP%20Supplier%20Master%20Agreement_09%20DEC%202025.pdf 10. New Jersey Electric Distribution Companies. “2026 BGS-CIEP Supplier Master Agreement”. December 9, 2025. https://bgs-auction.com/documents/Final%202026%20BGS-CIEP%20Supplier%20Master%20Agreement_09%20DEC%202025.pdf

In New Jersey, the default electricity supply is known as Basic Generation Service (BGS) and is provided by the state's four investor-owned electric distribution companies (EDCs): PSE&G, Jersey Central Power & Light, Atlantic City Electric, and Rockland Electric. The obligation derives from the Electric Discount and Energy Competition Act of 1999 (EDECA) and is operationalized through annual Board of Public Utilities orders approving the procurement process. What most distinguishes New Jersey is that procurement is centralized rather than utility-specific: the four EDCs file a single Joint EDC Proposal each July 1, and supply is secured through one synchronized statewide descending-clock reverse auction. It is presided over by an Auction Manager, and an independent monitoring consultant advises the Board on competitiveness (2, 3, 4).

Two products are procured. BGS-RSCP serves residential and small commercial customers under 36-month contracts on a laddered basis, with roughly one-third of the load re-procured each year so that no single auction resets the full residential price; suppliers receive an all-in payment based on the auction price for an EDC. BGS-CIEP serves larger commercial and industrial customers under 12-month contracts and is not a fixed-price product, comprising a capacity price set at auction, an ancillary service payment, the hourly real-time spot price for load served, and a standby fee. Winning suppliers are responsible for energy, capacity, ancillary services, and Renewable Portfolio Standard compliance, as well as migration risk. Transmission is the defining exclusion; transmission and all transmission-related costs, including Network Integration Transmission Service, were deliberately removed from the BGS product in the 2021

proceeding and are recovered from customers through a separate EDC transmission charge (2, 8).

Bidders need not own generation but must be PJM members holding FERC power-marketing authorization and must clear a two-stage credit qualification before posting pre-auction security. New Jersey is notable for minimal structural change than for structural continuity: the state has run essentially the same auction since 2002, and the Board reaffirmed the existing model in its November 2025 order rather than overhauling it. Policy-driven procurement has consistently been placed outside BGS, leaving the three-year RSCP ladder as the only hedge built into BGS itself (4).

7.5 Ohio

Table 8: Ohio Default Service Auction Framework

Default Service Auction Framework	Details
Obligation & Scope	Ohio electric distribution utilities (EDUs) such as AEP Ohio, AES Ohio, Duke Energy Ohio, and FirstEnergy Ohio (Ohio Edison, Cleveland Electric Illuminating, and Toledo Edison) must provide Standard Service Offer (SSO) to customers that do not select a Competitive Retail Electric Service (CRES) provider. SSO serves as the default retail generation service for residential, commercial, and industrial customers that remain on utility default service (1, 2).
Legal Foundation	Ohio Revised Code Chapter 4928, particularly § 4928.141 (Distribution utility to provide standard service offer) and § 4928.142 (competitive bidding), establishes the statutory foundation. Implementation requirements are set out in Ohio Administrative Code Chapter 4901:1-35 (1, 2, 3).
Governance	The Public Utilities Commission of Ohio (PUCO) oversees default-service procurement, approves SSO applications, electric security plans (ESPs), market-rate offers (MROs), procurement rules, auction results, and cost-recovery mechanisms (1, 2, 3).
Plan & Approval	Each utility files a Standard Service Offer plan with PUCO, generally through either a Market Rate Offer (MRO) or an Electric Security Plan (ESP) proceeding. Utilities must submit procurement plans, auction designs, and supporting testimony demonstrating compliance with statutory requirements. House Bill 15 (2025) phases out the use of ESPs (2, 3, 4).
Procurement	Ohio utilizes utility-administered competitive procurements. Utilities generally procure supply through descending-clock auctions, known as Competitive Bidding Processes (CBPs), for full-requirements service. Each utility conducts its own procurement under a PUCO-approved framework, and the modern tranche-based clock-auction design has largely converged across major utilities (5, 6, 9).
Product & Terms	Suppliers provide full-requirements service, including energy, capacity, ancillary services, and specified PJM and transmission-related obligations. Ohio auctions generally procure tranche-based products, often using a “slice-of-system” design under which suppliers serve a fixed percentage of total SSO load. Contract terms commonly range from 12 to 24 months with utility and procurement specific variation (5, 6).
Bidder Rules	Bidders must satisfy utility qualification requirements, demonstrate financial capability, meet collateral and credit standards, and satisfy PJM participation requirements. Ohio typically employs an Auction Manager retained by the utility and an Independent Monitor retained by PUCO (5, 6, 9).
Supplier Obligations	Winning suppliers assume the obligations of a Load Serving Entity (LSE), including procurement of energy, capacity, ancillary services, compliance with PJM requirements, and service to assigned SSO load over the contract period (5, 6, 9).
Policy & Takeaway	Ohio is transitioning toward a mandatory market-rate Standard Service Offer model. House Bill 15 phases out legacy ESP-based default-service structures and directs utilities toward PUCO-approved Market Rate Offers supported by competitive procurements. Ohio remains one of the most auction-centric default-service frameworks in PJM (4, 5, 6).

Sources

1. Ohio General Assembly. “Ohio Revised Code § 4928.141: Standard Service Offer”. n.d. https://codes.ohio.gov/ohio-revised-code/section-4928.141
2. Ohio General Assembly. “Ohio Revised Code § 4928.142: Standard Generation Service Offer Price Based on Competitive Bidding Process”. n.d. https://codes.ohio.gov/ohio-revised-code/section-4928.142
3. Public Utilities Commission of Ohio. “Ohio Administrative Code Rule 4901:1-35-03: Application for a Market Rate Offer”. n.d. https://codes.ohio.gov/ohio-administrative-code/rule-4901:1-35-03
4. Ohio General Assembly. “House Bill 15”. 2025. https://www.legislature.ohio.gov/legislation/136/hb15
5. AEP Ohio. “Competitive Bidding Process: Previous Results”. n.d. https://aepohiocbp.com/index.cfm?s=background&p=previousResults
6. Public Utilities Commission of Ohio. “How Are Electric Generation Rates Set?” n.d. https://puco.ohio.gov/utilities/electricity/resources/how-are-electric-generation-rates-set
7. Ohio Power Company. “Bidding Rules for the Auctions Under the Competitive Bidding Process of Ohio Power Company”. August 28, 2025. https://aepohiocbp.com/assets/files/November%202025%20AEP%20Auction%20CBP%20Rules_28%20AUG%202025.pdf
8. Ohio Power Company. “AEP Ohio Competitive Bidding Process March 2026 Auction: Bidder Webcast”. January 6, 2026. https://aepohiocbp.com/assets/files/AEP%20Mar%202026%20Auction%20Webcast_06%20JAN%202026.pdf
9. Duke Energy Ohio, Inc. “Bidding Rules for Duke Energy Ohio, Inc.’s Competitive Bidding Process Auctions”. 2025. https://www.duke-energyohiocbp.com/Portals/0/Documents/Attachment_E-DEO_SSO_Bidding_Rules.pdf
10. Public Utilities Commission of Ohio. “PUCO Sets Process to Protect AEP Ohio Customers from Potential Data Center Energy Costs”. August 5, 2026. https://puco.ohio.gov/news/process-protects-aep-customers-from-potential-data-center-costs

Ohio’s restructured electricity market requires electric distribution utilities to provide a Standard Service Offer (SSO) to customers that do not select a competitive supplier[8]. Since Senate Bill 221 (2008), utilities have established SSO service through either an Electric Security Plan (ESP) or a Market Rate Offer (MRO), although utilities generally favored ESPs because they could incorporate additional PUCO-approved riders and programs[9].

House Bill 15, effective August 14, 2025, eliminates new ESPs and requires future SSO service to be established through MROs. Existing ESPs may remain through their approved terms with December 31, 2029 being the deadline for each utility to file a distribution rate case to align with the new precedent (4).

The reform changes governance more than procurement mechanics. Each utility continues to conduct a PUCO-approved Competitive Bidding Process through an independent Auction Manager, with a PUCO-retained monitor reviewing compliance and competitiveness. Prospective suppliers first complete a two-stage qualification process: the Part 1 application establishes legal, financial, technical, PJM, and credit eligibility while the Part 2 application requires certifications, acceptance of the governing agreements, an indicative offer, and pre-bid security that supports the bidder’s maximum bidding capacity (5, 6, 8, 9).

[8] National Association of Regulatory Utility Commissioners. “*Ohio’s History of Regulation’.* *https://pubs.naruc.org/pub.cfm?id=5375FB55-2354-D714-51FA-D5ED509008EA*

[9] Ohio General Assembly. “Senate Bill 221”. 2018. https://www.legislature.ohio.gov/legislation/132/sb221

The auction generally uses a multi-round descending-price clock. Before bidding, the Auction Manager announces the products, tranche targets, tranche size, supplier load cap, and a range of starting prices. Each tranche represents a fixed percentage of actual SSO load. In each round, bidders state the number of tranches they are willing to serve at the posted price, while aggregate demand exceeds the target, the Auction Manager lowers the price for the next round. Bidders may maintain or reduce their quantity but generally may not increase it. The auction closes under the applicable stopping rules when supply and the tranche target balance, and winning suppliers for the same product receive the clearing price (7, 8, 9).

Winning suppliers execute a Master SSO Supply Agreement and provide load-following, slice-of-system full-requirements service rather than a fixed megawatt quantity. Each supplier therefore serves its awarded percentage of actual SSO load as usage and customer migration vary, assuming applicable Load Serving Entity responsibilities for scheduling and delivery and the energy, capacity, ancillary-service, and other PJM obligations assigned under the utility's contract. Utilities stagger solicitations and use overlapping products, AEP Ohio's current plan includes 12, 24, and 36-month terms to limit exposure to any single procurement date (5). The Auction Manager submits the results to PUCO for acceptance before contracts are executed and delivery generally begins on June 1 (5, 6, 8, 9).

In August 2026, PUCO also adopted an interim safeguard for data centers subject to AEP Ohio's data-center tariff. A customer returning to SSO must provide 180 days notice, allowing AEP Ohio to procure supply through a stand-alone auction or spot-market purchases, with the full incremental cost assigned to that customer to protect other default-service customers (10).

7.6 Pennsylvania

Table 9: Pennsylvania Default Service Auction Framework

Default Service Auction Framework	Details
Obligation & Scope	Under the Electricity Generation Customer Choice and Competition Act, as amended by Act 129 of 2008, each incumbent Electric Distribution Company (EDC) must serve as the Default Service Provider within its territory. This obligation applies to Pennsylvania's 11 investor-owned utilities (1).
Legal Foundation	The primary authority is the Electricity Generation Customer Choice and Competition Act (66 Pa. C.S. §§ 2801–2815), which restructured Pennsylvania's electric utility industry and established retail choice. The Pennsylvania Public Utility Commission's default-service framework is set out in 52 Pa. Code Chapter 54, Subchapter G, and the Commission's policy statement at 52 Pa. Code §§ 69.1801–69.1817 (1, 2, 3).
Governance	Individual utilities manage their own procurements under Pennsylvania Public Utility Commission oversight. Utilities often retain independent third-party managers to administer solicitations, qualify bidders, and evaluate results (2, 4, 5, 6).
Plan & Approval	Default Service Providers must file a Default Service Program petition at least 12 months before the existing plan expires. The Commission generally has nine months to issue a final order, after which an unacted-upon plan may be deemed approved. Although policy historically suggested two-year terms, major utilities now commonly operate under four-year plans (2, 3, 4, 5, 6).
Procurement	Supply is obtained through utility-specific competitive procurement processes, primarily sealed-bid requests for proposals or descending-price clock auctions. The exact approach varies by utility (4, 5, 6, 7).
Product & Terms	Plans must use a "prudent mix" of spot-market, short-term, and long-term contracts to achieve the least cost to customers over time. Products are typically Fixed-Price Full Requirements for residential and small commercial customers, commonly with 12- or 24-month terms, and hourly priced service for large commercial and industrial customers (2, 3, 4, 5, 6).
Bidder Rules	Bidders must complete utility-specific qualification processes, be PJM members in good standing, hold FERC authorization, and meet creditworthiness and financial-security standards. Supplier load caps are used to promote diversity and mitigate default risk (4, 5, 6).
Supplier Obligations	Winning bidders execute a Supplier Master Agreement and assume responsibility for their allocated share of full-requirements service, including energy, capacity, transmission, ancillary services, and Alternative Energy Credits, subject to the applicable utility contract (4, 5, 6).
Policy & Takeaway	The framework seeks to balance rate stability for non-shopping customers with support for the competitive retail market. Laddered competitive solicitations expose default-service prices to market discipline while reducing exposure to short-term price volatility (2, 3).

Sources	1. Pennsylvania General Assembly. “Electricity Generation Customer Choice and Competition Act, 66 Pa. C.S. §§ 2801–2812”. n.d. https://www.legis.state.pa.us/WU01/LI/LI/CT/HTM/66/00.028..HTM 2. Pennsylvania Code & Bulletin. “52 Pa. Code Chapter 54: Electricity Generation Customer Choice”. n.d. https://www.pacodeandbulletin.gov/Display/pacode?titleNumber=052&file=/secure/pacode/data/052/052toc.html 3. Pennsylvania Code. “52 Pa. Code § 69.1801 et seq.: Default Service Policy”. n.d. https://www.law.cornell.edu/regulations/pennsylvania/52-Pa-Code-SS-69-1801 4. PECO Energy Company. “Default Service Program VI, 2025–2029”. n.d. https://www.puc.pa.gov/pcdocs/1815136.pdf 5. PPL Electric Utilities Corporation. “Default Service Program VI, 2025–2029”. n.d. https://nera-content-media.s3.us-east-1.amazonaws.com/ppl/1820000_d22c2d04ce.pdf 6. Duquesne Light Company. “Default Service Plan X, 2025–2029”. n.d. https://www.puc.pa.gov/pcdocs/1825215.pdf 7. Duquesne Light Company. “Duquesne Default Service Program”. 2026. https://www.duquesnedsp.com/

In Pennsylvania, the incumbent Electric Distribution Companies (EDCs), such as PECO, PPL Electric, Duquesne Light, and FirstEnergy subsidiaries, are legally mandated to serve as Default Service Providers for retail customers that do not select a competitive supplier or whose supplier fails to deliver (1). To fulfill this obligation, each EDC must submit a comprehensive Default Service Program (DSP) petition to the Pennsylvania Public Utility Commission (PAPUC) for approval (2). While formal policy once suggested two-year terms, major utilities now typically file for four-year terms to minimize litigation expenses and administrative costs (3). These filings must include a detailed procurement plan, implementation schedules for solicitations, standardized contract forms, and a rate design for cost recovery. The Commission generally has nine months to review the plan and issue a final order; if it fails to do so, the plan is “deemed approved” as filed (2).

To ensure a fair and transparent process, procurement is administered by independent third-party auction managers, who manage solicitations for the relevant utilities. The overarching goal is to achieve the least cost to customers over time by utilizing a “prudent mix” of spot-market, short-term, and long-term contracts (2). Utilities employ a laddered strategy, auctioning only a specific percentage of total default-service load during any single solicitation, typically held semi-annually. This approach prevents the utility from being forced to buy its total load supply during temporary market spikes, thereby stabilizing the default-service rate. For example, PPL Electric utilized 10-year long-term block contracts for a portion of its residential load to enhance long-term price stability (5).

Solicitation formats vary: most utilities use sealed-bid requests for proposals, while Duquesne Light, for example, uses a descending-clock price format for its auctions (7). In Pennsylvania, the exact qualifications for default-service bidders are codified in state regulations and further detailed in the specific RFP Process and Rules and Supplier Master Agreements filed by each utility as part of the auction process. Typically, to participate, bidders must be PJM Interconnection members in good standing, hold FERC authorization to sell at market-based rates, and pass rigorous creditworthiness evaluations. Bidders are not required to own physical generation but must demonstrate the ability to act as a registered Load Serving Entity. Furthermore, strict load caps are often imposed, limiting the quantity of load a supplier can serve to ensure diversity and mitigate the risk of a single supplier default. PECO utilizes

confidential reserve prices as benchmarks to ensure winning bids are consistent with prevailing market conditions (4).

Once a solicitation is completed, results are presented to the commission, which typically has one business day to approve or reject the winning bids. Upon approval, winning suppliers execute a standardized Supplier Master Agreement (SMA) and assume responsibility for "full requirements" service, covering energy, capacity, ancillary services, transmission, and Alternative Energy Credits (AECs). Utilities are entitled to full and current recovery of these procurement and administrative costs, which are passed to customers through a reconcilable automatic adjustment clause appearing on bills as the Price-to-Compare (PTC).

Table 10: Current Procurement Plan and Bid Format by Major Pennsylvania Utility

Utility	Current Procurement Plan	Bid Format
First Energy	PA Default Service Program - DSP VII (2027-2031)	Descending-price clock bidding format
PPL Electric Utilities	Default Service Program VI 2025-2029	Sealed bid
PECO Energy	Default Service Plan VI 2025-2029	Sealed bid
Citizens' Electric Company Wellsboro Electric Company	Joint Default Service Plan VII (2025-2029)	Sealed bid
Duquesne Light Company	Default Service Auction X 2025-2029	Descending-price clock bidding format

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