**The 2018 Electricity Reform**

**Hilit Katz**

In 2018, after nearly three decades of multiple unsuccessful attempts to reform Israel’s electricity sector, a reform was finally launched with the enactment of Amendment No. 16 to the Electricity Law. This Article examines the current implementation of the 2018 electricity reform law in different areas of the IEC’s activities. The reform is still an ongoing process, and its implications for the economy have yet to be examined. However, its economic effects over the past two years, including electricity tariffs, market competition, and the economic impact on IEC, can be estimated. Similar processes that have taken place in OECD countries can also provide insight into the implications of the reform.

The aims of the reform set forth in the new law reflect the goals of the many public committees that had previously examined the electricity sector in Israel over the years. These committees had all reached the similar conclusion that the public interest would be served by opening up the electricity sector to competition. Doing so would also enhance the efficiency of the Israel Electric Corporation (IEC), a government company with a natural monopoly of Israel’s electricity market.

Due to the electricity sector’s monopolistic structure, the IEC has long operated inefficiently and ineffectually. Suffering from unusually high costs for operations and human resources, its resulting precarious financial situation has made it difficult for the company to meet its growing investment and financing needs. Consequently, the company has been unable to develop needed expertise and capabilities, thus raising concerns about future electricity shortages.

An analysis of the effect of the reform since its implementation indicates that after selling some of its production sites to private producers, the IEC has strengthened its financial resilience by reducing its deficit. It has also begun regulating labor relations and returning power to management. Even with its limited moves toward privatization, the IEC remains an essential player in electricity production and transmission. Retaining its natural monopoly in the market, the IEC still has a significant and decisive impact on Israel’s electricity sector.

The main conclusion that emerges from comparing electricity reforms in the United States and other European countries is that reforming the electricity sector alone, without considering the introduction of alternative energy sources, will not lead to lower prices for consumers. Nonetheless, electricity prices in Israel may still fall with the continued implementation of Israel’s electricity sector reform, along with further changes in the electricity market, such as the transition to renewable energy sources, and the opening of the electricity sector to alternative energy producers.