REFORM IN THE ELECTRICITY MARKET AND STRUCTURAL CHANGE
IN THE ELECTRIC CORPORATION

Resolution Draft

We resolve,

A. With the aim of streamlining the electricity market, encouraging competition in it and strengthening the Electric Corporation's financial stability, and subsequent to the policy principles published by the Minister of Energy on 17 May 2018, after consultation with the Minister of Finance and with the Electricity Authority pursuant to Section 57A(c) of the Electricity Market Law, 5756-1996 (hereinafter - the Electricity Market Law), which are attached to this resolution, the reform in the electricity market and a structural change in the Israel Electric Corporation Ltd. (hereinafter - the Electric Corporation), shall include all the following:

1) **A reduction in the monopolistic power of the Electric Corporation in the electricity manufacturing segment and focusing it in the network segment** – with effect from 18 months from the date of this resolution until 60 months from the date of this resolution, the Electric Corporation shall sell the manufacturing sites Alon Tavor, Ramat Hovav, Reading, Hagit (part of the site) and Eshkol. Some of the area in the Rotenberg Station (which was designated for the construction of a carbon power station) shall be transferred, in accordance with the agreement dated 3 January 2018 signed between the State of Israel and the Israel Land Authority (hereinafter - ILA) and the Electric Corporation, to the ILA for the purpose of the sale thereof.

2) **Preservation of the Electric Corporation's activity in the conduction and distribution segments as a licensee for the supply of an essential service** - the Electric Corporation shall continue to construct, maintain and operate the conduction network facilities and the distribution facilities as set out in detail in Section B. The Corporation shall develop the conduction network in accordance with the development plan approved pursuant to Section 19 of the Electricity Market Law.

3) **Separation of system management from the Electric Corporation** - the activity of the System Management Unit, the Technologies Planning and Development Unit (TPD) and the Statistics and Markets Unit, as set out in detail in Appendix A and in particular in the functions document attached thereto shall be transferred from the Electric Corporation to a separate government company - the System Management Company Ltd. (hereinafter - the System Management Company or the System Management Licensee), which was established in accordance with Resolution No. 3704 dated 30 June 2008 concerning the establishment of government companies in the electricity market - approval of the resolution of the Ministerial Committee for Social and Economic Affairs (hereinafter - the Establishment Resolution).

4) **Opening the supply segment to competition** - opening the supply segment
to competition in a gradual manner so that in the supreme voltage, ultra-high voltage and high voltage consumers segment, the Electric Corporation shall not be entitled to operate as a competitive party, and in the low voltage segment the Corporation shall be entitled to compete only if its market segment has dropped to under 60% in this segment, subject to the minister’s policy and in accordance with the prescribed regulation.

5) **Streamlining and instituting administrative flexibility in the Electric Corporation** - the number of permanent employees shall be reduced by 1,803 and the number of permanent and temporary employees shall be restricted. Likewise, a change in the labor relations shall be instituted in the Corporation, so as to allow a more effective management of the Corporation, and its adaptation to the present structure of the industry.

6) **Strengthening the Electric Corporation’s financial stability** - the Electric Corporation shall act and do everything it can in order to comply with the business plan formulated by the Corporation and approved by the directorate on 10 May 2018 and the financial stability targets determined on the basis thereof. A team on behalf of the State shall track and audit the compliance with the targets.

B. For the purpose of implementing the reform in the electricity market and the structural change in the Electric Corporation, as aforesaid in Section A, to perform all the following acts:

1) To compel the Minister of Finance and the Minister of Energy (hereinafter - the Ministers) to exercise their power pursuant to the Government Companies Law, 5735-1975 (hereinafter - the Government Companies Law), and to appoint directors for the System Management Company.

2) To compel the Minister of Energy to enact, as necessary, after consultation with the Electricity Authority or at its proposal, regulations pursuant to Section 7(a)(4) and (6) of the Electricity Market Law concerning the System Management Licensee.

3) To compel the Electricity Authority and the Minister of Energy to grant a license for the system management to the System Management Company so that it shall act as the licensee pursuant to the Electricity Market Law within 18 months from the date of passing the government resolution (hereinafter - the Date of Operation). The license shall determine, *inter alia*, that the System Management Company shall be responsible for the acquisition, storage and allocation of the market fuels (liquid natural gas and diesel that are allocated by the system management to the electricity manufacturers in situations of shortage in the market), with effect from the determined date. The date shall be determined for as soon as possible, after consultation with the Government Companies Authority regarding the Corporation’s financial situation.

4) Until the grant of a new supply license to compel the Ministers to give the Electric Corporation approval pursuant to Section 6(d) of the Electricity Market Law for the performance of cyber acts as set out in detail in Section 10(u), in consultation with the Electricity Authority.
5) To compel the Minister of Energy, in consultation with the Electricity Authority and with the consent of the Minister of Finance, to perform the acts required pursuant to Section 19 of the Electricity Market Law for the purpose of updating the electricity market's development plan, in accordance with all the following -

a. The Electric Corporation shall promote statutory planning at the Reading site (up to the level of a plan that permits may be executed by virtue thereof, inclusive) with the aim of completing the planning processes for the construction of two manufacturing units by combined recycling technology (hereinafter - CRT) via natural gas and a substation. The Electric Corporation shall file the documents for approval of deposit, including a survey of the effect on the environment, at the relevant planning institution, within 18 months from the date of passing the government resolution.

b. If necessary, the Electric Corporation shall promote statutory planning for the detailed plan at additional manufacturing sites that shall be sold as aforesaid in Section 1(b) of Appendix A.

c. The subsidiary below-mentioned in Section 12 shall construct two natural gas powered CRTs at the Orot Rabin site with an inclusive installed output of approximately 1200 megawatts (an upwards deviation of 5% shall not be deemed to be a deviation from this output). The first CRT shall be operational by June 2022 and the construction of the second CRT shall only commence after the Alon Tavor site has been sold and a competitive proceeding published for the sale of the Ramat Hovav site. The two CRTs shall use at least the H technology, in accordance with the existing products in the market.

6) To transfer to the System Management Company from the State budget three million NIS during 2018 and ten million NIS during 2019, in return for the allocation of shares, subject to any law and the approval of the Knesset Finance Committee pursuant to Section 10 of the Government Companies Law.

7) To record the Electricity Authority Resolution No. 2 (1245) from Session 542 dated 15 May 2018 relating to the interpretation of Resolution No. 13 (1169) from Session 518 dated 12 June 2017, concerning the conditions for recognition of TOP in the Electric Corporation's gas agreement.

8) To record the Electricity Authority Resolution No. 1 (1253) from Session 542 dated 15 May 2018 whereby within the framework of the regulation that it intends to publish in preparation for the competitive proceeding to be held by the Israel Electric Corporation for the sale of the power stations, the consideration for the corporation for the sale of the sites shall be at a fair value. The aforesaid consideration shall not be less than the sale value of the site plus the value of the land. For this purpose, "the sale value" – the tariff value of the site plus any cost that shall be recognized by the Authority and that shall arise directly on account of the sale process, including on account of vacation and construction of the Electric Corporation's infrastructures that are vacated from the aforesaid site, subject to costs control.
9) To direct the Electricity Authority to examine the determination of standards, rules, tariffs and resolutions in the following matters:

a. Conveying information between the Electric Corporation and the System Management Company, whether relating to the information accumulated until the Date of Operation or information that may be accumulated thereafter, including -

1) The information required for each one of the companies, including the databases used for planning the system and the information conveyed via the communications infrastructures (micro-wave, optic fibers, PLC, RTU, etc.)

2) The method of conveying the information.

3) The imposition of restrictions on the information to which the Electric Corporation or its subsidiary shall be exposed, for the purpose of the prevention of damage to competition.

b. The method of exercising the System Management Company's power to approve the timing and the duration of all the maintenance works in the manufacturing units, in the conduction and transformer system, in the communications elements influencing the functioning of the system management, and in the natural gas systems, which mean the shutting down of or an effect on the survivability of the system. The regulation shall also relate to a stay in the expenses of the manufacturing units or elements of the conduction system for maintenance or development.

c. The method of loading the gas powered facilities in the distribution network by the system manager, subject to the network's constraints and signing on operational agreements for these facilities with the distribution license holder.

d. The government takes note of the Electric Corporation's notice that with effect from the Date of Operation in the event of switching activities planned in advance, the switching activities shall be performed by supervision of the conduction with the approval of the System Management Company. In exceptional circumstances that in the System Management Company's inspector's discretion do not allow the granting of approval in advance, the switching shall be performed by the System Management Company. The aforesaid does not derogate from the Electricity Authority's power to determine regulation in this context. Consultation shall be held with the Electric Corporation and the System Management Company within the framework of the determination of regulation. For this purpose conduction inspection - a unit that the Electric Corporation intends to establish as part of the reform.

e. The method of loading stations so that the System Management Licensee shall load each one of the manufacturing units of each essential service supplier directly and that the commercial interface
of the System Management Licensee with an electricity manufacturer having a subsidiary that is also an electricity manufacturer shall be via one central party in each company.

f. Publication of the regulation allowing effective and competitive sale of the manufacturing sites that the Electric Corporation has undertaken to sell, no later than six months before the dates of publication of the competitive proceeding by the Electric Corporation, as set out in detail in Sections 1(b) and (h) of Appendix A. With regard to the Alon Tavor manufacturing site, the regulation shall be published before the date of publication of the competitive proceeding, and the preliminary points of the regulation shall be published within three months of the date the government resolution is passed.

g. Determination of the recognized cost for the subsidiary that shall establish and operate the two CRTs mentioned in Section 5(c) and the operational conditions for recognition of the costs.

h. The method of endorsing the agreements between the Electric Corporation and all private electricity manufacturers in the conduction network so that they shall be endorsed to the System Management Company on the Date of Operation, excluding the parts concerning the conduction activities.

i. The method of endorsing the agreements between the Electric Corporation and all private electricity manufacturers in the distribution network that manufacture using natural gas, so that they shall be endorsed to the System Management Company on the Date of Operation, excluding the parts concerning the operational aspects.

j. The method by which the Ramat HaSharon site that is to be transferred to the System Management Company shall also temporarily serve the conduction inspection, until the construction of a permanent site for conduction inspection.

k. Notwithstanding the below-mentioned in Section 10(N) regarding the facility connecting to the conduction network via several connections to the distribution network (such as wind turbines), the division of powers between the System Management Licensee, the conduction licensee (hereinafter - Conduction Licensee or the Electric Corporation), the distribution licensee and the supply licensee (including for the purpose of the license or licenses to be granted to the Electric Corporation after the expiry of the license granted to the Electric Corporation pursuant to Section 60(d) and extended pursuant to Section 60(d4) of the Electricity Market Law, (hereinafter - the Unification License), inter alia, as set out in detail below:

10) To compel the Minister of Energy and the Electricity Authority to regulate in accordance with their power, including by way of granting and approving a license, the publication of regulations or rules, the fields of responsibility of the System Management Licensee, the conduction licensee (hereinafter - Conduction Licensee or the Electric Corporation), the distribution licensee and the supply licensee (including for the purpose of the license or licenses to be granted to the Electric Corporation after the expiry of the license granted to the Electric Corporation pursuant to Section 60(d) and extended pursuant to Section 60(d4) of the Electricity Market Law, (hereinafter - the Unification License), inter alia, as set out in detail below:
a. The System Management Licensee shall file a development plan pursuant to the Electricity Market Law. The plan shall include the construction and upgrading of the supreme and ultra-high voltage circuits, the switching stations, and also the substations, and the schedules for performance.

b. A Conduction Licensee shall be required to act pursuant to the development plan for the conduction network prepared by the System Management Licensee and that has been approved by the Minister of Energy.

c. A System Management Licensee shall be responsible, in coordination with the Ministry of Energy, for promoting statutory planning of the conduction network until the stage of the approved and valid detailed outline plan (inclusive) (the plan shall include reference to the conduction lines, switching stations, substations, including the documents required for the plan, such as surveys of the effect on the environment).

d. A Conduction Licensee shall be responsible for promoting all the licensing stages pursuant to the Planning and Construction Law with effect from the stage of the valid detailed outline plan including planning for permit and the environmental documents required for the permit and until completion of the process. Insofar as for the purpose of approval of the outline plan for the appraised substation, as aforesaid in Subsection (c), by the System Management Licensee, documents or examinations for the detailed planning presently being performed in the Electric Corporation units shall be required, which are not planned to pass to the System Management Company in accordance with the Electric Corporation procedures (such as a general arrangement for alternatives, the position plan, trial drilling, landscape appendix, traffic appendix, estimate for alternatives, architecture, building appendix, etc.); they shall be prepared by the Electric Corporation, and shall be provided to the System Management Licensee, and all in accordance with the schedules and directives of the system manager.

e. The Electric Corporation shall be responsible for handling the market fuels (liquid natural gas and diesel), until the responsibility passes to the System Management Company as aforesaid in Section 3.

f. The System Management Licensee shall be responsible for the systematic engineering planning of the conduction and transformer system (the conduction network, the switching stations and the substations up to the level of specification of the sketch outlining the configuration of the substation and the main elements of the equipment ("unilinear schematic diagram in principle") and the characterization of the main equipment as below-mentioned in Subsection (q). The Conduction Licensee shall make a detailed engineering plan (position
plan, civil, electro-mechanical and electrical plan, etc.) that is based upon the unilinear agreements in principle and the characteristics of the main equipment as below-mentioned in Subsection (q).

g. The distribution licensee shall be responsible for the promotion of statutory planning of the facilities in the distribution network under its responsibility.

h. The Electric Corporation shall be the unit for the supply of distribution services in public land and public pathways, excluding in public land or public paths situated within the areas of other distribution licensees, and excluding in areas where the distribution services are provided by a cogeneration manufacturer in accordance with the conditions prescribed by law. For the avoidance of doubt, for matters of the spread of the electricity network connecting between types of facilities in public land and public pathways, such as charging stations and street lighting, that the Electric Corporation does not presently distribute, the status quo shall be preserved.

i. Likewise, in areas designated for residence or industry, the electricity distribution shall be effected, either in public land or in private land, by the Electric Corporation, provided that every separate legal entity is provided with one connection. It should be clarified that the Electric Corporation shall not establish infrastructures inside areas as aforesaid of one legal entity. The Electric Corporation shall distribute electricity to each apartment that is not within the area of distribution of another distribution licensee, and shall supply an additional connection to the house committee. In industrial zones one connection shall be provided for every factory, including a factory which includes several structures that are under the ownership of one legal entity. In structures in areas designated for industry and that are under the ownership of one entity and are leased in full or in part to various legal entities, each separate entity in the structure shall receive a separate connection from the Electric Corporation. This arrangement shall not apply to structures that are not used for industry that are situated in areas designated for industry.

j. It is clarified that the Electric Corporation shall not lay out a new distribution network wherever a private network exists, prior to the amendment to the law. In this case it shall be deemed to be a consumer, unless the Electricity Authority instructs otherwise. In cases where a micro generator or an electricity storage facility are constructed, which are not on private land, which shall require the transfer of energy to the network and to various consumers, excluding facilities on the consumer's own property, the network connecting them to the other consumers shall be established and operated by the Electric Corporation as a supplier of an essential service or by a distributor in its own area.
k. The Electric Corporation shall not establish electricity infrastructures in private land otherwise than in cases where the Electricity Authority has allowed this. The distribution license shall determine priority for the construction of a share or meter system outside private land, and at the very least on its boundary.

l. A System Management Licensee shall perform surveys for the connection of manufacturing and consumption facilities to the conduction system, in accordance with the Electricity Authority's regulation. Determination of the implementability of the projects and the schedules for the performance thereof shall be made after consultation with the Conduction Licensee.

m. The statutory planning for the strip of the connection line of the manufacturing facility to the network including the documents required for the plan, such as a survey of the effect on the environment, shall be prepared by the System Management Licensee in conjunction with the Conduction Licensee and shall be served as part of the owner of the manufacturing facility's outline plan, subject to the standards prescribed by the Electricity Authority. Promotion of the detailed planning and the performance of the connection line and the projects adjacent to the line shall be made by the Conduction Licensee.

n. The System Management Licensee shall perform technical coordination with the substation of the manufacturing and consumption facilities that connect to the conduction network, up to the stage of approval (position plan, main equipment and unilinear schematic diagram). The Conduction Licensee shall perform continuation of the technical coordination at the construction stage, management of the construction, and until the electrification inspections (inclusive).

o. The System Management Licensee shall perform technical coordination for the manufacturing facilities that connect to the conduction network. Likewise, the System Management Licensee shall perform an acceptance examination for these facilities after they have been connected to the conduction network and before their commercial operation, in coordination with the licensees. Technical coordination and acceptance examinations for the facility connected to the distribution network with one connection shall be performed by the Distribution Licensee.

p. The Electric Corporation shall be entitled to establish and operate accumulation facilities solely and exclusively within the conduction network's physical infrastructure. The accumulation in the physical infrastructure as aforesaid shall be determined in the development plan prepared by the System Management Licensee. The Electric Corporation shall be entitled to plan, establish and operate accumulation facilities solely and exclusively within the conduction network's physical infrastructure and all according to the principles prescribed by the Electricity Authority for the integration of the accumulation facilities inside the conduction network.
q. The System Management Licensee shall prepare a system requirements document for the main equipment in the conduction and transformer system (System Technical Specification). These requirements shall constitute a binding basis for the procurement specifications of the Electric Corporation, private manufacturers and high voltage consumers. The procurement specifications and the equipment procurement process shall be prepared and performed as the case may be by the Electric Corporation, private manufacturers and high voltage consumers. The winning bidder's technical bid and the inspection certificates shall be sent for the System Management Licensee's approval concerning the requirements it has defined.

r. The System Management Licensee shall determine principles and criteria subject to the standards determined by the Electricity Authority and the conditions of its license, according to which surveys shall be prepared in the conduction segment. The Conduction Licensee shall carry out the surveys. Reservation against the method of implementing the criteria in the results of the survey shall be sent for examination to the System Management Company, which shall be entitled to give the distribution company instructions for amendment of the survey, if it finds fit to do so.

s. A distribution licensee shall be obliged to provide the supply licensees with free access to information produced from their customers’ electricity meters, with the consumers' approval. Likewise, all the information from the meters shall be sent to the System Management Company as well as to other parties insofar as they are determined by the Electricity Authority, and all subject to the standards determined by the Authority and with effect from the date they are determined.

t. The boundary of the area of the "historical distributors" (as they are defined in Authority Resolution No. 1 from Session 272 dated 11 August 2009) shall be determined in the distribution license so as to allow natural growth of the use of the approved historical distribution area, and in any event so as to ensure a restriction on the rate of distribution of the distribution licenses as below-mentioned in Section 14(h).

u. After the Unification License has expired, the Electric Corporation shall be entitled to supply these services as auxiliary activities:

1) Cyber services to all the consumers in the supreme, ultra-high and high voltage supply segments and its low voltage consumers.

2) From the date the number of the Electric Corporation's consumers drops to below 75% of the total consumers in the low voltage supply segment - cyber services to all consumers and "smart home" and energetic streamlining services to the low voltage consumers (this matter shall be defined in the supply license granted to the company).
The "smart home" and energetic streamlining services for this matter are the provision of information services regarding the nature of the consumer's electricity consumption in every electrical facility/appliance, the provision of advisory services concerning the ability to reduce electricity consumption and streamlining the use thereof as well as remote control over domestic electrical appliances services, including by means of the installation of an appropriate instrument in the consumer's private facility for the purpose of the control services.

v. The Electric Corporation shall not compete in the supreme, ultra-high and high voltage supply segments unless it charges the tariff prescribed by the Electricity Authority; the matter shall be re-examined after 5 years, *inter alia* in accordance with the competition conditions in the market, by the Electricity Authority, the Ministry of Energy, the Ministry of Finance and the Antitrust Authority. In the low voltage supply segment, insofar as this is gradually made open to competition, the Electric Corporation shall be entitled to compete (in a fair manner and subject to the prescribed regulation) only if the amount of its consumers drops to below 60% of the total consumers in the low voltage supply segment.

w. A Conduction Licensee shall perform supervision of the conduction for the purpose of operating the conduction and transformer system in accordance with the directives of the System Management Licensee and subject to the regulation insofar as it is prescribed. Switching activities shall be performed as aforesaid in Section 9(d).

x. The conduction and distribution licenses shall be given for a prolonged period as is standard practice in the field of public infrastructures, as in the example of the natural gas and water industries.

y. A distribution licensee shall engage in agreements for the purchase of electricity from electricity manufacturers in the distribution network that manufacture using renewable energy.

11) To compel the Minister of Energy and the Minister of Finance to submit a resolution draft to the government for approval of the Electric Corporation resolution to form a subsidiary for the promotion of businesses abroad pursuant to Section 11(a)(9) of the Government Companies Law, insofar as required, after an examination of the necessity for approval pursuant to Section 6(d) of the Electricity Market Law and subject to this examination. The formation resolution shall determine that the minister who shall be responsible for the Corporation's matters pursuant to the Government Companies Law, shall be the Minister of Energy. Within the framework of the resolution it shall be determined, *inter alia*, that all the Corporation's employees shall be employed by personal contracts and their number shall not exceed twenty five.

12) Insofar as the Electric Corporation passes a resolution to form a fully-owned subsidiary of the Electric Corporation for the purpose of planning the
construction, operation and maintenance of two CRTs at Orot Rabin, to order the Minister of Energy and the Minister of Finance to submit a resolution draft to the government pursuant to Section 11(a)(9) of the Government Companies Law for approval of the Electric Corporation's resolution. Within the framework of the resolution it shall be determined, *inter alia*, that the subsidiary shall not employ more than ten employees all of whom shall be employed by personal contracts, shall purchase the planning, construction, operation and maintenance services of both CRTs from the Electric Corporation, and shall not engage by itself with manpower and services contractors for the employment of these contractors’ employees permanently on its premises. For the avoidance of doubt it should be clarified that the construction operation and maintenance services of both CRTs shall be solely and exclusively within the framework of the subsidiary via the purchase of services from the Electric Corporation. With effect from the date of formation of the subsidiary, the planning of both the aforesaid CRTs shall be solely and exclusively within the framework of the subsidiary via the purchase of services from the Electric Corporation. The formation resolution shall determine that the minister who shall be responsible for the Corporation's matters pursuant to the Government Companies Law, shall be the Minister of Energy.

13) Insofar as the Electric Corporation's directorate resolves not to distribute dividends, the government shall not compel the Corporation to distribute dividends pursuant to Section 33(c) of the Government Companies Law, before the end of 2025 or until it reaches the final financial stability targets as approved by the resolution of the Electric Corporation's directorate dated 10 May 2018, whichever of the two is the earlier.

14) To compel the Ministers to distribute, within 7 days from the date of passing the government resolution, a memorandum of law for the amendment of the Electricity Market Law and the Regulation of Security in Public Bodies Law, 5758-1998, insofar as is required for the purpose of implementing this resolution and including in the following matters, insofar as required -

a. A System Management Licensee shall include, at the time of preparation of the development plan for the conduction network, schedules in the development plan and shall consult with the Conduction Licensee concerning the alternatives and content of the plan including schedules. Insofar as there is any disagreement between the licensees regarding the implementability of the plan or its schedules, the System Management Licensee shall bring the position of the Conduction Licensee before the Minister of Energy when submitting the development plan for approval.

b. Extension of the Electric Corporation's manufacturing licenses at the sold manufacturing sites until the date on which the Electric Corporation must deliver possession in the manufacturing sites. The Electricity Authority with the approval of the Minister of Energy, in the case where a delay in the delivery has arisen, shall be entitled to extend the licenses for several periods provided that each period does not exceed six months.

c. A distribution licensee who is preparing a development plan pursuant to Section 19 of the Electricity Market Law shall be directed by the System
Management Licensee in all the aspects connected to the interfaces between the conduction system and the distribution system that have a systematic effect.

d. Extension of the Electric Corporation's manufacturing licenses for the manufacturing units that are situated at the other manufacturing sites that are not sold, until the end of each unit's engineering life.

e. Extension of the Electric Corporation's Unification License until the grant of new licenses on the following conditions: all activity or part thereof with regard to which a separate license is granted to the Electric Corporation or to another shall no longer be included in the Unification License, and in the supply segment the activity shall be as set out in detail in Section 10(V) of the resolution, and the Electric Corporation shall also serve as the default supplier.

f. A government company that engages in conduction, and its subsidiaries, shall not be permitted to engage in the construction, operation, maintenance, recombination and planning of a power station in Israel, or consultation concerning these activities, for themselves or for another party operating in the Israeli electricity market, and all excluding with regard to the planning, construction, operation and maintenance of two CRTs at the Orot Rabin station, operation and maintenance of the power stations held by the government company, statutory planning with regard to the sold manufacturing plants as aforesaid in Section 5(a) and (b) and the engineering planning required therefor, and the loan of employees to purchases of the sold manufacturing sites for a period that shall not exceed 5 years in accordance with the contents of the collective agreements to be signed.

g. A System Management Licensee shall not be entitled to hold manufacturing licenses.

h. The scope of the distribution licenses in the market that are now owned by the Electric Corporation shall not exceed 10% of the scope of the annual consumption, plus the rate of increase in the annual consumption in the distribution areas of such licensees that shall be included within this framework. The types of licensees that shall be included within this framework are: industrial zones that have filed an application to receive a distribution license or that have received a distribution license before the date of this resolution, historical distributors as they are defined in the standards and the Jerusalem District Electric Corporation Ltd. (JDE) within the area of the license granted by the Electricity Authority.

i. It shall be possible to grant a manufacturing license to a subsidiary of the Electric Corporation that shall construct and operate the two CRTs at Orot Rabin notwithstanding the provisions of Section 6(g)(3) of the Electricity Market Law.

j. Allowing the grant of a distribution license together with a supply and also conduction license, and revocation of Section 6(f) of the Electricity Market Law.

k. The addition of a share, including "a smart share", to the definitions of a
"distribution license" and the definition of distribution activities as set out in detail in this resolution, and the information shall be open in accordance with the regulation determined as aforesaid in Section 10(S).

l. Revocation of Section 6(h)(3) of the Electricity Market Law, which prohibits the grant of a distribution license if this would lead to the recipient of the license holding 25% or more of the scope of the distribution in the market.
m. Amendment of the definition of "consumer" in the Electricity Market Law so that it should be clarified that whoever owns or is in statutory sole possession of continuous areas of land that are not required for a public path, shall be deemed to be a "consumer". The Electricity Authority shall define types of consumers.
n. Amendment of the definition of "System Management License" in the Electricity Market Law so that the purchase of fuels to be used by the electricity market in situations of shortage in the market, their allocation and sale to electricity manufacturers, shall be added to the definition, with effect from the date to be determined as aforesaid in Section 3.
o. Amendment of Section 17A of the Electricity Market Law so that it shall be possible to revoke a license also on account of non-compliance with other obligations of a licensee for the supply of an essential service (such as conveying information).
p. Subsequent to Resolution 3444 dated 11 January 2018 concerning an outline for the regulation of the Electric Corporation's assets, Section 62 of the Electricity Market Law shall be amended so that the Minister of Finance and the Minister of Energy shall be entitled to approve an agreement regulating the division of assets and rights between the Electric Corporation and the State if they have seen that the approval thereof is beneficial for the market, provided that any division as aforesaid shall not be taxable under any law and shall not be deemed to be a sale for the purposes of the tax laws (however, for the purposes of the Income Tax Ordinance and the Land Taxation (Appreciation and Purchase) Law, 5723-1963, the original price of the assets and rights distributed, the balance of the original price, the value of the purchase and the date of purchase shall be deemed to be as they were prior to the distribution).
r. To determine a transitory provision of six years whereby the construction and operation of charging stations for an electric vehicle shall not constitute a supply activity for a period to be determined and shall not require a license.
s. Arrangement for entry into land for a licensee for the supply of an essential service for the purpose of performing an urgent act that is essential for reasons of security for the prevention of damage to a person or to property without obtaining the landowner's consent or without
permission from the manager provided that notice is sent to the landowner and the manager no later than 48 hours after the urgent act has been performed.

15) To form a team headed by the Electricity Authority, with the participation of representatives from the Budgets Commissioner at the Ministry of Finance, the Government Companies Authority and the Accountant General at the Ministry of Finance, which shall examine the principles for the management of the activity of the clearing house to be established at the System Management Company. As part of this, the team shall examine alternatives for the clearing house management mechanism (for example setting off payments) and all while paying attention to the credit risks of the Electric Corporation, the System Management Company and the other licensees in the electricity market and the effects on the Electric Corporation's financial stability, in such a way so as to ensure that the mechanism shall be determined before the Date of Operation. For the avoidance of doubt, the regulations concerning the clearing house activity shall be anchored in the resolutions of the Electricity Authority in accordance with its power under any law.

16) To form a team headed by the director of the Government Companies Authority whose members are the Budgets Commissioner, the Accountant General, the Director General of the Ministry of Energy or any person on their behalf, which shall track and audit, on the basis of the Electric Corporation's reports to the team and in consultation therewith, the compliance with the financial stability targets and the fulfillment of the directives at the basis of the business plan approved in the resolution of the Electric Corporation directorate on 10 May 2018, concerning the reform and the structural change; the team shall convene once a year or shortly after the occurrence of a significant event that is directly connected to the implementation of the reform in the Corporation that substantially influences the compliance with the Corporation's financial stability targets (hereinafter - Significant Event), whichever of the two is the earlier. Insofar as it is agreed that there is an anticipated substantial deviation from the compliance with the financial stability targets, or from the directives on the basis of which the business plan approved in the resolution of the Electric Corporation directorate on 10 May 2018, concerning the reform and the structural change, the team shall hold discussions with the Corporation in relation to the possible methods of action; insofar as a Significant Event occurs, the employees' representatives may send the team their attitude to the implications of the aforesaid event on the financial stability after they have discussed the matter with the Corporation's management, and present their position in the matter before the team.

17) To form a joint team of the Electric Corporation and the government headed by the Director General of the Ministry of Energy or any person on his behalf with the participation of a representative from the Electricity Authority, a representative from the Budgets Department, a representative
from the Accountant General, a representative from the Israel Land Authority, a representative from the Ministry of Energy and a representative from the Government Companies Authority who shall accompany the sale process via the receipt of current updates from the Electric Corporation and will chart the existing blocks at every manufacturing site where the Electric Corporation has given notice of its undertaking to sell (hereinafter - the Manufacturing Sites), including the issues of land, emergency fuel containers, etc. The matter of the spare parts and endorsement of the long term maintenance agreements shall be discussed within this framework. The competitive proceeding for the sale of the stations shall be performed by the Electric Corporation itself after the charting has been completed.

18) To approve pursuant to Section 11(a)(8) of the Government Companies Law the resolution of the Electric Corporation directorate on 10 May 2018, concerning the structural change in the Corporation by way of reducing the manufacturing activity and the sale of the system management activity to an associate company as set out in detail in this resolution.

19) To compel the Minister of Energy in consultation with the Electricity Authority and with the consent of the Minister of Finance to complete the examination of the development plan for the conduction network within 120 days from the date this government resolution is passed.

20) To form a team headed by the Director General of the Ministry of Energy and the Director General of the Ministry of Finance and with the participation of representatives from the Budgets Department, the Government Companies Authority, the Accountant General Department, the Salary Commissioner, the Antitrust Commissioner and the Electricity Authority, which shall conduct a follow-up of the implementation of this resolution including compliance with the schedules and the milestones.

21) To form a team headed by the Companies Authority and with the participation of representatives from the Ministry of Finance and the Electricity Authority, which shall determine in consultation with the Electric Corporation the model for reporting on the activity in separate profit centers (subject to the control of the Electric Corporation's auditing accountant) in the conduction, distribution, manufacturing and supply segments, in such a way as to permit transparency and attribution of costs. It should be clarified that the aforesaid does not entail the publication of separate financial statements for these segments.

22) To record the notice of the Antitrust Commissioner that it is its intention to publish a document of principles for consultation for affiliated competition in the sale of the Manufacturing Sites pursuant to Section 11 of the Promotion of Competition and the Reduction of Concentration Law, 5774-2013, before 27 September 2018.

23) This resolution is based upon the undertakings of the Electric Corporation that have been approved by the Corporation's directorate, as set out in detail in Appendix A.

24) (a) To revoke Section 16 of Government Resolution No. 345 dated 5 August 2015 concerning the formation of the consolidated Electricity Authority, so
that until the date determined by the minister which shall not be later than twelve months from the Date of Operation (hereinafter - the Transfer Date), the Electric Corporation shall be the designated authority within the meaning thereof in Resolution 1716 (hereinafter - Resolution 1716) and the director general of the Corporation shall be the chairman of the Authority.

(b) To direct the Minister of Energy and the Electricity Authority to perform the required measures, including regulatory arrangement or by way a legislative amendment, if required, so that from the Transfer Date and henceforth the designated authority shall be the System Management Company headed by the Director General of the System Management Company.

(c) To direct the Minister of Energy and the Electricity Authority to perform the required measures, including by way of regulatory arrangement or a legislative amendment, if required, in order to ensure that the costs arising from the decisions of the Minister of Energy in a time of emergency, concerning the provision of a solution to the immediate needs arising from the time of emergency, at their discretion, shall be recognized within the framework of the tariff as the costs of a supplier of an essential service, subject to costs control. To effect the amendments required in this section in the Law Memorandum to be circulated pursuant to Paragraph 14 unless it is agreed that for the purpose of the regulation of the matter no legislative amendments are required.

EXPLANATORY NOTES
General Background

The electricity market in Israel is characterized by an almost absolute control by the Israel Electric Corporation Ltd. (hereinafter - the Electric Corporation), which is a vertical monopoly operating in all segments of the market – manufacturing, conduction, distribution, supply and system management. It is true that in recent years a process of opening the manufacturing and supply segments to competition by means of granting licenses to private manufacturers has begun, but currently the Electric Corporation is still manufacturing about 70% of the electricity (and holds about 80% of the available output in the market) and supplies to consumers about 85% of the electricity in the market. As aforesaid, the Electric Corporation is also responsible for the system management, and within this framework it is responsible for the proper day to day functioning of the electricity market and also for planning its long term development in the aspects of construction of a network and national and regional demand forecasts for the long term.

The parallel activity of the Electric Corporation in all segments of the electricity market prevents the development of competition: the dominant status of the Electric Corporation in each one of the segments of activities gives rise to an inherent concern of its operation of market forces in the segment where it is the sole or almost sole supplier (system management, conduction and distribution), while pushing out competitors and reducing competition in another segment, where it is exposed to attempts of others to compete with it (manufacturing and supply).

In recent years the electricity market in Israel has been in the midst of a number of significant processes that have been promoted in accordance with government policy including decentralization of the activity in the electricity manufacturing segment, a massive transition to the use of natural gas alongside the preservation of energetic security and the reliability of the electricity supply, the promotion of manufacturing using renewable energies and a reduction in the use of pollutant fuels, while striving to comply with the targets set by the government in Government Resolution No. 542 dated 20 September 2015 concerning the reduction of hothouse gas emissions and streamlining of the consumption of energy in the market, and more. These trends reinforce the complexity of the market, open up the possibility of streamlining the electricity market (inter alia, via granting licenses to private players) and also clearly increase the conflict of interest arising from the existence of a vertical monopoly in the electricity market.

In addition to the existing failures in the structure of the electricity market, the Electric Corporation's financial state poses a challenge to its compliance with its missions such as development of the network for the requirements of the market. The Electric Corporation's net financial debt reached a record high in 2012, when it totaled 56 billion NIS, following disruptions in the supply of gas from Egypt and a sharp increase in fuel prices. The increase in the scope of the Electric Corporation's financial debt was accompanied by a decline in its credit rating, and the Corporation was also required to provide State guarantees in order to raise capital during the years 2012-2013.
Since 2012 the Electric Corporation has been working in order to strengthen its financial stability, but the high amount of the debt necessitates great resources to service and reduce it, and this is effected *inter alia* by means of a reduction in the investments budget in the electricity market and mainly in the network. Thus, according to the Electric Corporation's financial statements, as of the end of 2017 its net financial debt totaled 42 billion NIS and the scope of its annual net financing expenses dropped from an average of about 2.5 billion NIS during the years 2012-2014 to an average of about 1.8 billion NIS during the years 2015-2017, and at the same time the annual cash injection which was used for investment in fixed assets and intangible assets dropped from an average of about 4.9 billion NIS during the years 2012-2014 to an average of about 3 billion NIS during the years 2015-2017.

During recent decades a number of committees and inter-ministerial work committees have acted in an attempt to formulate an implementable reform which would ensure the continuation of the development and streamlining of the electricity market, with an emphasis on the assurance of competition in the manufacturing segment. It should be noted that as far back as 1996 all the countries of the European Union were obliged, via a directive of the Union, to open the manufacturing segment in the electricity markets to competition. During recent decades structural changes have been made in the electricity market in the majority of the western electricity markets with Israel being the only country in the OECD (apart from France where about 90% of the electricity is manufactured by nucleus or hydro) where the manufacturing of electricity is still not competitive.

In November 2015 the Ministers of Finance and Energy appointed an inter-ministerial team, headed by the directors general of their ministries, to promote a reform in the electricity market. Representatives from the Budgets Department, the Wage Agreements Department at the Ministry of Finance, the Government Companies Authority, the Electricity Authority and the Antitrust Authority took part in the work of the team. During the course of the period of the team's work and subsequently to the hearing before the High Court of Justice (*Bagatz*) (which took place following a petition filed by the State for the revocation of the judgment of the National Labor Court; within the framework of the petition it was petitioned *inter alia* that the Court should determine that the employees had no right to strike under the circumstances and that the sole obligation imposed upon the State prior to the formulation of the reform is consultation with the Electric Corporation employees) consultation took place with the Electric Corporation's workers' committees and their representatives from the Histadrut (General Organization of Workers), and discussions were also held with the Electric Corporation and representatives from the Private Natural Gas Manufacturers Forum ("the PNGMF", which was one of the respondents in the *Bagatz*). After intensive discussions during the course of recent months, a reform in the electricity market and a structural change in the Electric Corporation were formulated, the main points of which are set out in detail in this resolution. Furthermore, agreements were reached regarding the aspects connected to the implications on the Electric Corporation's employees, which were expressed in a collective agreement that was signed on 17 May 2018.

The main points of the reform, which are mentioned in essence in Section A of the
resolution, are set out below:

1. **The Manufacturing Segment:**
   A. Sale of stations: during the period between 18 months to 60 months from the date of the government resolution, the Electric Corporation shall sell 5 power stations, as set out in detail in the table below, in an inclusive output of approximately 4500 megawatts (hereinafter - MW). This output constitutes more than 50% of the Electric Corporation's installed output in the natural gas manufacture.

<table>
<thead>
<tr>
<th>Name of manufacturing site</th>
<th>Last date for delivery of possession in relation to the date of approval of the government resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alon Tavor</td>
<td>18 months from the determining date</td>
</tr>
<tr>
<td>Ramat Hovav</td>
<td>30 months from the determining date</td>
</tr>
<tr>
<td>Reading</td>
<td>36 months from the determining date</td>
</tr>
<tr>
<td>Hagit</td>
<td>48 months from the determining date</td>
</tr>
<tr>
<td>(part of the site as specified in the sketch in the appendix)</td>
<td></td>
</tr>
<tr>
<td>Eshkol</td>
<td>60 months from the determining date</td>
</tr>
</tbody>
</table>

After implementation of the reform, the Electric Corporation's market segment in the installed output will drop from about 80% in 2017 to about 45% in 2026 and to about one third of the installed output several years thereafter. Likewise, within the framework of the reform and in accordance with the agreement signed between the State and the Israel Lands Authority (hereinafter - ILA) and the Electric Corporation, an area from the Rotenberg station that in the past was designated for the construction of the carbon station D, will be moved. In the sold sites, the construction of manufacturing units by private parties in the areas that have already presently been designated for power stations shall exhaust the advantages of the private sector in projects of this kind and shall ensure effective exploitation of the land, without the necessity of allocating additional open areas. (For the avoidance of doubt, the contents of this government resolution do not derogate from the contents of Resolution No. 2592 dated 2 April 2017 concerning the encouragement of small and medium reservoirs and the declaration of an emergency in the natural gas market, including concerning the power pursuant to Section 76(c) of the Planning and Construction Law, 5725-1965, which were vested in Section 12 of Resolution 2592 and the power vested subsequently to Section 9 of Resolution 2592).

B. Construction by a subsidiary of the Electric Corporation: a subsidiary of the Electric Corporation shall construct two CRTs at the Orot Rabin site in Hadera with an output of approximately 1200 MWs (with the possibility of an upwards deviation of 5%), which produce using natural gas and thereby allow rapid closure of the carbon manufacturing units 1-4 at the site and lead to a reduction in the use of carbon. It
should be noted that the closure of the carbon units is in accordance with the joint decision of the Ministers of Energy and Environmental Protection. In order to provide incentives for the Electric Corporation to advance the sale of its stations, the construction of the second CRT is conditional upon the sale of the Alon Tavor station and publication by the Electric Corporation of the competitive proceeding for the sale of the Ramat Hovav station.

C. With the intention of ensuring the Electric Corporation's departure from the manufacturing segment gradually after the years of the reform, the Electricity Market Law, 5756-1996 (hereinafter - the Electricity Market Law) shall be amended as set out in detail in Section 14(f) of the resolution in a manner that clarifies that the Electric Corporation or its subsidiaries, inter alia, shall not construct, plan or regenerate power stations and shall not engage in consultation concerning this, for them or for another, excluding what they are expressly permitted in the law such as the maintenance activity of their stations and the statutory planning with regard to the sold Manufacturing Sites. Furthermore, this is mentioned in the Electric Corporation's undertakings vis-a-vis the State that are attached to this resolution as an appendix.

2. The Network Segment (Conduction and Distribution)

D. The Electric Corporation shall remain a monopoly in the network segments. In the distribution segment the status quo regarding the activity of the historical distributors and other private entities operating in the network segments shall be preserved. Furthermore, a massive investments plan shall be carried out in the development of the conduction network and the development of the distribution network.

3. The System Management

A. With the aim of reducing the vertical integration characterizing the electricity market, and reducing the conflict of interest within the Corporation, the system management activity (including the activity of the system management, TPD and statistics and markets units) shall be transferred from the Electric Corporation to a separate government company, the System Management Company Ltd. (hereinafter - the System Management Company). This is an existing company but directors should be appointed for it and funds invested in it (as set out in detail in Sections B(1) and (24) of the resolution) in order to allow it to become organized for the absorption of the activity.

B. The System Management Company shall engage in the system management within the meaning thereof in the Electricity Market Law including the optimization of the electricity market and the loading of power stations, the operation of trade in electricity mechanisms, statutory and engineering planning of the conduction network and long term planning and forecasts for demands in the market. Likewise, as stated in Section B(3) of the resolution, on a future date (that shall be fixed after consultation with the Government Companies Authority concerning the Corporation's financial state) the Corporation shall receive responsibility for the
procurement, storage and handling of the market fuels (diesel and liquid natural gas) and the sale thereof to manufacturers as necessary.

4. **The Supply Segment**

The supply segment is the sale of the electricity to the consumer. For this purpose an array of invoices production and collection, a database of the history of the consumer's data, and a customer service hotline are required. In this segment innovative technological services, auxiliary to the electricity consumption, are likely to be provided, and it is possible that there will be supply licensees who will operate (subject to any law) to combine several fields of service (such as water, gas, Internet, etc.) into one package and thereby facilitate the consumer in his conduct with the various infrastructure suppliers. It is proposed within the framework of the resolution to order the Electricity Authority and the Minister of Energy to determine that:

A. The supply segment for high, ultra-high and supreme voltage consumers shall be fully opened to competition, and the Electric Corporation shall remain the default supplier but shall be prohibited from competing in it.

B. The supply segment for low voltage consumers: the segment shall be opened up to competition gradually, and the Electric Corporation shall be given the opportunity to compete in it if and when its market segment drops to below 60% of the number of consumers in the low voltage supply segment, in accordance with the regulation determined by the Electricity Authority.

C. Value-added services: from the date that the number of the Electric Corporation consumers has dropped from 75% of the total consumers in the low voltage supply segment – the Corporation may supply cyber services to all consumers and "smart home" and energetic streamlining services to low voltage consumers only (this matter shall be defined in the supply license granted to the Corporation after the Unification License it presently holds expires.

5. **Financial Stability**

One of the aims of the structural change is an improvement in the Electric Corporation's financial stability, by means of which it is the Electric Corporation's intention to reduce the manpower costs in the Corporation and channel the profits and the proceeds from the sale of the assets to an increase in investments on the one hand and a reduction in the financial debt on the other hand. Within this framework, the Electric Corporation directorate has determined the financial stability targets which are planned to be achieved over the next eight years and achieving them shall be a substantive improvement in the Corporation's stability. In order to track and audit the Corporation's efforts in improving its financial stability it is proposed in Sections B(13) and (16) of the resolution:

A. To form a governmental team headed by the Director of the Government Companies Authority, with the participation of the Budgets Commissioner, the Accountant General, the Director General of the Ministry of Energy or any person on their behalf,
which shall track and audit, on the basis of the Electric Corporation's reports to the team, the compliance with the financial stability targets and the fulfillment of the directives at the basis of the business plan approved in the resolution of the Electric Corporation directorate on 10 May 2018, concerning the reform and the structural change. The team shall convene once a year or shortly after the occurrence of a significant event that is directly connected to the implementation of the reform that substantially influences the compliance with the Corporation's financial stability targets, whichever of the two is the earlier. Insofar as it is agreed that there is an anticipated substantial deviation from the compliance with the financial stability targets, or from the directives concerning the agreements on the matter of the reform, which were used in the determination of the financial stability targets, the team shall hold discussions with the Corporation in relation to the possible methods of action.

B. Insofar as the Electric Corporation's directorate resolves not to distribute dividends, the government shall not compel the Electric Corporation to perform such distribution up to 2025 or until it reaches the financial stability targets determined by directorate on 10 May 2018, whichever of the two is the earlier.

C. Furthermore, as stated in Section B (8) of the resolution, the government notes the Electricity Authority's notice whereby within the framework of the regulation it is its intention to publish in preparation for the competitive proceeding to be held by the Israel Electric Corporation for the sale of the power stations, the consideration for the Corporation for the sale of the sites shall be at a fair value, and the aforesaid consideration shall not be less than the sale value of the site plus the value of the land. For this purpose, "the sale value" – the tariff value of the site plus any cost that is recognized by the Authority and that arises directly on account of the sale process, including on account of vacation and construction of the Electric Corporation's infrastructures that will be vacated from the aforesaid site, subject to costs control.

D. It should be noted that within the framework of Section 14(P) it is proposed inter alia that Section 62 of the Electricity Market Law shall be amended so that the Minister of Finance and the Minister of Energy shall be entitled to approve an agreement regulating the division of assets and rights between the Electric Corporation and the State if they have seen that the approval thereof is beneficial for the market, provided that any division as aforesaid shall not be taxable under any law and shall not be deemed to be a sale for the purposes of the tax laws. It should be noted that the completion of the distribution of the assets shall assist in the improvement of the Corporation's financial state since it shall allow it, inter alia, to pay a fund in the sum of approximately 15 million NIS of perpetual debentures whose value according to the Electric Corporation's financial statement for the year 2017 totaled approximately 2.5 billion NIS.

6. Labor Relations, Wages and Reform Costs
A. Within the framework of the reform a reduction of the manpower by 1,803 jobs, in addition to about 400 standards that shall be reduced on account of the anticipated transition of employees to the System Management Company (and the winners in the
competitive proceedings for the sale of the Manufacturing Sites) as set out in detail in Section 1(i) of the Electric Corporation's deed of undertakings that is attached as an appendix to this resolution, the employees shall retire under the existing retirement conditions for the Electric Corporation employees from the recent retirement agreements, and beyond that an addition of 1,250 NIS to the retirees' pension has been agreed upon. Upon completion of the retirement procedure the number of the Corporation's employees shall total 6400, and the number of temporary employees shall range between 2600-2900.

B. Beyond that, an addition of 1,700 NIS to the pension of the permanent employees who remain in the Corporation has been agreed upon, subject to the progress of the reform and in accordance with the compliance with the following milestones:

1) The entry of the collective agreement into force - 150 NIS
2) A structural change (two strokes) - 230 NIS
3) The removal of the system manager - 320 NIS
4) A new collective agreement in the matter of wages - 100 NIS
5) The sale of the Alon Tavor stations - 150 NIS
6) The sale of Ramat Hovav - 150 NIS
7) The sale of Reading - 90 NIS
8) The sale of Hagit - 90 NIS
9) The sale of Eshkol - 420 NIS

C. Likewise, changes shall occur in the labor relations in the Corporation: the transfer of 150 senior employees in the Electric Corporation to employment by means of personal contracts, revocation of the parity in disciplinary matters, cancellation of the encouragement pay element as an automatic element and turning it into a payment according to targets and performances and more.

D. The status and employment conditions of the employees of the Manufacturing Sites to be sold and the employees who shall move to the System Management Company have been regulated.

The explanatory notes to Section B of the resolution shall be set out in detail below:

Sections 1-3: as aforesaid, within the framework of the reform the activity of the system management, TPD and statistics and markets units shall be transferred to a separate government company. The date of commencement of the System Management Company as the System Management Licensee is up to 18 months from the date this Resolution is passed. For this purpose, it is proposed in these sections to compel the Ministers of Finance and Energy to appoint members to the System Management Company's directorate, to compel the Minister of Energy (in consultation with the Electricity Authority or at its proposal) to enact if necessary regulations regarding a system management license, and to compel the Electricity Authority and the Minister of Energy to grant a system management license to the System Management Company. The license shall determine, inter alia, that with effect from a date that shall be determined for as earliest as possible, after consultation with the Government Companies Authority regarding the Corporation's financial state, the Corporation shall
be responsible for the procurement, storage and sale of market fuels.

Section 4: it is proposed that until the grant of a new supply license, within the framework of their power by virtue of Section 6(d) of the Electricity Market Law, the Ministers of Finance and Energy, in consultation with the Electricity Authority, shall approve the Electric Corporation to perform acts in the field of cyber (and all in the manner set out in detail in the resolution), as part of the value-added services activity that the Corporation may provide for customers in the supreme, ultra-high and high voltage segments. The Ministers' approval is required during the period in which the Electric Corporation operates in the supply segment by virtue of the Unification License it holds. When a new supply license is granted, the cyber activity shall include auxiliary activities (see the aforesaid in Section B(10)(u) of the resolution, and accordingly the approval pursuant to Section 6(d) is only required for the period of the Unification License.

Section 5: in order to avoid the concern of a shortage in the output required for the electricity market, the preparations for the construction of an alternative output for the stations in which the manufacturing units are anticipated to end their life should be accelerated by means of promoting the required planning proceedings (these are the manufacturing units at the Reading site, and units 1-4 at Orot Rabin and if necessary also manufacturing units in the other sold manufacturing sites). For this purpose, it is proposed that the Corporation's development plan be amended pursuant to Section 19 of the Electricity Market Law (in addition a legislative amendment shall be required as set out in detail in Section B(14)(f) of the resolution) so that it shall include:

A. Promotion of the statutory planning of the two manufacturing units at the Reading site and also a transformer at the site. The Corporation shall file the documents for approval of deposit at the planning institutions within 18 months from the date of this government resolution. This is with the aim of accelerating the preparations and activities required for the construction of the alternative output at the Reading site in Tel Aviv.

B. Insofar as the government parties think that it is necessary, statutory planning at the additional sold Manufacturing Sites by the Electric Corporation in accordance with the market requirements.

C. The planning and construction of 2 CRTs by the Electric Corporation's subsidiary (see Section B(12) of the resolution) at the Orot Rabin site shall be attached to the Electric Corporation's subsidiary's development plan to be established pursuant to Section 12 of the resolution. The first of them shall commence operation before June 2022. These CRTs shall constitute the alternative output for carbon manufacturing units 1-4 that are expected to terminate their activity in accordance with the decision of the Minister of Energy and the Minister of the Environmental Protection.

Section 6: in order to allow preparation for the commencement of activity as the System Management Licensee, five employees from the Electric Corporation shall move to this company, and as aforesaid in Section B(1) of the resolution it shall be necessary to appoint directors for it. The result of this is that even before the commencement of
activity as the licensee, the System Management Company shall have expenses, but no income is anticipated for it during this period. Accordingly, it is proposed that the sum of 3 million NIS be allocated from the State budget in 2018 and 10 million NIS in 2019, against the allocation to the State of shares in the Corporation. This investment in the Corporation requires, *inter alia*, the approval of the Knesset Finance Committee pursuant to Section 10 of the Government Companies Law. It should be clarified that the allocation of this budget is for the purpose of the commencement of basic activity and when the System Management Company's full model of activity is formulated, including an examination of its exposures, risks and proper capital structure, the necessity of an additional cash injection shall be determined subject to law.

Section 7: in view of the sale of the stations by the Electric Corporation, the Corporation has examined whether any change in the quantities of natural gas it requires is anticipated. This is since the Corporation is obliged within the framework of its gas contract to acquire a quantity of gas whose payment is not conditional on consumption (TOP - Take or Pay - condition). According to the Corporation's conclusions, the Electric Corporation's gas consumption, given the sale of the stations and the construction of the two CRTs at the Orot Rabin site, is anticipated to be higher than the purchase obligation even if it is lower than the quantity presently consumed. In light of this, the Electricity Authority has resolved at its session on 15 May 2018 that it shall not change its resolution regarding recognition of the electricity tariff, the Electric Corporation's obligation to TOP in the Electric Corporation's gas agreement with the gas partnership in Tamar following the sale of the Manufacturing Sites, insofar as the Electric Corporation complies with the conditions set out in detail in the Electricity Authority's resolution.

Section 8: as aforesaid, one of the aims of the reform is the strengthening of the Electric Corporation's financial stability. Within this framework, the government notes the Electricity Authority's notice that at its session dated 15 May 2018 it resolved that within the framework of the regulation that it intends to publish in preparation for the proceedings for the sale of the stations, the consideration to the Electric Corporation shall be at a fair value that shall not be less than the sale value of the stations plus the value of the land, and all the costs arising directly from the sale including moving the required infrastructures by the Electric Corporation for the continuation of its activity to another location. For the avoidance of doubt, it should be noted that pursuant to the Authority's resolution any surplus consideration above the tariff value and the costs arising from the sale and moving of the infrastructures may constitute part of the reform financing elements, pursuant to the Electricity Authority's resolution. It should be noted that pursuant to Section 1(Q) of the Electric Corporation's deed of undertakings that is attached to this resolution as an appendix, any sale or transfer of assets or liabilities by the Electric Corporation, including to a subsidiary, or the sale of Manufacturing Sites shall be performed subject to any law and while paying attention to the restrictions contained in the Electric Corporation's capital raising documents.

It should be noted that the Electric Corporation has several loan agreements with various loaners. Some of the agreements, and in particular agreements containing fixed charges over particular assets, contain stipulations restricting the Corporation's ability
to sell particular assets, or determine various rights to loaners in connection with the
sale of assets as aforesaid. In the opinion of the Electric Corporation, as presented
before the government parties, there is no bar to making the structural change
notwithstanding these provisions. All the possible implications of the financing
agreements vis-a-vis the creditors on the proposed outline have been presented to the
government parties within the framework of the discussions on the proposed outline,
and they shall be presented to the government within the framework of the discussion.
The estimated costs, in the opinion of the Electric Corporation, in this context have
been taken into account by the Electric Corporation, after consultation with its financial
and legal advisors, within the framework of the financial model it has presented.

Section 9: Within the framework of this section it is proposed that the Electricity
Authority examine the determination of a number of regulations directly connected to
the implementation of the reform, and in particular an examination of the determination
of regulation in the following matters:

A. Conveying information (existing and that may be created in the future) between
the Electric Corporation and the System Management Company in order to allow
the companies' regular activity, preserving the survivability of the system, and also
preventing harm to competition. The resolution shall relate to existing information
and future information, and it is possible that it may impose restrictions on the
disclosure of the information to the employees of any of the companies in order
to prevent harm to competition.

B. The power of the System Management Company to determine dates for
maintenance works in the electricity market - in order to allow smooth
management of the electricity system, the System Management Company shall
approve and schedule the dates and duration of the maintenance of the network
segments and the Electric Corporation's manufacturing sites, as within the
framework of the present system management there is power to approve the
maintenance plan of the private manufacturers.

C. Determination of the method of loading the manufacturing facilities in the
distribution network vis-a-vis the System Management Company and operational
agreements with the distribution licensee - these are small manufacturing facilities
operated by natural gas, that connect to the distribution network. These facilities
work according to a daily loading plan, unlike renewable energy facilities that do
not have a loading plan. In light of this, their loading must be in accordance with
a price offer proposed by the manufacturer and the considerations of the system
manager. The operational agreements shall be agreements with the distribution
licensee.

D. The switching activity - the switching activity is "isolation" of lines or facilities in
the network segment in response to disturbances in the network or for maintenance
purposes. Responsibility for this activity is a significant issue both for safety and
for survivability of the system. In light of this, a mechanism for performing the
switching activity has been agreed upon in advance, separating between
pre-planned activities and activities under exceptional circumstances, as set out in
detail in the main part of the resolution. In view of the responsibility of the system
management inspector for survivability of the system and in view of the brief period of time available to him for making decisions in real time, it has been prescribed in the resolution that transfer of responsibility for isolation to the conduction inspection shall be made subject to the discretion of the system management inspector. It is clarified that the determination of the mechanism does not derogate from the power of the Electricity Authority to determine another regulation after it has consulted with the two companies concerned - the Electric Corporation and the system manager.

E. In view of the separation of the system manager from the Electric Corporation, reference is required to the question of loading the Electric Corporation's power stations and also to the commercial interface of the Electric Corporation's manufacturing units vis-a-vis the system manager. Accordingly, a regulation shall be determined, the main points of which are: loading the stations - of all the manufacturing units - shall be performed directly by the system manager, while the commercial interface shall be vis-a-vis a coordinating party at the Electric Corporation that owns a number of manufacturing units and vis-a-vis the subsidiary to be formed pursuant to Section 12 of the resolution. Thus in fact there will be two commercial interfaces: one shall serve all the manufacturing units presently existing in the Electric Corporation (some of them until they are sold) and the other shall serve the manufacturing units to be set up by the subsidiary.

F. For the purpose of the sale of sites by the Electric Corporation, a regulation shall be published that shall define the principles of the competitive proceeding for the sale of the sites and also create certainty for bidders in the tender with regard to the regulation that shall apply to the facility after it has been sold. Accordingly, the Authority shall examine the determination of a regulation that shall allow the sale of the Manufacturing Sites in an effective and competitive manner and the publication thereof prior to the date of publication of the competitive proceeding for the sale in accordance with the dates set out in detail in the section.

G. Similarly to the rest of the activity of the Electric Corporation, tariffs should be determined for the subsidiary that is to be formed and within the framework of which the two CRTs at the Orot Rabin site in Hadera mentioned in Section 5C of the resolution shall be constructed and operated. Accordingly, the Authority shall examine the determination of a regulation concerning the recognized cost to the subsidiary to be constructed and that shall operate the two CRTs at Orot Rabin and also the regulation that shall apply to these manufacturing facilities.

H. Endorsement of the agreements in the conduction network - agreements for the purchase of energy from private electricity manufacturers in the conduction network (i.e., manufacturers whose manufacturing facility is directly connected to the conduction network), to which the Electric Corporation is a signatory, shall be endorsed to the System Management Company on the date of commencement of the System Management Company's activity as the System Management Licensee. The method of endorsement shall be determined by regulation.

I. Endorsement of the agreements in the distribution network - agreements for the purchase of energy from private electricity manufacturers operating using gas and whose manufacturing facilities directly connect to the distribution network, which are presently signed with the Electric Corporation, shall be endorsed to the System
Management Company on the date of commencement of the System Management Company's activity as the System Management Licensee, but the operational aspects in the agreements shall remain vis-a-vis the Electric Corporation. The method of endorsement shall be determined by regulation. It should be explained that agreements that have been signed between the Electric Corporation and renewable energy manufacturers shall not be endorsed to the System Management Company (and see further in Section 10(y) of the resolution).

J. The Ramat HaSharon site and the Denya site that presently serve the Electric Corporation's system management unit are anticipated to pass to the System Management Company upon commencement of its activity as the System Management Licensee (see Section 4(1)(a) of the Electric Corporation's deed of undertakings that is attached as an appendix to this resolution). Nevertheless, it shall be necessary to allow the Electric Corporation's conduction inspection activity at the Ramat HaSharon site until the construction of a permanent conduction inspection site. Accordingly, it is proposed that the Electricity Authority examine the determination of regulation for the method by which the site shall also temporarily serve for conduction inspection by the Electric Corporation's employees.

K. Concerning the private manufacturing facilities that connect to the conduction network by means of several connections from the distribution network, the Electricity Authority shall examine the determination of the division of powers between the System Management Company and the Electric Corporation as the conduction and distribution licensee. An example of facilities of this type is a wind turbine.

Section 10: within the framework of this section the Minister of Energy and the Electricity Authority are charged with acting to regulate fields of responsibility of the system management, supply, conduction and distribution licensees. In particular aspects are mentioned that sketch the "border line" of the fields of responsibility between the System Management Company and the Electric Corporation regarding its activity in the various segments in the planning aspects of the conduction and distribution network, the Manufacturing Sites, transformer, etc.; surveys of the connection to the manufacturing and consumption facilities; the treatment of market fuels; borders of the electricity distribution services; systematic requirements for principal equipment in the conduction and transformer system. Below are the main points of the matters that are regulated in these sections:

Sections a-d, f-g, m-o: it is proposed to determine that the System Management Company shall submit for the approval of the Ministers of Energy and Finance the development plan in the conduction network for the construction and upgrading of the supreme and ultra-high voltage circuits, the switching stations, and also the substations, and the schedules for performance thereof. Accordingly, the Electric Corporation shall be required to act pursuant to the development plan for the conduction network prepared by the System Management Licensee as aforesaid, after the latter has been approved pursuant to Section 19 of the Electricity Market Law and thus create a division of responsibility between the companies for the preparation and implementation of the plan.
Likewise, the division of responsibility in the engineering planning, statutory planning and licensing aspects shall be defined: the System Management Company shall be responsible, in coordination with the Ministry of Energy, for the statutory planning of the conduction network up to the stage of the approved and valid detailed outline plan. With effect from this stage, the licensing activity is the responsibility of the Electric Corporation in its capacity as the Conduction Licensee. However, insofar as for the purpose of approval of the outline plan for the substation made by the System Management Company documents or examinations for the detailed planning presently being made in the Electric Corporation units that are not anticipated to be transferred to the System Management Company are required, such as those set out in detail in the main part of the Resolution, they shall be prepared by the Electric Corporation. The documents shall be provided to the System Management Licensee, and all in accordance with the system manager's directives. On the other hand, a distribution licensee shall be responsible for the statutory planning of the facilities in the distribution network under its responsibility.

Systematic engineering planning of the conduction and transformer system shall be the responsibility of the System Management Company. The Electric Corporation shall perform the detailed engineering planning on the basis of this planning.

Furthermore, it has been determined that the outline plan for the strip of the connection line of the manufacturing facilities, including a survey of the influence on the environment, shall be performed by the System Management Company, while the detailed planning and the performance of the connection line and the adjacent projects shall be made by the Conduction Licensee. The System Management Company shall perform technical coordination for the substation of the manufacturing and consumption facilities that connect to the conduction network. Continuation of the technical coordination for the construction shall be performed by the Electric Corporation. On the other hand, the technical coordination for the manufacturing facilities that connect to the conduction network shall be performed by the system manager, which shall also conduct comparison tests for these facilities. Comparison tests for the manufacturing facilities that connect to the conduction network shall be performed by the distribution licensee.

Section e: the Electric Corporation presently acquires and operates market fuels such as diesel and liquid natural gas. It is proposed to determine that at this stage the Electric Corporation shall be responsible for the treatment of the market fuels (liquid natural gas and diesel), until the responsibility is transferred to the System Management Company in accordance with what is stated in Section 3 of the resolution. Transfer of responsibility to the system manager shall permit the sale of these fuels to all the manufacturers in the market without the concern of a conflict of interest in accordance with the daily manufacturing plan and thereby provide a better solution for the market requirements in situations of shortage, such as events where the gas infrastructure is damaged.

Sections h to k, and t - in these sections the Electric Corporation's activity in the distribution segment vis-a-vis the private distributors is regulated, and in particular:
A. As a rule, privately owned land shall be defined as a consumer and the Electric Corporation shall act to construct a network in public spaces. Only industrial structures in industrial zones and residential homes shall be excluded from this principle. That is to say, the Electric Corporation shall not construct network elements in malls, old age homes, hospitals, etc. Nevertheless, in industrial areas the Corporation shall reach every factory even if the ownership of the industrial zone is private (unless the structure is not actually used for industry). Likewise, the Electric Corporation shall reach every residential apartment in condominiums. (In cases where a micro generator or an electricity storage facility are constructed, that are not on private land, that require the transfer of energy to the network and to various consumers, excluding facilities in the consumer's own property, the network connecting them to the other consumers shall be constructed and operated by the Electric Corporation as the distribution licensee or by a private distributor in the defined area (or that will be defined) in its license).

B. The resolution preserves the power of the Electricity Authority to grant distribution licenses to historical distributors for up to 10% of the market demand and to determine the distributors' areas. Furthermore, natural growth of the distribution areas shall be allowed, even if this growth shall lead to a deviation from such 10%.

Sections l, r: the following division has been determined for the purposes of the surveys required for the connection of the manufacturing and consumption facilities: for facilities that connect to the conduction network the surveys shall be performed by the System Management Company. For facilities that connect to the distribution network it has been determined that the System Management Company shall determine principles and criteria for the performance of connection surveys for consumers and manufacturers in the distribution network. The surveys shall be performed by the distribution licensee. The resolution also determines a reservation mechanism against the surveys (it should be recalled that as stated in Section B(9)(k) of the resolution, it is possible that there may be a different regulation for the facilities that connect to the distribution network by a number of connections).

Section p: the accumulation of electricity is a technology that is on an upward trend and is likely to assist in coping with the challenges of the decentralized electricity market, rich with renewable energies. During the coming years, the installation and use of electricity accumulation facilities is expected to start in the Israeli market. The majority of the accumulation activity is expected to be performed by private parties. Nevertheless, it is proposed to determine that the Electric Corporation shall be entitled to construct and operate accumulation facilities solely and exclusively within the physical infrastructure of the conduction network and in accordance with the development plan to be prepared by the System Management Company and approved pursuant to Section 19 of the Electricity Market Law. In the distribution network segment the Electric Corporation shall be entitled to plan, construct and operate solely and exclusively within the physical infrastructure and in accordance with the policy to be determined by the Electricity Authority.
Section q: for the purposes of the equipment in the conduction system, it is proposed to determine that the System Management Company prepare a systematic requirements document for the main equipment, for the facilities that connect to the Electric Corporation's conduction network, private manufacturers and large consumers. The Electric Corporation or the private parties, as the case may be, shall write the procurement specifications on this basis. The supplier's technical bid shall be sent to the system manager for approval, and all in order to ensure the compliance with the system requirements and the preservation of its creditability.

Section s: it is proposed to determine in the Electric Corporation's distribution license that as the distribution licensee, it shall be obliged to provide the supply licensees with free access to information produced from their customers' electricity meters, with the consumers' approval. Likewise, all the information from the meters shall be sent to the System Management Company as well as to other parties insofar as they are determined by the Electricity Authority, and all subject to the standards determined by the Authority and with effect from the date they are determined. This section is essential for the creation of the possibility of competition in the supply segment since the information produced from the meters is a central tool in the improvement of the service by the supplier. It should be noted that in Section B(14)(k) of the resolution it is proposed to determine that a share is part of the distribution activity, and it is even proposed to entrench in law the obligation to disclose the information in accordance with the regulation to be determined.

Section u-v: in the new license granted by the Electric Corporation in the supply segment it shall be determined that the Electric Corporation shall not compete in the supreme, ultra-high and high voltage supply segment, that is to say it shall charge the tariff prescribed by the Electricity Authority, it shall not act to preserve customers, etc. (it should be noted that until the grant of the new license, when the Electric Corporation acts by virtue of the Unification License, then pursuant to Section B(14)(e) of the resolution, the Unification License shall be extended on condition that the supply activity by virtue thereof shall be in accordance with the contents of Section B(10)(v); the matter shall be re-examined after 5 years by the Electricity Authority, the Ministry of Energy, the Ministry of Finance and the Antitrust Authority. In the low voltage supply segment, after it has been made open to competition, the Electric Corporation shall be entitled to compete (in a fair manner and subject to the prescribed regulation) only if the amount of its consumers drops to below 60% of the total customers in the low voltage supply segment. Likewise, it shall be determined that the Electric Corporation shall be entitled to supply the following services as auxiliary activities: cyber services to all consumers in the supreme, ultra-high and high voltage segments and its low voltage consumers; and from the date that the number of the Electric Corporation's consumers has dropped from 75% of the total consumers in the low voltage supply segment - cyber services to all consumers and "smart home" and energetic streamlining services, as they are defined in the resolution, to low voltage consumers only (this matter shall be defined in the supply license to be granted to the Corporation).

Section w: the Electric Corporation shall set up conduction inspection that shall operate
in accordance with the System Management Company's directives. This matter shall be anchored in the company's license or in regulations.

Section x: the new conduction and distribution licenses that are to be granted to the Electric Corporation shall be granted for a prolonged period, as is standard practice in the infrastructures industries. The precise period of time shall be determined subsequently in accordance with the powers pursuant to the Electricity Market Law.

Section y: the Electric Corporation's licenses in the distribution segment shall determine the obligation of engagement in energy purchase agreements vis-a-vis private renewable energies electricity manufacturers that are directly connected to the distribution network.

Section 11: in view of the comprehensive change in the Electric Corporation's activity arising from the reform, with the aim of levering the Corporation's existing capabilities, it is proposed to allow the Corporation to form a subsidiary for business ventures abroad, subject to an examination of the necessity of approval pursuant to Section 6(d) of the Electricity Market Law. Accordingly, it is proposed in this section that the Minister of Energy and the Minister of Finance file a resolution draft to the government for the approval of the Electric Corporation resolution to form a subsidiary for business ventures abroad. It should be noted that in accordance with the collective agreement signed following the planned structural change in the Electric Corporation, within the framework of the resolution it shall be determined that all the Corporation's employees shall be employed by personal contracts and their number shall not exceed 25.

Section 12: in this section it is proposed to direct the Minister of Finance and the Minister of Energy to file a resolution draft to the government for the approval of the Electric Corporation's resolution, when it is passed, to form a subsidiary for the purpose of the construction and operation of two CRTs at the Orot Rabin site (see Section B(5)(c) of the resolution). It is proposed that within the framework of the construction resolution it shall be determined, in accordance with the collective agreement, that the subsidiary shall employ up to 10 employees all of whom shall be employed by personal contracts, and it shall also be determined that the company shall acquire planning construction operation and maintenance services from the Electric Corporation, and that the subsidiary shall not engage by itself with manpower and services contractors for the employment of these contractors' employees permanently on its premises. It should be clarified that the assets shall be registered in the name of the subsidiary.

Section 13: as part of the measures for strengthening the Electric Corporation's financial stability, it is proposed in this section to determine that if the Corporation's directorate resolves during the course of the period of the reform or before it reaches the financial stability targets that were approved by the resolution of the Electric Corporation's directorate dated 10 May 2018, whichever of the two is the earlier, not to distribute a dividend, the government shall not compel the Corporation to distribute dividends pursuant to Section 33(c) of the Government Companies Law when the aforesaid conditions subsist.
Section 14: legislative amendments shall be made within the framework of this section for the purpose of anchoring the reform in the Electricity Market Law. As a rule, the amendments are in the Electricity Market Law, excluding one amendment that is required in the Regulation of Security in Public Bodies Law. The objectives of the amendments are as set out in detail below:

A. Determination of the obligation of a System Management Licensee to prepare a development plan for the conduction network that shall contain schedules and imposing on him the obligation to consult with the Conduction Licensee. Insofar as there is any disagreement between them regarding the implementability of the plan and its schedules, the System Management Licensee shall bring the position of the Conduction Licensee before the Minister of Energy when submitting the development plan for approval.

B. Extension of the Electric Corporation's manufacturing licenses for the sites that are expected to be sold, that pursuant to Section 60 of the Electricity Market Law are due to expire on 15 November 2018, until the date on which the Electric Corporation must deliver possession in the sold manufacturing plants. Likewise, an extension mechanism shall be determined for these manufacturing licenses, with the approval of the Minister of Energy if a delay in delivery has arisen. It should be explained that the winner in the competitive proceeding will need to be eligible to receive a manufacturing license on its own merits, and there shall be no transfer of the manufacturing license itself from the Electric Corporation to the winner within the framework of the competitive proceeding.

C. A distribution licensee shall be directed by the system manager in the planning of the development plan in the distribution regarding the interfaces between the distribution and conduction networks that might influence the entire electricity system.

D. Extension of the manufacturing licenses for the Manufacturing Sites remaining at the Electric Corporation, until the date of the end of their engineering lifetime. Presently these licenses pursuant to Section 60 of the Electricity Market Law are due to expire on 15 November 2018.

E. Extension of the Electric Corporation's Unification License (which is used for all the segments that are not manufacturing) until the grant of new licenses to the Electric Corporation or to another, and on condition that in the supply segment the principle of non-competition is preserved since the Electric Corporation is a default supplier as set out in detail in Section B(10)(v) of the resolution, and also on condition that activity or part thereof with regard to which a license is granted to the Electric Corporation or to another shall no longer be included in the Unification License. Thus, on the date when the System Management Company begins operations, and is granted a system management license, the Unification License shall no longer allow the Electric Corporation to engage in system management activity.

F. Clarification of the prohibition on the Electric Corporation or its subsidiary to engage in various acts concerning manufacturing, and in particular regeneration, excluding particular acts that are required for the purpose of realizing the contents of the resolution concerning two CRTs at the Orot Rabin site, for the planning
required pursuant to Section B(5) of the resolution and the loan of employees to the
winners in the competitive proceeding as mentioned in Section 6(a) above.

G. The system manager shall be prohibited from holding manufacturing licenses in
order to avoid the creation of a conflict of interest between its activity as a system
manager and its activity as a manufacturer.

H. It shall be determined that the scope of the distributors that are not the Electric
Corporation shall be 10% of the scope of the annual consumption, plus the rate of
increase in the annual consumption. Likewise, it shall be determined who shall be
included in this quota and all as set out in detail in the main part of the resolution.

I. Section 6(g)(3) of the Electricity Market Law prohibits the grant of a manufacturing
license if this would lead to a situation where the manufacturing licensee would
hold more than 30% of the scope of manufacturing capacity in the electricity
market. It is proposed to amend the Law so that notwithstanding this section, it shall
be possible to grant a manufacturing license to a subsidiary of the Electric
Corporation that shall construct and operate the two CRTs at the Orot Rabin site.

J. The Electricity Market Law presently prohibits the grant of a license for more than
one activity, excluding the exceptions enumerated in the Law. It is proposed to
permit the grant of a distribution license together with a supply license and also to
grant a conduction license. Consequently to this, Section 6(f) of the Law,
prescribing that no conduction license should be granted to whoever holds a
manufacturing license or a distribution license, should be revoked, in accordance
with the proposed structure of the market within the framework of the resolution.

K. The addition of the share to the definition of the distribution license and the
determination that the information shall be open in accordance with the regulation
to be determined (see in this matter Section B(10)(s) of the resolution).

L. Revocation of Section 6(h)(3) of the Electricity Market Law which prohibits the
grant of a distribution license if this would lead to the recipient of the license
holding 25% or more of the scope of the distribution in the market, and this in
accordance with the proposed structure of the market in the resolution draft and in
particular see in this matter the contents of Section B(14)(h) of the resolution
whereby the Electric Corporation shall remain a monopoly in the distribution
segment.

M. Amendment of the definition of an electricity consumer so that it shall also include
whoever owns or is in possession of continuous areas of land that are not required
for a public path. The Electricity Authority shall define types of consumers.

N. Amendment of the definition of a System Management License so that in
accordance with the understandings of the reform, responsibility for the treatment
of the market fuels shall be part of the system management activity with effect from
the determined date as stated in Section B(3) of the resolution.

O. Granting the Authority the possibility of revoking an essential service supplier
license if the licensee does not comply with one of its obligations. It shall be
explained that presently it is only possible to revoke a license on account of failure
to send payments.

P. Section 62 of the Electricity Market Law shall be amended so that the Minister of
Finance and the Minister of Energy shall be entitled to approve an agreement
regulating the division of assets and rights between the Electric Corporation and the
State if they have seen that the approval thereof is beneficial for the market, provided that any division as aforesaid shall not be taxable under any law and shall not be deemed to be a sale for the purposes of the tax laws and all as set out in detail in the resolution. Thus it is proposed to determine that the transfer of the assets and rights into the name of the State, including registration thereof in its name, and also leaving the remainder of the assets and rights in the possession of the Electric Corporation, shall not be deemed to be a sale pursuant to any law. Thus for example, the actual transfer of the assets to the State or leaving them in the possession of the Corporation shall not be deemed to be an exercise of a right entailing the payment of betterment levy. It should be explained that the Israel Electric Corporation Ltd. has acted in accordance with a concession that expired in March 1996. The Electricity Market Law, 5756-1996 (hereinafter - the Law) regulates the activity of the electricity market since then, and inter alia replaced the concessions regime with licenses. In the matter of the assets and rights that were in the possession of the Electric Corporation at the end of the concession, Section 62 of the Law prescribes as follows:

"62. (a) Notwithstanding the provisions of Section 46 of the Schedule to the Electricity Concessions Ordinance, the Electric Corporation's undertakings as well as its rights and assets, that were in its possession at the time of expiry of the concession and its entitlement to compensation from the State for them pursuant to the aforesaid section, shall remain in the possession of the Electric Corporation and no compensation shall be paid for them.

(b) The rights and assets for which the Electric Corporation is not entitled to compensation, as aforesaid in Subsection (a) and that are used or designed to be used, directly or indirectly, for its activity pursuant to this Law, shall be purchased by the Corporation according to their value on the date of the purchase of the rights and assets, in accordance with an arrangement to be signed between the State and the Electric Corporation; in this section, "used", "designed to be used" – as determined by the Ministers.

(c) Until an arrangement is made as aforesaid in Subsection (b), the rights and assets with regard to which the arrangement is due to be made shall remain in the possession of the Electric Corporation, as they were at the time of the expiry of the concession; if the parties have not reached any arrangement as aforesaid within one year from the date of expiry of the concession, the Ministers shall determine provisions with regard to the purchase of the rights and assets as aforesaid.

(d) When the State is required to pay any payment whatsoever on account of any of the undertakings of the Electric Corporation that were valid at the time of the expiry of the concession, following its expiry or as a result of the performance of the provisions of Subsections (a) or (b), the Electric Corporation shall indemnify it for any payment as aforesaid."

Until the present day no arrangement has been made as aforesaid in Subsection 62(c) in light of the difficulties in the implementation thereof, neither were any
provisions determined by the Ministers, as aforesaid in the section. Beyond this, the professional parties in the State are of the opinion that even if it had been possible to implement the agreement, then any arrangement as aforesaid does not express the welfare of the market, including the interest of the Electric Corporation in which the State is a shareholder. On 3 January 2018 an agreement was signed between the State and the Electric Corporation for the regulation of its assets subject to the amendment to the provisions of the Law (hereinafter - the Agreement). The principles of the Agreement signed between the State and the Electric Corporation are as follows:

1. The Electric Corporation's rights in the 16 assets detailed in the Agreement shall be registered in the name of the State and the assets shall be delivered to the possession of the State in accordance with the conditions set out in detail in the Agreement.

2. Upon realization of the arrangement for the assets as set out in detail in the Agreement, the Corporation shall be entitled to redeem the perpetual debenture fund to the State at the nominal value of the fund in the sum of approximately 15 million NIS. The value of the debentures in the Corporation's books (the financial statement for 2016) totals approximately 2.5 billion NIS when the flow of interest receivables totals approximately 130 million NIS every year. Some of the conditions of the debentures were that "the Corporation shall be entitled to, at its choice, to redeem the sum of the loan fund in the event of the transfer of its enterprise to the State upon the expiration of the electricity concession period or in the event of the purse of its enterprise by the State in accordance with the provisions of the Electricity Concession Ordinance as specified the Electricity Concessions Ordinances, 1927 and all addenda thereto". Section 62 of the Law prescribed an alternative arrangement for the transfer of the enterprise to the State as prescribed in the Corporation's concession. Where there is an arrangement of the Electric Corporation's assets, the Electric Corporation shall be allowed to redeem the perpetual debentures fund in the sum of approximately 15 million NIS.

3. The Electric Corporation's debt to the Industrial Development Bank that was assigned to the State shall be converted into an index-linked shekel debt, shall be redeployed and its interest shall be adjusted to the market conditions. The value of the deployment and the adjustment of the interest totals approximately 300 million NIS.

4. The Electric Corporation shall receive from the Israel Land Authority the inclusive sum of 780 million NIS in respect of the vacation and alternative construction following the transition to Gan Sorek, and some of the costs of preservation and vacation in the Reading site, subject to the approval of the Israel Land Council.

5. The Electric Corporation's rights in the remainder of its assets shall remain in the Corporation's possession in accordance with the rights that were in its possession before signing the Agreement (ownership, lease, licensee, development, protected tenancy, etc.) without any restrictions arising from
the concession or from the expiration thereof applying.

6. Delivery of the assets to the State and registration thereof in its name as aforesaid in Section 1 or leaving the remainder of the assets in the possession of the Electric Corporation as aforesaid in Section 5 shall not establish grounds for any mandatory payment whatsoever, either to the State or to a local authority or corporation.

In addition to all the aforesaid, with regard to particular assets that the Electric Corporation is leasing from the Israel Lands Authority, the Agreement prescribes incentive mechanisms for future vacation of the assets that the Electric Corporation shall not require for the purposes of its activity and their return to the Israel Land Authority.

For the purpose of the regulation of the matter, it is proposed to allow the Minister of Finance and the Minister of Energy to approve an agreement with the Electric Corporation with regard to the manner of division of the assets instead of the provisions prescribed in the section, and also to prescribe that the division of the assets as aforesaid in Sections 1 and 5 shall not constitute a tax event pursuant to any law.

Q. The addition of the System Management Company to the Second and Fifth Schedules of the Regulation of Security in Public Bodies Law, 5758-1998. Presently the Electric Corporation is enumerated in these schedules, and since the System Management Company shall also be an essential service supplier it should be added to these schedules (it should be clarified that there is no intention to remove the Electric Corporation therefrom). For the purpose of encouraging the entry of an electric vehicle into the Israeli market, it is proposed to exempt in a transitory provision for 6 years the obligation of a supply license for charging posts for an electric vehicle.

R. In this section it is proposed to determine an arrangement for entry into land for the purpose of performing an urgent act even without obtaining the landowner's consent in advance due to the urgency of the act.

Sections 20-21, 15-17: for the purpose of implementation and control over the implementation of the reform, a number of work teams of various compositions shall be formed for the achievement of the various aspects of the reform:

In Section 15 it is proposed to form a team composed of government parties that shall examine the principles for the management of the activity of the clearing house to be established at the System Management Company. The team, whose composition is set out in detail in the main part of the resolution, shall formulate the model for the construction of the clearing house to be set up at the System Management Company, while paying attention to the credit risks in the market and the Electric Corporation's financial stability. In Section 16 it is proposed to form a team that shall track and audit on the basis of the Electric Corporation's reports the compliance with its financial stability targets. The composition of the team is set out in detail in the main part of the resolution. Likewise, it is noted in the main part of the resolution that the team shall convene once a year or shortly after the occurrence of a significant event that is
connected to the implementation of the reform with the aim of examining the progress of the compliance with the financial targets to be approved by the Electric Corporation's directorate. In Section 17 it is proposed to form a joint team of the Electric Corporation and the government that shall chart blocks and accompany the sale of the Electric Corporation's sites by means of receiving reports from the Electric Corporation.

In Section 20 it is proposed to form a team headed by the Directors General of the Ministries of Finance and Energy (that led the reform) for the purpose of general tracking of the implementation of the government resolution and the compliance with its schedules and milestones. In Section 21 it is proposed to form a team that shall determine the model for reporting on the activity in separate profit centers. Reporting in separate profit centers shall permit an increase in transparency and a better tracking of the economic efficiency aspects in the Electric Corporation.

Section 18: within the framework of this section, it is proposed to approve the Corporation's resolution for the performance of the structural change, by way of a reduction in the manufacturing activity and the sale of the system management activity, pursuant to Section 11(a)(8) of the Government Companies Law. Explanatory notes in the matter of the structural change constitute the opinion of the Government Companies Authority in this matter.

Section 19: in order to accelerate the development of the conduction network, it is proposed in this section to charge the Ministers of Energy and Finance to complete the examination of the development plan for the conduction network that was filed recently within 120 days.

Section 22: within the framework of this section the notice of the Antitrust Commissioner, that it is his intention to publish a document of principles for consultation in industrial competition in the sale of the Manufacturing Sites pursuant to Section 11 of the Promotion of Competition and the Reduction of Concentration Law, 5774-2013, within four months from the date of the government resolution, has been recorded. The aim of this document shall be to constitute general principles with regard to the sale of the Manufacturing Sites in such manner as to permit the creation of a competitive electricity market. For the avoidance of doubt, it is clarified that this resolution does not derogate from the obligation, if there is one, pursuant to the Concentration Law, to hold consultation with the concentration committee or with the Antitrust Commissioner.

Section 23: a substantive part of the implementation of the reform is located within the scope of the Electric Corporation. In light of this the government notes the Corporation's undertakings that are attached to this Resolution as an appendix, and that inter alia concern several activities that it is obliged to promote during the course of the coming years in each one of the segments where it operates:

**The Manufacturing Segment**

The Electric Corporation has undertaken to sell or deliver possession in the Alon Tavor,
Ramat Hovav, Reading, Hagit, Eshkol, and the area designated for the D power station at the Rotenberg site, in accordance with the schedules that are set out in detail in the Corporation's letter of undertaking. The Corporation has undertaken to maintain these sites until the date of delivery of possession in such manner as to allow the continuation of the electricity manufacturing activity by the buyer. Furthermore, it shall vacate the structures and equipment at these sites that it requires for the continuation of its activity in its other sites. At the same time, the Corporation shall promote statutory planning at the Reading site for the construction of two alternative manufacturing units including the transformer for connection of these units to the network, and in addition it shall promote statutory planning if and when necessary at the other manufacturing sites.

Likewise, the Electric Corporation shall operate within the framework of a subsidiary for the construction of the two CRTs at the Orot Rabin manufacturing site. The other manufacturing sites shall operate within the framework of a separate profit center. Apart from the two CRTs, the Corporation undertakes inter alia that it shall not operate, either by itself or via subsidiaries or via another person, within the field of electricity manufacturing in Israel and shall not construct or regenerate additional manufacturing sites for itself or for others and shall not act in order to do so in the future. The Electric Corporation's undertaking not to act within the field of electricity manufacturing in Israel is irrevocable and shall also apply after the expiration of the reform period.

The Conduction and Distribution Segments

The Electric Corporation shall continue to act as an essential service supplier in these segments in accordance with the licenses granted to it. It shall act in separate profit centers for each one of the segments. Furthermore, it shall act in accordance with the regulations regarding the private distribution.

The Supply Segment

The Electric Corporation shall act as the default supplier in this segment. The Corporation shall not be entitled to compete in the supply segment for high, ultra-high and supreme voltage consumers. The Electric Corporation shall be entitled to compete in the supply segment for low voltage consumers if its market segment has dropped beneath 60% of the total customers in this segment. The electricity meters shall constitute part of the distribution license but the Electric Corporation shall provide free access to the collected data to the consumers and persons authorized by the consumers and also to other parties. The Electric Corporation may only supply value-added services for its consumers in accordance with the permanent restrictions prescribed. Thus, for example, from the date the number of the Electric Corporation's consumers has dropped from 75% of the total consumers in the low voltage supply segment - cyber services to all consumers and “smart home” services to low voltage consumers only (this matter shall be defined in the supply license to be granted to the Corporation).

The System Management Segment

Until the date of operation of the System Management Company the Electric
Corporation shall move the employees from the system management, TPD and statistics and markets research units in accordance with the list attached to this government resolution as an appendix. The Electric Corporation shall sign the agreements required for its own regular activity and that of the System Management Company. Inter alia, agreements for the operation and maintenance of the conduction, transformer and communications facilities; PPA agreements via manufacturers in the conduction and distribution network; orders for liquid natural gas.

The Electric Corporation agrees that inspection of the conduction to be set up shall be operated in accordance with the System Management Company's directives. The Electric Corporation shall apply to the company for approval of the timing of the operational and maintenance works in all its facilities, and shall purchase components for the electricity network in accordance with the system manager's characterization. The development plan for the delivery system shall be the responsibility of the System Management Company and shall be performed by the Electric Corporation.

The Electric Corporation shall sell the system manager assets in the Denya neighborhood and at Ramat HaSharon to the System Management Company at a reduced value in the books of the assets. The Electric Corporation shall set up conduction inspection, which shall be temporarily hosted at the Ramat HaSharon site until the construction of an alternative site for it at the Sorek site.

Section 24: in an emergency there is a substantive need to make decisions rapidly and effectively in order to provide the required solution in real time. The System Management Company is the body entrusted with the management of the entire electricity system and accordingly it is the body that shall act as the supreme designated authority in times of emergency.

Economic Data and Influence on the State Economy

The reform brought before the government in the electricity market and in the Electric Corporation has significant influence on the electricity market and thereby on its entire economic activity. Below we shall set out the main advantages arising from the reform:

Qualitative benefits

The promotion of competition in the manufacturing segment and the separation thereof from the network segment - a reduction of the Electric Corporation's incentive to use the conduction segment for the assurance of its place in the manufacturing segment. At the same time it shall make it more worthwhile for the Corporation to increase its investment in the network, and the transfer of its focus to the network segments by a significant reduction in the Electric Corporation's activity in the manufacturing segment. Likewise, decentralization of the manufacturing segment shall allow the investments to be dispersed over a variety of different manufacturers that shall lead to the assurance of the Electric Corporation's financial stability and the credibility of the electricity supply while reducing the State guarantees.
Making the supply segment competitive - the supply segment generates significant competition in the electricity market, since it is a gateway to the end consumers in the electricity market, and as such allows some of the competition in the manufacturing segment to be converted into the price for the customer. Furthermore, it is possible that the competition shall also be expressed in the introduction of new technologies, energetic streamlining and the adjustment of the price and service offered to the customer according to its consumption history.

Separation between the system manager and the Electric Corporation – this step considerably reduces the conflict of interest in the electricity market. The separation shall allow the development of the wholesale electricity market, optimum integration of renewable energies in the network, and equalitarian and transparent conduct vis-a-vis all the electricity manufacturers.

**Quantitative benefits**

According to a conservative calculation, which calculates solely and exclusively the quantifiable market benefits, without the saving of the Corporation's salary costs and without the calculation of the absolute decrease in the Electric Corporation's debt, the accumulative benefit from the reform during the course of the next 8 years (hereinafter - the Reform Years) has been estimated at approximately 6.2 billion NIS that are equivalent to 5.3 billion at the present value. This calculation is based upon the following estimates:

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Benefit (million NIS)</th>
<th>Present value (*) (million NIS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Construction of stations at the Electric Corporation sites - including saving of time and land</td>
<td>733</td>
<td>612</td>
</tr>
<tr>
<td>2. Operating, non-availability and maintenance costs</td>
<td>264</td>
<td>220</td>
</tr>
<tr>
<td>3. Reduction of power outage saving</td>
<td>1,252</td>
<td>960</td>
</tr>
<tr>
<td>4. Decrease in interest costs</td>
<td>2,748</td>
<td>2,192</td>
</tr>
<tr>
<td>5. Non-construction by the Electric Corporation</td>
<td>1,330</td>
<td>1,110</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,327</strong></td>
<td><strong>5,093</strong></td>
</tr>
</tbody>
</table>

(*) The present value is calculated at the Corporation's present capitalization rate, 4.2%.

Explanation of the calculation method:

1. The construction of a power station at the Electric Corporation's sites instead of at a new site saves many areas, natural gas conduction lines and electricity conduction lines, development time and statutory matters. The cost of constructing a station at a new site is higher by approximately 200-250 NIS per installed kilowatt.
2. The recognized cost to the Electric Corporation for manpower, maintenance and insurance elements are approximately higher by 10 NIS per annum for each installed kilowatt in relation to the recognized cost for private electricity manufacturers.
3. Reduction of the chance of a power outage that arises from failure to invest in the network, for an hour and a half in a gradual manner. The market saving shall be allowed by preventing damage to the market product during a power outage. Since 2000 the average number of power outages in Israel is approximately 150 minutes a year per customer. According to a report made by the Mackenzie Company for the Ministry of Finance, this is a high figure, in comparison with selected countries in the OECD where the average power outage minutes total 42 minutes. Accordingly, we are assuming that by focusing the investments in the network segments, in accordance with the reform, the corporation can improve the infrastructures and achieve a reduction by approximately 90 minutes at least.

4. Improvement in the financial situation in the Corporation is anticipated to reduce the Corporation's interest payments, by reducing the scope of the debt and by reducing the average interest for the entire debt.

5. The Electric Corporation is constructing power stations at a cost that is approximately 7% higher than the private manufacturers. The private manufacturers shall construct the Manufacturing Sites at the sites to be sold by the Electric Corporation.

Furthermore, during the 8 years following the Reform Years, an estimate of the quantitative benefits totals 14.7 billion NIS that are equivalent to 8.9 billion NIS in their present value.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Benefit (million NIS)</th>
<th>Present value (*) (million NIS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Corporation's streamlining in employees</td>
<td>7,267</td>
<td>4,365</td>
</tr>
<tr>
<td>2. Reduction of the power outage risk</td>
<td>1,686</td>
<td>1,077</td>
</tr>
<tr>
<td>3. Decrease in interest costs</td>
<td>5,761</td>
<td>3,460</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>14,714</strong></td>
<td><strong>8,902</strong></td>
</tr>
</tbody>
</table>

(*) The present value is calculated at the Corporation's present capitalization rate, 4.2%.

1. At the end of the reform period the number of permanent employees at the Electric Corporation will drop by 1,800 employees. 1,000 additional employees will retire and be replaced by new employees. During the course of the Reform Years the streamlining shall finance the retirement costs and the increase in pension payments. We are assuming that the scope of the saving to be enabled by virtue of the reform totals 66% out of the total streamlining of employees that was agreed upon.

2. The other parameters have been calculated in an identical manner to the calculations during the course of the reform.

**Costs**

The reform costs total approximately 7.1 billion NIS in capitalized values. Out of this sum, approximately 6.4 billion NIS shall be granted as retirement costs and an increase in the pension payments to employees. Beyond this, in the Corporation's opinion it shall
incure costs in the additional amount of approximately 0.7 billion NIS. Costs arising from the structural change and the need to prepare for it within the Corporation are included within the framework of these costs. Inter alia, costs connected to the preparation of the Manufacturing Sites for sale (including the statutory planning, the construction of structures and moving the existing equipment and infrastructures), the costs of adjusting the computerized systems in the Corporation, the costs in respect of tax events, insofar as they apply on account of the reform, financing costs, costs that may accrue to the Corporation by virtue of its being a default supplier, etc., are included within the framework of these costs. These costs are estimated by the Corporation at approximately 0.7 billion NIS. Standard costs control shall be applied to this cost by the Electricity Authority.

On 17 May 2018 the Minister of Energy published policy principles that are attached to the resolution draft, which shall enter into force when the government resolution is passed and the necessary legislative amendments made where the reform in the electricity market and the structural change in the Electric Corporation are determined as part of the policy principles. Pursuant to Section 31(b) of the Electricity Market Law, the costs arising from the implementation of the policy principles, which are set out in detail above, shall be recognized in the electricity tariff. Since this is the case, no cost to the State budget is anticipated apart from the matter of the investment in the System Management Company.

It should be noted that according to the Electricity Authority's estimate, if the costs are spread out over a period of about 8 years, the electricity tariff is not expected to rise during this period, and on the other hand the electricity consumers shall not enjoy, during these years, the Electric Corporation's streamlining, but throughout the reform period the electricity consumers shall enjoy the benefits of the reform that are not directly connected to the streamlining in the Corporation.

The policy principles have been based upon the assumption of costs estimated at 7.1 billion NIS and they do not entail recognition of the costs deviating from the aforesaid sum in excess of a slight deviation. Insofar as there may be additional costs the general law shall apply thereto including the possibility of a change in the policy principles.

**Budget**

Excluding the allocation to the System Management Company against the allocation of shares of 3 million NIS during 2018 and 10 million NIS during 2019, there are no implications upon the State budget.

**Influence of the Draft on the Manpower**

No influence

**The Position of Other Ministers where the Draft concerns their Field of Authority**

The draft is submitted jointly by the Ministers of Energy and Finance.
Previous Government Resolutions in the Matter

Resolution No. 125 dated 22 August 1999 concerning the electricity market - competition supporting industrial structure.

Resolution No. 104 dated 25 March 2003 concerning reform in the electricity market.

Resolution No. 2429 dated 15 August 2004 concerning the implementation of the structural change in the electricity market.

Resolution No. 463 dated 12 September 2006 concerning a structural change in the electricity market.

Resolution No. 1482 dated 28 March 2007 concerning the conduct of negotiations regarding the implications of the structural change in the electricity market on the rights of the employees in the Israel Electric Corporation Ltd.

Resolution No. 3705 dated 30 June 2008 concerning the draft of the Electricity Market (Amendment No. 8) Law, 5768-2008 - approval of the Committee of Ministers for Legislation Matters and Law Enforcement.

Resolution 3444 dated 11 January 2018 concerning outline for the regulation of the Electric Corporation's assets.

The Position of the Legal Advisor of the Ministry Initiating the Draft

The position of the legal advisor of the ministry initiating the draft, or anyone authorized by him, shall be attached to the resolution.

Classifications*

Main classification: implemental

Secondary classification: secondary legislation

Main field of activity: infrastructures and environment

Signature of the Submitting Minister

The draft shall be submitted accompanied by a letter bearing the signature of the presenting minister.