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## Article (Accepted version) (Refereed)

**Original citation:**
Haber, Hanan (2016) *Rise of the regulatory welfare state? Social regulation in utilities in Israel.* Social Policy & Administration. ISSN 0144-5596

DOI: 10.1111/spol.12194

# Rise of the Regulatory Welfare State? Social Regulation in the Utilities in Israel

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Forthcoming in Social Policy & Administration[2]

**Abstract**

This paper explores the relation between economic liberalization, regulation and welfare. It asks how the state regulates, delays or prevents service disconnection due to debt and arrears, and what this kind of policy implies regarding the use of regulation as a form of social policy. This is done through a comparative study of the electricity and water sectors in Israel after liberalization. It finds that after initial economic reform, both sectors saw a growth in regulation intended to compensate for the social effects of reform, in what may be termed the Regulatory Welfare State. However, this form of social protection has been residual and incoherent. The paper argues that trying to separate economic reform from its social consequences is unrealistic and may lead to adverse social and economic results. Second, findings raise concerns regarding the potential of the Regulatory Welfare State to deliver effective and fair social policy.

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[2] Available early on line here: http://onlinelibrary.wiley.com/doi/10.1111/spol.12194/abstract

## Introduction

Our age is often described as one of liberalization. The network utilities, such as water and electricity, exemplify liberalization in which nationally owned and operated monopolies were privatized, and their sectors opened to competition. This view, however, should be complemented by a regulatory governance perspective, arguing that liberalization was accompanied and advanced by an ‘explosion’ of regulation and independent regulatory agencies, across nations and sectors (Levi-Faur 2005). This is the transition from the ‘positive state’ to the regulatory state (Majone 1997; Majone 2011).

This account of liberalization *with* regulation is fairly well established, and has typically focused on the economic aspects of regulation. Instead, this paper focuses on the relation between liberalization, regulation and social policy, and on the social aspects of the transition from public ownership to regulated, liberalized markets. This paper is part of a recent research agenda which brings together scholarship on the regulatory state and the welfare state, exploring the use of regulation for social purposes, as well as the role of social issues on the regulatory agenda. This new research focuses on what may be termed the regulatory welfare state, combining social and economic goals (Haber 2011; Levi-Faur 2013; Levi-Faur 2014).

Bringing these two types of scholarship together raises questions about both. First, why is regulation being used for social purposes, and what does this imply about the relation between market liberalization and social protection? Second, what kind of welfare does this promote, and what does it teach us about continuity and change in the state’s commitment to welfare?

Addressing these questions, this paper is a comparative study of electricity and water sector reform in Israel, from the mid 1990’s to the present. The paper asks *first* how are vulnerable consumers protected from service disconnection due to debt and arrears in the electricity and water sectors after liberalization, and how has this protection developed over time? *Second*, how does the protection of vulnerable consumers differ between the electricity and water sectors?

In both sectors, the findings show liberalizing economic reform which initially disregarded social issues such as service termination due to financial hardship. However, social provisions were gradually added, compensating for the effects of reform on certain groups of vulnerable consumers. The result may be termed 'regulatory welfare regimes': a mixture of regulation, sector level subsidies and 'regulatory spending' aimed at preventing, delaying or compensating for service termination.

Comparative analysis of these regimes reveals incoherence and inadequacy of social protection. Assistance is residual and minimal, and can be considered inadequate to tackle the social challenges it faces. At the same time, social protection is inconsistent both between and within either of these sectors.

This paper argues that the initial attempt to reform the utilities without express regard for the social challenges faced by vulnerable consumers not only proved politically unrealistic and socially detrimental, but also adversely affected the viability of the liberalization project. Ignoring the social aspects of economic reform on the 'drawing board' of economic reform meant these issues would surface later, addressed in a manner neither efficient nor fair.

Second, the incoherence and inadequacy of the policy measures which may be termed 'regulatory welfare' raises concerns about the use of this kind of measures as a form of social policy. Rather than representing a 'way forward' for social policy (Taylor-Gooby 2011), these policies may signify the limited potential of the use of regulation as a form of social policy more generally.

This research is important because it focuses on social protection of vulnerable consumers in crucial services, vital to social citizenship. Second, this paper contributes to the growing literature on the relation between the regulatory state and the welfare state (Haber 2011; Urueña 2012; Chng 2012; Dubash & Morgan 2012; Leisering & Mabbett 2011; Mabbett 2013; Levi-Faur 2014; Pflieger 2014; Haber 2015), asking how regulation is used for social protection, and what role social protection plays in regulatory policy.

Finally, this paper is important for the study of the welfare state, which has typically focused on social spending and social insurance, within several main core areas of social protection (Béland 2010; Esping-Andersen 1990). This paper represents an effort to expand this perspective to include alternative paths to welfare provision.

The paper proceeds in five parts. Part 1 introduces the paper's theoretical framework for the regulatory welfare state. Parts 2 and 3 present the development of regulatory welfare regimes in the electricity and water sectors in Israel beginning in the mid 1990's. Part 4 offers comparative analysis of the two cases, highlighting the incoherent and limited nature of social protection. Part 5 concludes, arguing against the separation of social and economic goals in economic liberalization, while also highlighting the limits of regulation as social policy.

## I. Theoretical background: between the regulatory state and the welfare state

Majone's formative work on the rise of the regulatory state both in Europe and globally (1997, 2011) depicted a change in the role of the state from direct intervention in the economy to market regulation. Rather than providing goods and services directly (in the 'positive state'), for instance through the nationalized network utilities, the state would now oversee the provision of such services through liberalized markets, via independent regulatory agencies. This also denotes a shift in the role of the state, from redistribution and economic stabilization, to market regulation (Wincott 2013).

This model envisions regulation based on professional standards, by independent regulatory agencies. Designed to be kept at arm's length from political intervention, agencies follow criteria of economic efficiency (for instance, preventing market failures) and avoid politically infused issues of distribution and redistribution. In essence, this is a model of separation between the economic and political or social spheres: separating efficiency and equality.

Recent research has contested this separation as an unrealistic view of the regulatory state (Chng 2012; Dubash & Morgan 2012; Haber 2011; Leisering & Mabbett 2011; Levi-Faur 2013; Levi-Faur 2014; Pflieger 2014; Urueña 2012). In this view regulation faces both social and economic challenges, and is used in practice in order to address both kinds of issues. Regulation has intended and unintended distributional effects, and can be used as an instrument of social policy in its own right.

However, Majone's depiction of the regulatory state remains influential in this debate. For example, Leisering and Mabbett (2011) distinguish between the regulation of private old age security policies and the regulation of the utilities. While the regulation of private pensions is “strongly influenced by the welfare state …” (ibid: 2), the regulation of the utilities is not expected to have a similar distributive dimension (cf. Mabbett 2011b).

Going beyond this approach, Levi-Faur (2013; 2014) has argued that the concepts of the regulatory state and the welfare need to be redefined in order to allow them to apply to different historical settings and policy goals. Levi-Faur defines the regulatory state in terms of its demand for a legitimate monopoly of the use of regulation, while not assigning it substantive goals. The regulatory state may pursue welfare goals, and the welfare state may use different tools, including regulation. This opens the door to a constitutive approach, in which both states not only coexist (rather than regulation replacing welfare), but can support one another.

Following this logic, this paper aims to refine Majone’s model of the regulatory state, suggesting that regulatory state as he characterized it is only one variant of different possible varieties of regulatory states. While Majone’s regulatory state separated social and economic tools and goals, other varieties may fuse or separate economic, social and political goals, regulation and other policy tools in different ways and for different purposes.

This paper focuses on the development of one such variant: the regulatory welfare state, in which welfare considerations are part of the regulatory agenda, and regulation and subsidies are used in order to address the social needs of vulnerable groups. The paper focuses on the regulation of service termination: the state aiming to ensure that certain consumers enjoy continued access to services despite non-payment, debt and arrears.

This kind of regulation goes beyond consumer protection regulation or addressing market failures. It addresses those who cannot afford to participate in the market: consumer protection of those who cannot afford to be consumers. The regulatory welfare state addresses this issue through mitigating, delaying, preventing or compensating for service disconnection. This ensures vulnerable citizens have access to services, but is also a form of welfare with distributory consequences.

This form of social protection may be tied to the literature on social protection ‘through other means’ (Castles 1989),  referring to the myriad of ways in which the state provides social protection without social spending. Examples have ranged from trade barriers and institutionalized wage arbitration (Castles, 1989), to the provision and regulation of credit (Mabbett 2011a), within the educational system (Garfinkel et al. 2010), through 'lifeline' subsidies in the telecommunications sector (Newman 2003), and through tax credits, subsidized loans and other such measures (Howard 2007; Mettler 2010).

The concept of the regulatory welfare state is not common in the literature, and has until recently "never been discussed systematically" (Levi-Faur 2014, p.10; Tanzi 2002). However, it has been used to denote the manner in which "[m]any countries have pursued their social objectives not through public spending or tax expenditures but through regulations" (Tanzi 2002, p.121).

Similarly, Leisering (2005) and Taylor-Gooby (2011) use the term to denote the provision of welfare through state regulation of the market: "regulat[ing] the activities of non-state providers rather than providing benefits and services […] as done by the conventional redistributory welfare state" (Leisering 2005, p.1). Taylor-Gooby uses the term to describe the "UK experiment", led by New Labour to achieve social protection through "market means and welfare ends" (Taylor-Gooby et al. 2004): Politics with markets, rather than against them (Leisering & Mabbett 2011, p.3). He also adds to this concept an element of softening the impact of the market on the "most vulnerable groups" (Taylor-Gooby 2011, p.80).

Levi-Faur (2014) suggests that the regulatory welfare state applies and extends rule making, rule monitoring, and rule enforcement either directly or indirectly, with regard to welfare goals. He argues that it is the task of the analyst "to identify the various ways in which fiscal and regulatory instruments are used and mixed in the design of a welfare regime" (Levi-Faur 2014, p.11).

In this paper, I aim to build the concept of the regulatory welfare state from the ground up: to understand how it operates at the sector level, focusing specifically on service termination in the utilities. I use the term regulatory welfare regime (Haber 2011) to encapsulate the different forms of state led efforts to reduce the risk of service termination at the sector level. These include regulatory instruments, but also social spending within the sector, rather than through general social spending.

The notion of a regulatory welfare regime opens an analytical space in which new forms of policy tools can be conceptualized. For example, “regulatory spending”, means levying regulatory requirements with distributory implications on market actors. Used strategically, rule makers can ‘tax and spend’ in this manner without budgetary constraints. An example of such ‘regulatory spending’ is mandating that service providers create and fund discounted rates.

This paper is a small N, comparative case oriented study (Levi-Faur 2004), based on the collection and critical analysis of primary sources such as primary and secondary legislation, regulation, reports by state, business and third sector actors, minutes of parliamentary committee meetings, press coverage and the various actors’ websites. Israel’s water and electricity sectors were chosen as favorable cases for Majone’s depiction of the regulatory state in practice. First, because of the consistent and significant political support for this kind of liberalization and economic reform in Israel, at least since the mid 1980’s and the 1985 ‘stabilization pact’. Second, because of the support of the treasury, which has been influential and instrumental in initiating and advancing an agenda of this kind of efficient economic reform (Ben Bassat & Dahan 2006; Mandelkern forthcoming). These factors can in turn account for the close implementation of Majone’s model in practice in both sectors, liberalizing and regulating them in order to transform them from a state to a market-based rationale. This is demonstrated below in the emphasis reformers initially put on efficiency in pricing and the prohibition of cross subsidies. If even under these favorable conditions reform shifted in a more political and social direction, this is likely to happen elsewhere as well.

The period chosen for analysis in both sectors begins after the liberalization of both sectors in the mid 1990’s, focusing on the introduction of social protection in the following decade and a half. The rationale for comparing the electricity and water sectors stems from their basic similarities, but also from the differences between them, leading to different expectations for the extent of social protection in either case. The privatization and regulation of both sectors has proven socially sensitive. Access to both sectors has been discussed as a ‘human right’, and the privatization of both has been contested, in the global south and in the developed world (Gleick 1998; Hall et al. 2005; Morgan 2011).

There are several reasons why we might expect more social protection in the water, rather than in the electricity sector. First, consumer choice (via retail consumer switching) is typically more limited in the water sector than it is in the electricity sector (for example, even in the UK consumer switching is limited to the business sector). To the extent regulation can be seen as a substitute for competition, we might expect more regulatory social protection in water than in electricity.

Second, while it is difficult to generalize across the European electricity sectors, historically, the electricity sector has been more commodified than the provision of water. That is, it was typically organized and run as a (state owned) business, while the water supply was run by the municipalities. This holds in the Israeli case, in which the state has for decades been a shareholder in the electricity corporation, while water has been supplied by the municipalities, often in conjunction with other municipal services or fees. This again leads to an expectation of more social state involvement in the water sector, over the electricity sector.

## II. A regulatory welfare regime in Electricity

The Israeli electricity sector is dominated by the Israeli Electricity Corporation [IEC, henceforth ‘the corporation’], a vertically integrated government owned monopoly. However, the 1996 Electricity Law represents a step towards liberalization, intended to lay the groundwork for the formation of a competitive market. The law also founded an independent regulatory body charged with regulating the electricity market, the “Public Utility Authority – Electricity” (PUAE, henceforth ‘the regulator’). The regulator’s duties include setting the electricity tariffs, setting standards for quality of service and ensuring these standards are met by service providers, as well as licensing electricity providers (Electricity Law 1996, para. 30).

The 1996 reform fits Majone’s regulatory state model, granting independence to the regulator, and requiring that the corporation function as a “government company”, funded only from its commercial activity, and not from the state budget. Similarly, the guidelines for pricing in the 1996 law require that prices reflect (marginal) cost of each individual service, and forbid cross subsidization, a common practice in the 'positive state'. Furthermore, any rate reduction set by the state must have a funding source in the state's budget, and cannot be funded by raising electricity rates (Electricity Law, 1996: paragraph 31).

The regulator understood these guidelines as forbidding it from considering any form of social or welfare considerations in setting electricity prices (Shay 2004). This was also the position taken by the courts on the subject (Elbashan 2008, p.154).

Prior to the 1996 law, the issue of disconnection had been dealt with through internal corporation procedures, rather than through binding regulations. Consumers facing disconnection due to economic hardship would turn directly to the corporation (in some cases, to a specific 'contact person'), present their economic hardships, and request that service be reinstated (Elbashan, 2008).

While the corporation's internal guidelines are still an important part of consumer protection in this sector, in 2002, the regulator published formal guidelines regarding disconnection from service due to non-payment (PUAE 2003). These guidelines (many of which follow existing practices of the corporation), require several steps before a consumer can be disconnected from service, including waiting periods, prior notice, and alternatives to disconnection. If the debt is not settled after the required waiting period, the service provider may disconnect the service, install a low current fuse which allows a limited amount of electricity consumption, or install a prepayment meter (PUAE 2010, sec.24).

Between 2007-2012, the corporation installed prepaid meters or limited consumption fuses in nearly 43,000 households, usually in a compulsory manner (cf. PUAE n.d). Installing these alternatives to disconnection may account for some of the decrease in the number of disconnections during this period (see table 1). At the same time, this creates a class of consumers which can no longer be 'officially' disconnected, as they now consume electricity on a pay-as-you-go basis, but may still face issues of affordability and self-disconnection.

*Table 1*

The 2007 social tariff amendment. In 2007, a social tariff amendment to the 1996 electricity law was passed, granting a discounted electricity tariff to elderly consumers who are also receiving income support benefit. Despite the explicit provisions of the 1996 law, this discount is not funded through the state budget, but rather through cross subsidization from the tariffs paid by the general consumer. This amendment was led by political actors of the center-right, and opposed by the treasury, the regulator and the corporation itself, which argued that the cross subsidized amendment is economically inefficient, and not the appropriate way to assist consumers in need. Despite this initial opposition, the 2007 amendment has since been extended to further groups of consumers in this sector.

Legislative efforts to introduce assistance measures for vulnerable consumers within the electricity sector have been on the legislative agenda since around 2003. Such suggestions were raised mainly by Knesset members [MK's] from parties of the political right and centre (the Likud, Shas, and Yisrael Beitenu), which share an electoral base of lower socio economic standing.

The 2007 amendment is a fifty percent monthly discount on the price of the first 400 Kwh's of electricity (maximum value of about 100 NIS) for citizens of pensionable age also receiving an income support benefit. The discount is targeted at the poorest segment of this age group (about 180,000 recipients). The amendment allowed for future expansion of "social tariffs" to further groups based on criteria including age, income, medical condition, area of residence and household size. The limitation set on future discounts was that they should not exceed 1.5% of the total sum paid for electricity by the entire population.

The social tariff amendment has been expanded in 2010, 2011 and 2012, to include such groups as certain Holocaust survivors, and certain physically disabled pensioners. In 2012, an additional 65,000 recipients were added to this arrangement. These included, for instance, citizens who meet a certain level of disability, families with a severely disabled child, single parent households with three children and households with four children, provided they receive the income support benefit.

The 2007 amendment follows a contradictory logic to the original 1996 law, which had economic efficiency in mind. The 1996 law disallowed adjusting one rate at the expense of the other, and required external funding for such discounts. The 2007 amendment, however, does just that, with no budgetary source (Electricity law, 2007: Para 31, clause d).

This kind of regulation is an example of ‘regulatory spending’. Furthermore, once the electricity sector became established as a source of social spending, legislators then pushed to fully utilize this ‘budget’. When the range of recipients was enlarged in 2012, legislators saw the limit set on discounted rates in the 2007 amendment not as a limit, but rather as a minimum goal to be reached. Thus the original intent of the electricity law was reversed.

While legislators saw the social tariff as an opportunity for social ‘spending’, regulators and corporation officials pointed to the inefficiencies this kind of policy embodies. This is evident in the discussions in the economic committee of the Knesset leading to the amendment’s approval. After initially objecting to the whole idea of a “social tariff”, the regulator then focused its objections on funding this discount through the general consumer’s electric bill, suggesting that the discount be funded, for example, by the welfare office. The head of the regulator argued that the proposed amendment contradicts the basic principles upon which the regulatory regime rests, which aim to create a competitive market (Economic Committee 2007).

This view, held by the regulator, the corporation and the treasury alike, which raised the point that in the proposed amendment “the stronger are subsidizing the weak” , did not resonate with the MK’s advocating for reform. MK Kachlon argued several times that funding the amendment by raising electricity rates was not cross subsidization, as this practice exists in the water sector and in other world countries (Economic Committee 2007) .

This pattern repeated itself several years later when attempts were made to expand the notion of the social tariff by cancelling the standing monthly charges in the electricity sector. In 2012, MK Shama-Hakohen (Likud), again chairman of the economic committee, demanded that the regulator explain why this charge cannot be canceled, as he claimed it had been in the water sector. The regulator’s representatives argued that cancelling this fee would mean a cross subsidization of tariffs, forbidden by law, as the cost of the fee would be made part of the general electricity rates. Shama Hakohen replied by asking what the economists at the water authority know that those at the electricity regulator do not (Economic Committee 2012).

## III. A regulatory welfare regime in the water sector

In 2001, a new water bill was passed, aiming to reform the water sector, making water supply more efficient and market oriented. As in electricity sector reform, water pricing was to be related to cost, and inefficient cross subsidies were to be eliminated. The bill (water and sewage corporations law, 2001), first drafted in 1997, introduced two major structural reforms: creating an independent water regulator, and municipal water corporations.

In 2003, an independent regulator, the Water Authority [WA], was formed, replacing the government body in charge of the water sector since 1959. Second, municipally owned water corporations were created, with the purpose of supplying water according to market principles (Ben Elia 2009). This would replace direct provision by the municipalities, separating water supply from other municipal affairs, eliminating implicit cross subsidization between water and other services. This separation also aimed to ensure investment in water infrastructure, as proceeds were to be reinvested into the water sector.

Reform in the water sector also addressed pricing. In 2010, a nationally uniform pricing scheme was introduced, setting two price levels, varying according to the amount of water consumed, as well as the number of people in the household. Each household is entitled to a certain amount of water at a reduced rate, after which the price goes up to a second, higher rate.

The 2010 price reform raised the costs of household consumption of water estimated by the Water Authority as a rise of 40%-50% per household (National inquiry committee regarding the management of the water sector in Israel 2010). This price hike also included the addition of VAT (at the time 17%) to the price of water, something that municipal provision was exempt from.

Transitioning from municipal water supply to municipally owned corporations represents a commodification of this sector, and left a gap in terms of the social aspects of water provision. The 2001 law does not include social provisions. Rather, it requires that the Water Authority create guidelines regarding disconnection and treatment of vulnerable consumers: guidelines which have been approved only in early 2015 (Water Authority 2015).

Disconnection guidelines. In 2004, the Israeli Supreme Court ruled that all municipalities adopt a directive regarding consumer disconnection, by the Ministry of the Interior, specifying the steps municipalities must take before disconnection (including a waiting period, prior notice, and the amount of debt below which disconnection is not pursued). The directive also specifies that a consumer facing "very harsh personal distress", due to "unusual and special circumstances", may not be disconnected from service at all. Such a consumer must not exceed a certain allowance of water, and their eligibility was to be reviewed every four months by a committee comprised of municipality officials (Supreme Court 2004).

At the time, this ruling was understood by both the media and third sector social organizations as an affirmation by the court of water supply as a basic civil right (cf. Rozner 2004) and even encouraged activists to try and achieve similar rulings in electricity (Elbashan 2008). However, this might be more appropriately considered a very limited form of 'safety net' in the water sector, limited to extreme personal circumstances and under constant review and scrutiny.

The 2004 ruling, however, was only relevant as long as the municipalities directly provided water. When municipal water corporations were created, the provision of water was separated from other municipal functions, including the municipal welfare departments, which were formerly involved in the disconnection process. This point was made clear in an injunction submitted to the Supreme Court (Supreme Court 2013), in which the Association for Human rights in Israel claimed that the municipal corporations act without a unifying legal framework for disconnection, meaning that in practice each follows its own procedures regarding disconnection. This ambiguity means that in practice different corporations use different elements of the 2004 guidelines, disregarding others and adding provisions of their own (Nir 2011).

More recently, the opposite occurred as well: when the Economic Committee approved new guidelines regarding disconnection, these guidelines only applied to the water corporations, but not where municipal water supply still exists (Economic Committee 2015).

Such differences are reflected not only in disconnection procedures but in the prevalence of water disconnection. Data on disconnections by different water corporations covering a three month period in 2013 was made available following a parliamentary question by MK's of the Labor party. This data shows wide disparities between these corporations. For example, the Jerusalem corporation disconnected the highest number of consumers (just under a thousand), while the Tel Aviv-Yafo corporation did not disconnect a single consumer (Office of the minister Silvan Shalom 2014).

In 2012, the Water Authority enacted a ban on disconnecting disabled consumers. The notice sent out by the Authority to the service providers noted that while service disconnection is a "legitimate tool for debt collection", it was also a "harsh measure", which should be used "sparingly". Regarding disabled consumers, however, "this tool may have especially difficult implications". As a result water suppliers are advised to avoid disconnection of disabled consumers meeting certain criteria (Water Authority 2012).

In March of 2015, the Economic Committee, led by MK's of the left and the religious parties, approved guidelines drafted by the water authority which aim to ban disconnection of vulnerable consumers due to non payment. The guidelines allow disconnection only after approval by the head of the Water Authority, following discussion by an advisory committee, comprised of Authority officials and public representatives with social policy training, including one who is experienced in " … carrying out means-testing" (Water Authority 2015, para.8).

The goal of these guidelines, as the head of the Economic Committee (MK Avishai Braverman, Labor) put it, is to "approve rules which will clearly distinguish once and for all between those who can't pay, and those outlaws with means who choose not to pay" (Economic Committee 2015, p.3).

<u>A social tariff for disabled consumers.</u> In 2012, the finance committee of the Knesset approved a discounted rate which would apply to certain disabled consumers. The

discount meant doubling the allotment of water at the basic, lower tariff, funded to the tune of 42 million NIS from the state budget. The discount would apply to consumers with disabilities above a certain legal level of disability (70%), and to several other groups, such as children with disabilities and certain consumers with relevant medical conditions, such as skin maladies. The discounted rate would apply to 234 thousand consumers, meaning an average yearly discount of just over NIS 200 per consumer.

This decision came after several years of parliamentary committee discussions, covering different aspects of water sector reform and its social consequences. One of these was the intent to reverse elements of economic reform. Dating back to 2009, proposals to bring back parliamentary oversight over water prices, taking this responsibility away from the WA, were backed by MK's from the left, the right and the religious parties. Legislators have also recently proposed dismantling the municipally owned water corporations, and reverting service provision back to the municipalities. The amendment is notably promoted by MK Regev of the Likud, but supported across the political spectrum (Regev 2014).

This discussion was brought about, in part, due to the rising costs of household water consumption: A 2010 survey discussed in the finance committee revealed that 70% of households paid excessively high water bills, due both to a cut in the household allotment of water at a reduced rate, and a rise in the tariff (Finance committee 2010).

The discussions focused on the social hardship faced by especially vulnerable consumers, and the need to charge higher prices from affluent consumers. An example of the former was the story of a family of 12, living in a two room residence, paying a mistakenly high tariff (Finance committee 2010), while an example of the latter is "wasteful consumers with the private pools" (Economic committee 2011).

The discussion eventually focused on a narrower social issue: that of assistance for consumers with disabilities and "holocaust survivors with disabilities", primarily those requiring large amounts of water for medical reasons. The solution found was that of a larger quota of discounted water. The head of the Committee, MK Moshe Gafni (from the religious party of Yahadut Hatora), explained that the Committee would discuss this topic instead of going forward with a discussion of reinstating parliamentary oversight of water prices, at the request of the treasury. This bargain led to a negotiation between committee members and the treasury, eventually resulting in the discounted rate (Finance committee 2012).

**IV. Regulatory welfare regimes in electricity and water: comparative analysis**

In both the electricity and water sectors, regulatory reform in the mid 1990's aimed to eliminate the inefficiencies born out of the practices of state provisions. In both cases, this was done in the structure of rates and forming an independent regulator. However, several years after these economic reforms, regulatory welfare measures were introduced, aiming to correct for the social problems created or neglected by reform. uch social problems were reflected, for example, in a rise of the cost and spending on both services, which was especially pronounced regarding low income households (see table 2).

*table 2*

The similarities between the cases extend to the political process through which regulatory welfare was introduced. In both cases, political actors drove this process, despite the opposition of regulators, bureaucrats and service providers, arguing that these measures were not an efficient or effective way to address these social issues.

The measures introduced in either sector consisted of a mixture of discounted tariffs and tighter regulation or ban on service disconnection. In both cases these measures were targeted at vulnerable groups of consumers, limited in scope and generosity and inconsistent and incoherent between and within the two sectors.

This can be seen in comparing the mixture of policy tools used, their manner of funding, and their target audiences in either sector. While in the electricity sector the main policy tools used are the discounted tariff aimed at the elderly poor and technical alternatives to disconnection, in the water sector there is both a discounted tariff and a ban on disconnection, initially aimed at groups of disabled consumers, and later expanded to include all vulnerable consumers, distinguishing between those who 'can't pay', and those who 'choose not to pay'.

In the electricity sector, the reduced tariff is funded through an explicit cross subsidy on the general electricity consumer, in water the reduced tariff is funded through the state budget, and the disconnection ban through an implicit cross subsidy, as the debt of the consumers in arrears continues to accrue.

In the electricity sector, the benefit (roughly 100 NIS) could account for roughly 36% of the monthly cost of electricity for a household in the lowest income quintile, while in the water sector, it accounts for just 11% (17 NIS) (table 2). In light of the theoretical expectations discussed above regarding the more commodified nature of the electricity sector, it may be puzzling that assistance in this sector is more generous. At the same time, there does not seem to be a clear logic to other differences between the two sectors discussed above (table 3).

This comparison leads to a discussion of regulatory welfare as a form of social policy. In both cases, regulatory welfare is targeted and means tested, both with regards to receiving benefits, and with regards to refraining from disconnection. Policy is targeted at the most vulnerable of vulnerable consumers (for example, elderly people who are also receiving welfare benefits), but also *against* consumers with high incomes, the wasteful and those who refuse to pay.

A second point in this regard is that of the relation between social need and social assistance. This connection was stressed in the water sector, aiming benefits towards consumers with disabilities or a medical condition which requires large amounts of water. While a similar connection could have been made in the electricity sector (e.g. discounted electricity for home medical equipment), assistance was instead directed towards the elderly poor, with not specific social need for electricity.

This comparison seems to undermine the notion that recipients are chosen due to social need or social 'deservedness'. Instead, enacting regulatory social protection can be seen as taking advantage of a series of political opportunities. In electricity, assistance was first directed at one group of vulnerable consumers, later expanded when the 'budget' to do so remained available. In the water sector, the prospect of returning political oversight to water prices was traded for discounted rates for some consumers. In this regard, targeting may be seen as a way to make these assistance schemes more politically feasible, limiting costs and potential objections.

The politics of regulatory welfare are not the high stakes, ideological and highly conflictual politics of fiscal welfare. Compared to polarizing issues such as workers' rights or family and childcare, regulatory welfare is not politically contested: it is not a matter of party-political debate. Rather, it is opposed, at most, by economically or legally trained bureaucrats or regulators, protecting the abstract notion of economic efficiency against the concrete social issues of society's most vulnerable citizens.

Not a party-political issue, regulatory welfare reforms were initiated and led primarily by politicians of the center-right, but later adopted, supported and even led by politicians across the political spectrum. While there is nothing preventing the left from initiating such reforms, the connection between this kind of policy and the political right is not surprising. Following Pierson (1995), it may be argued that a targeted, limited, safety net approach to welfare is exactly the kind of welfare one might expect the political right to initiate: a minimal, needs based approach, rather than a wider, universalistic approach usually associated with the political left.

*table 3*

**V. Conclusions**

This paper asked how vulnerable consumers are protected from service disconnection in the electricity and water sectors in Israel after economic liberalization. The findings show the development of regulatory welfare regimes in either sector in which the state regulates, prevents and compensates for the risk of consumer disconnection. It was led primarily by legislators of the center-right, offering the most vulnerable of vulnerable consumers a limited measure of protection against service disconnection.

The comparison between the two sectors shows the incoherent and inconsistent nature of social protection as it developed within and between sectors. For example, there is no clear logic dictating why certain vulnerable consumers receive a subsidized rate in the electricity sector while others do not. In the water sector, on the other hand, assistance is specifically directed at those with a higher need for water consumption, but the level of assistance is comparatively lower than it is in the electricity sector.

These inconsistencies and incoherence are coupled with a basic inadequacy of the measures used. In the water sector, after years of deliberation, consumers in dire medical need were given a discounted rate amounting to an 11% discount on an average monthly bill of a low income household.

This incoherence and inadequacy of these measures in the Israeli cases gives rise to more general arguments. The first argument is that the attempt to reform the utilities without express regard for the social challenges faced by vulnerable consumers affected not only the welfare of citizens but the viability of the liberalization project itself.

Had the original design of the reforms in the electricity and water sectors acknowledged the social needs in these sectors early in the process of liberalization, the political backlash (including efforts to reverse reform altogether, as in the water sector) could have been avoided, and economic efficiency, as well as social equity, would have been better served. The attempt to separate the economic from the political and social spheres, disembedding the market from its social context, results in neither efficiency nor fairness (Hopkin & Blyth 2011; Polanyi 1970).

A second concluding argument here regards the nature of social policy the regulatory welfare state represents. When discussing possible varieties of regulatory welfare states, Levi-Faur writes that “Some scholars suggest that the liberal welfare state uses regulation as a secondary safety net consisting of perhaps degraded and populist forms of welfare”, but suggests that “The jury is, however, still out” (Levi-Faur 2014, p.11).

The account of the regulatory welfare state in Israel fits this depiction as ‘degraded and populist’, providing a very minimal second safety net for the most vulnerable of vulnerable citizens. The question is, however, whether the Israeli case may hold lessons for the nature of the regulatory welfare state more generally, especially given the limitations on the Israeli welfare state: its focus on particularistic interests rather than universal provision (Shalev 2008; Gal 2010), and having undergone considerable retrenchment over the past decade (Shalev et al. 2011).

Indeed, it may be argued that the Israeli utilities sectors are too much of a special case in to allow for substantial generalisations regarding the regulatory welfare state. It is possible that the study of regulation in more central fields of welfare, such as pensions or health, and in other national welfare states might offer a different perspective on the nature of the regulatory state more generally.

However, it may be argued that the question is not whether or not a case is special, as any case may be seen as special or exceptional on some dimensions and not others. The important question is what use is made of the exceptional and non-exceptional aspects of one's cases in order to make a wider theoretical and conceptual contribution. In this case, this study contributes to the understudied field of regulatory welfare by presenting a comparative account of two concrete cases, highlighting the development of social protection in a theoretically unexpected place: liberalized utilities, in a political and bureaucratic environment typically seen as hostile to the development of social policy.

The conclusions of the paper aim to flesh out the more general reasons for the nature of the regulatory welfare state in Israel. Despite the possible uniqueness of the Israeli cases, I'd argue that these reasons would still be valid elsewhere. As is detailed below, these include first, a reliance on the market for social provision, second, a lack of transformative power of regulatory measures and third, weak institutionalization. These are all reasonable expectations undermining the use of regulation as social policy in cases and sectors beyond the Israeli case as well. There is no reason to believe the Israeli case is the only one in which these characteristics might be influential.

First, this paper argues that the Israeli case is instructive of the type of conditions under which regulatory welfare may be expected to develop. Under a limited welfare state, regulatory welfare can be expected to be more common. This claim can be supported by findings from a comparison between the Swedish and British cases, in both the electricity and housing sectors (Haber 2011; Haber 2015). While regulation for social purposes (the protection of the 'energy poor' in electricity and vulnerable borrowers in housing credit) was common in the UK, it was not common in Sweden in either sector. Regulatory welfare may be argued to be more common in less generous and less comprehensive welfare regimes, not only in the UK's liberal welfare state, but also in other less generous or comprehensive welfare states such as Israel. While limited, the Israeli case may still be representative of a wider phenomenon.

Second, this paper argues that the weaknesses identified in the Israeli context may be inherent to the regulatory welfare state more generally. This is because the reliance of this kind of policy on the market means it will be inherently weakly institutionalized and limited in its scope, ambition and potential impact.

The reliance of regulatory welfare on the market means that issues of compliance and information asymmetry between service providers and the state require the consent and cooperation of service providers in enacting social protection. The state relies on providers for even the most basic information such as extent of service disconnection, and requires providers' cooperation regarding the management of day to day interactions with vulnerable consumers. It can be argued that the need for compliance and cooperation by service providers limits the scope or extent of social protection the state can require of service providers, at least without further compensation or a more authoritative regulatory approach. Put another way, dependent on service providers, the state can be expected to be limited in what knows and can enforce, but also in what it may require of service providers in the first place.

Furthermore, even if information and compliance were not an issue, the regulatory welfare state remains inherently limited in terms of its ambition and goals. At best, it may aspire towards temporary relief from immediate social hardship. Even the complete prevention of disconnection of basic services does not hold potential for long term societal change, redistribution or reducing inequality, as fiscal welfare might achieve. It is a form of temporary damage control, with ameliorative, rather than transformative potential.

Finally, the regulatory welfare state can be expected to be weakly institutionalized, which means it may easily be retrenched. First because it lacks some of the features which have made the welfare state resilient to change (such as funding in the state budget or strong groups of recipients) (Pierson 2001). More importantly, however, the reliance of regulatory welfare on the market makes it relatively less stable than the welfare state. Regulatory welfare relies on existing market structures: the existence or absence of a large incumbent, state or private ownership, the extent of competition, etc. When the market structure changes, the social protection tailored to the previous structure of the market may no longer be relevant. For example, in the water sector, social protection put in place by the Supreme Court was undermined only a few years later when service provision transferred from municipal provision to municipally owned corporations. Regulatory welfare is thus not only limited in scope and ambition. It may also be retrenched almost inadvertently.

**Acknowledgements**

This article was written as part of a PhD project at the Hebrew University. I am very grateful for the kind and generous guidance by my PhD adviser, Professor David Levi-Faur, and for comments and suggestions from Deborah Mabbett, Michael Shalev and John Gal, two anonymous reviewers, and the editors of this journal. All usual disclaimers apply.

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**Table 1: Electricity Disconnections and Alternatives to Disconnection, 2001-2012**

| Year | number of disconnection (thousands) | Installation of Pre-paid meter | Reduced voltage fuse | Total use of alternative means |
|---|---|---|---|---|
| 2001 | 87 | | | |
| 2002 | 108 | | | |
| 2003 | 129 | | | |
| 2007 | 90.1 (estimated) | 1,200 | | |
| 2008 | 88 | 1,806 | 5,350 | 7,156 |
| 2009 | 69.9 | 1,467 | 7,211 | 8,678 |
| 2010 | 84.5 | 1,215 | 9,035 | 10,250 |
| 2011 | 70 | 1,058 | 7,868 | 8,926 |
| 2012 | 69.6 | 1,173 | 6,713 | 7,886 |
| Total | | 7,919 | 36,177 | 42,896 |

Source: Annual reports, the PUAE department for complaints and petitions by the public, 2008-2012

**Table 2: Household Spending on electricity and water**

| | Electricity | | Water | |
|---|---|---|---|---|
| | Average household | 1st quintile household | Average household | 1st quintile household |
| Monthly household spending, 2011 (in NIS) | 320.5 | 274.0 | 146.8 | 141.8 |
| Monthly household spending on service, out of total household spending, 1998 | 1.9% | 2.4% | 0.9% | 1.2% |
| Monthly household spending on service, out of household spending, 2011 | 2.2% | 3.2% | 1% | 1.6% |
| Rise in household spending on service , 1998 – 2011 (in real terms) | 33% | 47% | 31% | 51% |

Sources: Central Bureau of Statistics household expenditure data for 1998-2000, 2002-2011

**Table 3: The regulatory welfare regimes in electricity and water, a summary of measures**

| | Sector | Description | Recipients | Funding method and sum |
|---|---|---|---|---|
| Reduced rates | Electricity | 'Social tariff': 50% monthly discount on the price of the first 400 Kwh's of electricity (about 100 NIS) | Various groups of vulnerable consumers (e.g. elderly poor), roughly 180,000 recipients | Cross subsidized, up to 1.5% of the total electricity rates |
| | Water | Doubling the allotment of water at discounted rate (monthly benefit of about 17 NIS) | Consumers with disabilities who require large amounts of water, 234,000 recipients. | State Budgeted, 42 Million NIS annually. |
| Disconnection regulation | Electricity | Corporation and PUAE guidelines, including a waiting period, notices, payments plans and alternatives to disconnection | No specific targeting | Implicit cross subsidization |
| | Water | Under municipal provision: Ministry of interior guidelines (2004). Includes waiting period, notices, payments plans for debt and a limited ban on disconnection.<br><br>After the creation of water corporations: guidelines vary by provider (until 2015). | Limited ban of disconnection for vulnerable consumers (reviewed regularly) | |
| Disconnection ban | Electricity | None | | |
| | Water | 1. Service providers advised to avoid disconnection of disabled consumers (2012)<br>2. Water Authority guidelines ban disconnection for non-payment (2015) | 1. Certain disabled consumers,<br>2. Consumers in financial need (means tested) | Implicit cross subsidization |