



September 14, 2022

Alice Busching Reynolds, President
California Public Utilities Commission
505 Van Ness Ave
San Francisco, CA 94102

Re: CPUC Application 21-11-024 Phase 2 Supply and Demand Testimony

Dear President Reynolds and Honorable Commissioners:

My name is Mark Watson, I am the Chair of the Monterey County Hospitality Association. Our association protects the interests and serves as the voice of the hospitality industry throughout Monterey County by maintaining strong partnerships with local governments, elected officials and community groups. We represent over 1,100 businesses in Monterey County, including lodging properties, restaurants, wineries, breweries, distilleries, local attractions and experiences, hospitality services and community organizations. The Monterey County Hospitality Association also works to ensure the overall vitality of the hospitality industry by being a valued resource for the over 22,000 employees in our region's hospitality industry.

It is critical to our industry that a reliable water source be developed on the Monterey Peninsula, which is essential to maintaining our local economy, our existing infrastructure, and businesses, and providing solutions for more affordable workforce housing. With our current water situation, we cannot fulfill state requirements for increased affordable housing, and it threatens our industry's livelihood. Water is at the source of our housing and labor shortages, which are essential for a thriving tourism industry and economy.

Furthermore, an additional water supply for the Monterey Peninsula is essential to accommodate expected increases in tourism on the Peninsula in the coming years, as we continue to recover from the COVID-19 pandemic. In addition, many existing hotel and tourism properties in the region plan on remodeling to respond to changing customer preferences. Though our members are conscientious of their water use and strive to use this precious resource carefully, even with the installation of water conservation devices (such as low flow faucets), remodels will result in increased water use due to higher capacities and occupancies. Without additional water, Monterey's hospitality industry will not be able to reach its full potential or rebound from multiple economic stressors that depressed regional tourism for years even before the Great Recession and leading through the COVID-19 pandemic. We maintain that the MPWSP is the only realistic and reasonable way to meet water supply shortages in Monterey County and secure a sufficient and sustainable Monterey Peninsula water supply.

I understand that the Commission is currently considering the Phase 2 testimony written by various parties involved in the MPWSP proceeding before the Commission. I have reviewed the Phase 2 testimony and would like to respond to some of the arguments related to the water demand required for the “Tourism Bounce Back” as previously determined by the CPUC in 2018. Like Ian Crooks states in his testimony, the hospitality industry has suffered from reduced occupancy and visitation rates since the Great Recession that started in late 2007. The Great Recession resulted in reduced occupancy and visitation rates from 2008 through 2018 and was severely impacted once again beginning in early 2020 due to the COVID-19 pandemic and is yet to fully recover. For example, the Monterey County Convention and Visitors Bureau Executive Director Rob O’Keefe recently stated that business meeting, group, and convention visitors are at about 60% of what they were in 2019.¹ Mr. O’Keefe added that while international visitors from Canada, Mexico and some parts of Europe have started to return to California, “highly valuable markets in Asia are expected to lag in recovery.”²

Furthermore, due to Cease-and-Desist Order 2009-0060 (“CDO”), which prohibits new service connections or certain increased uses of water at existing service connections, existing hotels, restaurants, and other visitor-serving businesses have not been able to remodel or expand their offerings at the same pace as has been done in other regions, and new hotel and restaurant supply has lagged behind that of competing markets. These limitations have placed our region at a competitive disadvantage compared to other destinations that have been able to change and adapt with the times. Once a new permanent long-term water supply is in place and the CDO is lifted, our industry will be able to keep up with changing client demands as was done prior to the CDO. Our ability to maintain our economic vitality and remain competitive with other travel and tourism destinations will require additional water.

Contrary to David Stoldt’s and MPWMD’s testimony, the tourism bounce back has not occurred and there is sufficient justification for including 500 AFY through 2050 in California American Water’s demand projections. 500 AFY is the most reasonable demand number to include in California American Water’s demand projections because:

- Given the recent history of compounding economic crises even prior to the Great Recession stemming from the Dot-com Bubble Burst in 2000, followed by the 9-11 Terror Attack in 2001, it is evident that water use by visitors and visitor serving businesses in our district has been artificially depressed for over 20 years, and that the long-term return to stable occupancy and visitation rates will necessitate additional water supply.
- Occupancy rates have not fully recovered. Following the long, interrupted, and difficult road to economic recovery beginning in 2000, our region only briefly

¹ Monterey Herald, *Monterey County tourism rebounding but faces challenges* (May 22, 2022), available at: <https://www.montereyherald.com/2022/05/09/monterey-county-tourism-rebounding-but-faces-challenges/>.

² *Id.*

returned to near normal occupancy prior to the COVID-19 pandemic. As of July 2022, trailing 12-month occupancy for our region was reported by Smith Travel Research to be 69.7%, compared to 74.0% in 2019 when we last enjoyed historically normal occupancy.

- Existing water use rates will also increase regardless of whether additional new development occurs. For example, due to tiered water pricing in California American Water's service area, many hotels in the region send laundry miles out of the area to be washed in less expensive service territories. With a new water supply and rate structure, hotels once again will be able to service their laundry needs locally.
- Insufficient water supply can have far-reaching impacts on recreation and tourism, with decreased visitation due to perceptions of the impacts of drought periods, leading to loss of revenue to our businesses, communities, and government agencies.

For these reasons, 500 AFY remains the most reasonable representation of the water demand California American Water will have to meet in the future to account for the tourism bounce back on the Monterey Peninsula. Please feel free to contact me should you have any questions regarding the hospitality industry's water supply needs.

Sincerely,



Mark Watson
Chair
Monterey County Hospitality Association