

Exelon comments on the proposal to use the Blue Chip Consensus Forecast in the upcoming PJM load forecast.

I advise against replacing Economy.com Baseline Forecast with Blue Chip Consensus U.S. GDP Forecast for PJM's load forecast process. Specific comments follow:

Pros:

- *Pro #6: "A median U.S. GDP growth forecast can be derived from the Blue Chip Consensus. MEDC's baseline is explicitly a "most likely", not a median, forecast."*
 - Rebuttal: The explicit probabilities assigned to MEDC's baseline and alternate scenarios are a strong advantage of MEDC. The methods and assumptions are much more transparent than the Blue Chip survey results. There is no reason to believe the middle of the Blue Chip survey results would be more accurate.
- *Pro #8: "MEDC has been one of the least accurate, if not the least accurate, of all the forecasters participating in the Blue Chip survey, based on forecasts of 2009 growth produced in 2007-2008."*
 - Rebuttal: The performance of macroeconomic forecasts needs to be monitored to detect any systematic issues with forecast accuracy. A single year comparison does not accomplish that, and in particular 2009 growth was universally over-predicted by forecasts produced in 2007-2008. We are not aware of any systematic or persistent biases in MEDC. Blue Chip is not internally consistent by its nature. Monitoring the Blue Chip outcomes provides no indication whether the underlying forecaster models and views have systematic or persistent problems.

Cons:

- *Con #5: "The proposal would ask MEDC to do something they have not done before (fix the dependent variable and then determine independent variables)."*
 - Agree: It is unsound to pre-determine the outcome as Blue Chip consensus view on GDP growth. Many forecast inputs are required to arrive at the MEDC forecast outcomes, such as new housing permits, unemployment, wages, retail sales, and labor productivity. Blue Chip has no consistent assumptions about such inputs, even among those contributors to Blue Chip who use a formal model.
- *Con #6: "Proposal would result in an economic forecast that is not a consistent scenario; the underlying factors of GDP growth can not be explained to stakeholders, commissions, etc. "*

- Agree: Blue Chip consensus has no consistent methodological underpinning; there is no transparency to the underlying data points.
- *Con #12: “The proposal will lead to winners and losers at the regional level. Stakeholders will not have access to underlying data to validate the assumptions which determine this. “*
 - Agree: MEDC is one of the only providers modeling at the Metropolitan Area level. This geographic detail is critical to zonal load forecasts. Local information is better. The growth by region can differ markedly from national growth with important consequences for zonal load. Using national level economic forecasts such as Blue Chip, for zonal load projections, is akin to saying one could project recovery of the Real Estate markets in Nevada, California and Florida from looking at national average housing stock and prices. PJM should continue to use economic forecasts that are explicitly developed at the metropolitan area level.