

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

### **Pros:**

- Pro #3: Mr. Wilson's premise that pooled forecasts are more accurate is not necessarily true. The two attached reports by the CBO (CBO's Economic Forecasting Record: 2009 Update) and by the Federal Reserve Board of Governors (Gauging the Uncertainty of the Economic Outlook from Historical Forecasting Errors, November 2007) demonstrate that that non-consensus forecasts can perform just as well as consensus forecasts. We believe that these articles provide evidence that is contrary to the articles Mr. Wilson has put forth. It should be noted that we found the attached articles online while doing a very quick literature search. We believe that a more thorough and balanced literature review is warranted before making such a drastic change to PJM's forecasting procedures. It appears that Mr. Wilson is simply looking for a lower forecast and has found articles to support his interests. I have one question: would Mr. Wilson be pursuing this proposal if Economy.com was in the bottom 10 of the Blue Chip forecasts?
- Pro #4: In Mr. Wilson's presentation (slide 12), he notes that "forecasting firms who prepare forecasts they sell in the marketplace as a forecast product" exhibit much more bias than firms doing internal forecasts. We do not find this assertion credible. The FRB article referenced above explains how consensus forecasts are potentially vulnerable to bias that could not occur in a non-consensus forecast. MEDC has every incentive to put out a forecast they will believe will be correct. If MEDC is way off they will lose credibility and, along with it, a number of clients who will switch to competing forecasting firms who performed better over the period in question. Internal forecasters can very often be influenced by their management, as well as what other forecasters in their respective industries are saying. Intuitively, these internal forecasts seem like they would ultimately be more biased. Time will tell who is correct and who is incorrect.
- Pro #5: Is there a risk for PJM that the consensus is too low? PJM needs to ensure that it has enough capacity to meet future needs. If Blue Chip Consensus forecast is incorrect, might PJM be caught short?
- Pro #8: Where is the proof that MEDC is one of the least accurate for 2009? We do not know of any economists that expected the downturn to be so large. What measure is being used to make this statement? We would like to see the evidence for this statement, especially since the comparison of MEDC and Blue Chip forecasts Mr. Wilson presents (slide 6) for September-October 2007 are essentially the same.

### **Cons:**

- Con #1, Con # 11: This is a key concern. Before making any change, we need to understand how the forecasts have performed over longer time periods (5-10 years). More analysis is needed before making such a dramatic change in the PJM forecast procedure.
- Con #6: Internal consistency is very important, as is the ability to completely understand the data and the assumptions behind the economic forecasts. MEDC is very willing to listen to concerns about their forecasts, and to make adjustments when warranted. They are also able to defend their

forecast assumptions and provide a reasonable story about their economic outlook. In addition, they are able to communicate what is changing between forecasts, which is very important in explaining why load forecasts are what they are to management. We really do not like the idea of MEDC manipulating inputs to arrive at the Blue-Chip answer. This is bound to lead to inconsistencies within the forecast. MEDC may not be able to provide reasonable explanations for the assumptions used in the Blue-chip “scenario”. Since no one can really explain why a consensus forecast changes, it makes it very difficult to explain to management or a Public Service Commission why the forecast has changed from one year to the next.

- Con #8: A two-month lead time makes for a less flexible forecast schedule. If there are questions about data, as there was this past year, PJM could not easily incorporate updated data in a timely manner. This is also a big drawback to moving to Blue Chip Consensus forecast “scenario” from MEDC.