

LECG Comments on Economic Forecast Pros/Cons (8/28 Draft)

Here are my comments on the 8/28 draft list of Pros and Cons, based on proposal as I have further detailed it in another email today, that addressed many of the perceived and alleged Cons.

Con #1 is not true, see my email last week. In any case, this is not a Con, it is at best an attempt at rebuttal of Pro #3. If you plan to include rebuttal points in the table, rather than just Pros and Cons, I would have many rebuttal points to add to the table. I suggest that you not include rebuttal points, and delete this one.

Con #2 is not a Con. It is simply an observation about the proposal. I think it is valid to include this observation. Perhaps following the Pros and Cons include a further section labeled, Further Observations and include this observation.

Con #3 is eliminated by the further detail in the proposal. Moody's is only asked to match those years that are provided by Blue Chip, and have flexibility in developing the scenario outside of that range.

Con #4 I don't understand. The Blue Chip consensus provide annual values for the next five years (and in both Moody's and Blue Chip, values are close to constant beyond that), so it does not "mask the detail of individual year-to-year growth". This needs to be reworded if there is an idea here. Also, note that we are not at a turning point, that was last year.

Con #5 is addressed by the revised proposal, which does not require it to "fix" the dependent variable. Moody's representatives have repeatedly stated that they develop alternative scenarios for clients "all the time" according to a wide range of specifications, and undoubtedly many of those alternative scenarios are close to the Blue Chip, in light of the fact that nearly all forecasters's views are closer to the Blue Chip.

Con #6 is not true, especially under the revised proposal. Moody's will prepare a complete alternative scenario with all details just like its Baseline.

Con #7 is addressed by the revised proposal; Moody's may further relax the constraint if necessary.

Con #8 is not true; Mr. Cochrane said he "would like to have" two months, he did not say it would take two months. Moody's representatives stated at the July 8 meeting, confirmed in further discussions after that meeting with participation of Moody's analysts, and further confirmed in a follow-up email July 14, that it could be done in less than a week, with the results provided by the first week of November. Furthermore, the revised proposal provides additional flexibility, making it even easier.

Con #8, second part ("multiple iterations"), is addressed by the revised proposal. All guidance will be provided ex ante, the full details will be provided and the further review process would be exactly the same as for the Baseline in the past.

Con #9 is addressed by the detailed proposal. All guidance is general and ex ante.

Con #10 is a non-issue and addressed by the flexibility provided under the revised proposal.

Con #11 is false, this proposal follows the process established by PJM for considering changes to the load forecasting methodology.

Con #12 is false. Full details will be available, as for the Baseline. It is not clear what "winners and losers" means; the alternative scenario will result in differences in the GMP values and peak load forecasts, presumably values with a more sound basis due to consistency with the Blue Chip forecast. If this is kept, it should be reworded to more clearly state what the alleged "Con" is and remove the "winners and losers" language which seems to imply a value judgment independent of the quality of the forecast and assumptions.

Con #13 is from my list, and should be deleted. The stakeholder process is already happening in any case.