

MIPUG/CAC-Gotham-001

PREAMBLE

Gotham Export Price - pg 1

QUESTION

Please provide Dr. Gotham's view as to the appropriate role and use of consensus forecasting, and a summary as to why Hydro's consensus forecasting approach to developing MISO price forecasts is not appropriate or reliable.

RESPONSE

Consensus forecasts are used sometimes when there is a lack of confidence in forecasts from a single source, either because of the volatility of the variable being forecast (natural gas prices prior to the development of shale gas might be an example) or because of uncertainty regarding future factors affecting the forecast (climate change legislation is one possible example).

While I am not strictly opposed to the use of consensus forecasting, I prefer not to use that approach. I do not feel that it improves forecast accuracy and does not help identify the risks associated with uncertainty. My preference would be to use scenario and sensitivity analyses to identify and quantify the risks associated with the uncertainty.