

Evaluation of Probabilistic Forecasts

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October, 2026

Overview

- 1 Introduction to forecast evaluation
- 2 Qualitative methods - PIT histograms
- 3 Quantitative methods - scoring rules
- 4 Case Study - Normalized Wind Power Production
- 5 Multivariate forecast evaluation

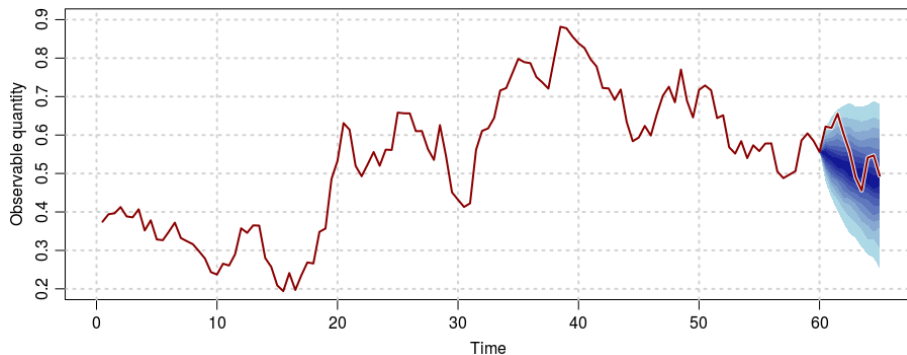
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Forecasting

- *Forecasting* refers to prediction of future events in a mathematical sense.
- All forecasting of real variables comes with a stochastic component, hence suitable forecasts are *probabilistic*.
- A *forecast* of an event usually takes the form of a *point estimate*, an *interval*, a set of *quantiles* or a *probability density function* (PDF).

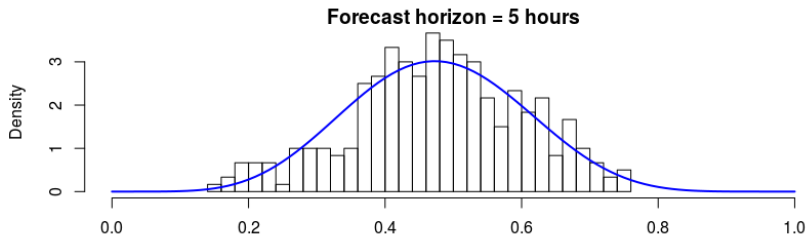
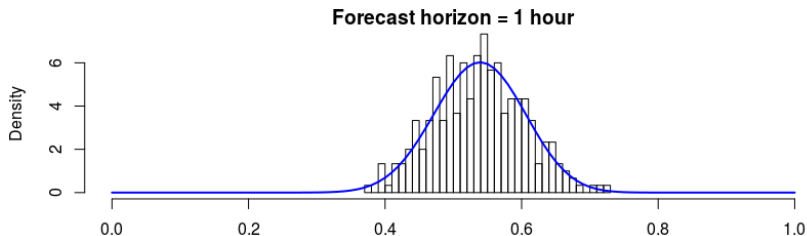
Forecasting

- A typical forecast scenario:



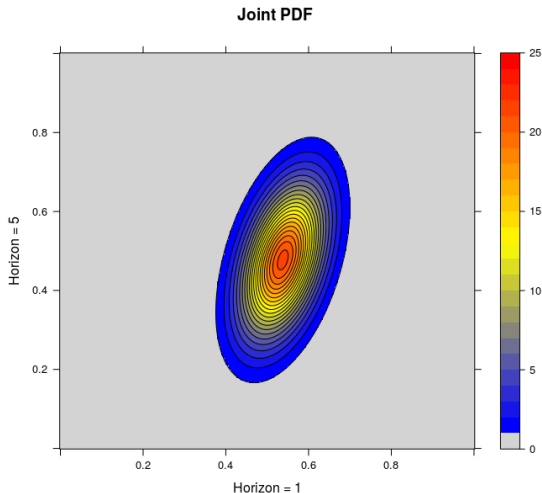
Probabilistic forecasting

- A probabilistic forecast of a variable at different horizons may be considered in terms of its marginal densities:



Probabilistic forecasting

- - or in terms of the joint density:



Forecast Evaluation

- *Definition:* Either directly assessing the quality of one model or comparing a set of competing models.
- Why don't we simply apply the Mean Squared Error every time?

$$MSE = \frac{1}{N} \sum_{i=1}^N (y_i - \hat{y}_i)^2$$

Motivation - simulation example

- Consider the stochastic process [Gneiting, 2010]:

$$Y_t = Z_t^2$$

with,

$$Z_t \sim \mathcal{N}(0, \sigma_t^2)$$

$$\sigma_t^2 = 0.20Z_{t-1}^2 + 0.75\sigma_{t-1}^2 + 0.05$$

- We compare three forecasting models for predicting Y_t :

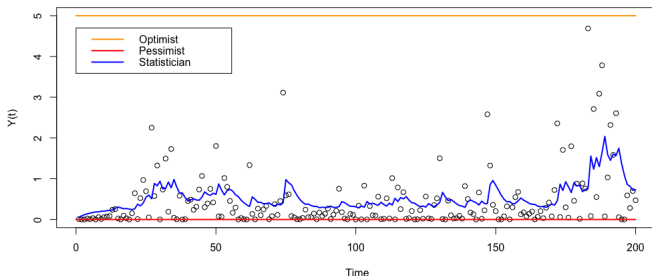
Optimist: $\hat{y}_{t|t-1} = 5$

Pessimist: $\hat{y}_{t|t-1} = 0$

Statistician: $\hat{y}_{t|t-1} = \mathbb{E}[Y_t | \sigma_t^2] = \sigma_t^2$

Motivation - simulation example

- Which model is superior?



Using the common scores:

- SE: $S(x, y) = (x - y)^2$ (squared error)
- AE: $S(x, y) = |x - y|$ (absolute error)
- APE: $S(x, y) = \left| \frac{x - y}{y} \right|$ (absolute percentage error)
- RE: $S(x, y) = \left| \frac{x - y}{x} \right|$ (relative error)

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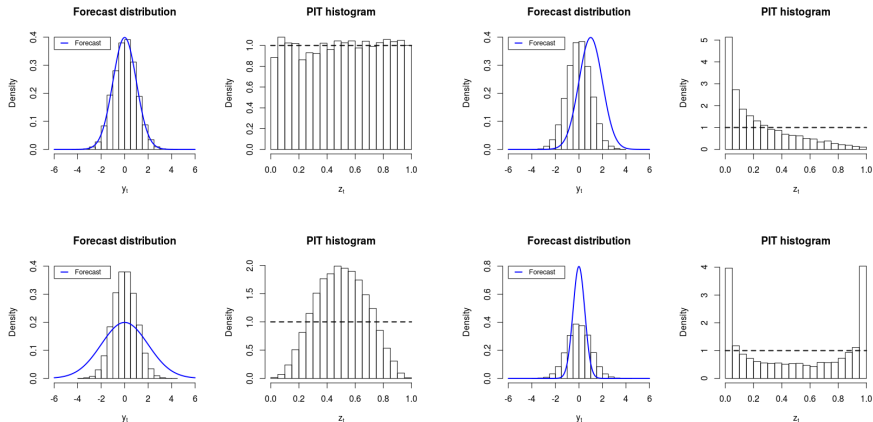
- The *probability integral transform* (PIT) z_t of an observation y_t is defined as,

$$z_t = \int_{-\infty}^{y_t} \hat{f}_t(u) du$$

- Where $\hat{f}_t$ is the forecast density. If $\hat{f}_t$ coincides with f_t , then $z_t \sim U(0, 1)$.

PIT histograms

- In practice, we inspect the histogram of $\{z_t\}$, i.e. the PIT histogram:



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Scoring Rules - overview

- *Scoring rules* are summary measures intended to provide a forecaster with a form of evaluation of his or her forecasting model.

Definition (Scoring rule)

Consider a forecaster that wishes to forecast an event. If the forecaster issues the prediction f and the event x materializes, then his or her reward is $S(f, x)$ under the scoring rule S .

Note: we choose scoring rules to be *negatively* oriented. i.e. we prefer the model with the lowest score.

- When evaluating a model w.r.t. any scoring rule, the usual key measure is the average score:

$$\bar{S}(f, y) = \frac{1}{N} \sum_{i=1}^N S(f, y_i)$$

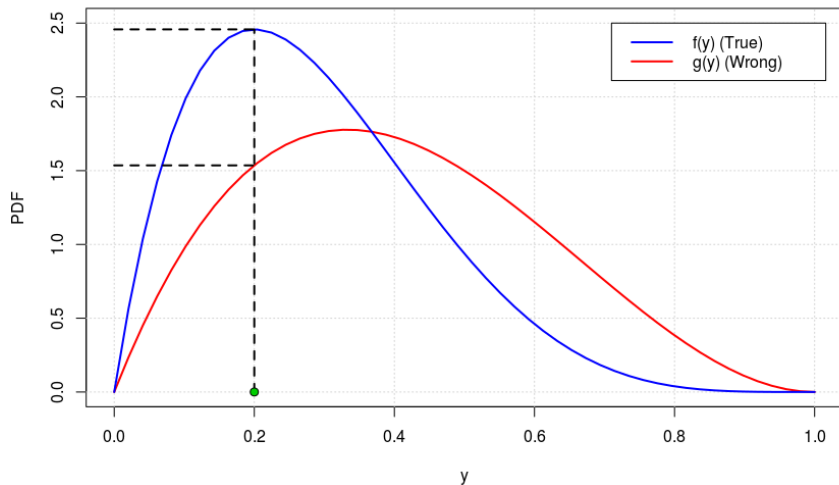
- One of the most intuitive scoring rules is the *logarithmic score* which is based on the PDF of the forecasted variable, $f(y)$, and is defined as:

$$\text{LogS}(f, y) = -\log(f(y))$$

- The log score rewards observations in terms of their likelihood of occurring under the evaluated model.

Logarithmic score

- LogS visualized:



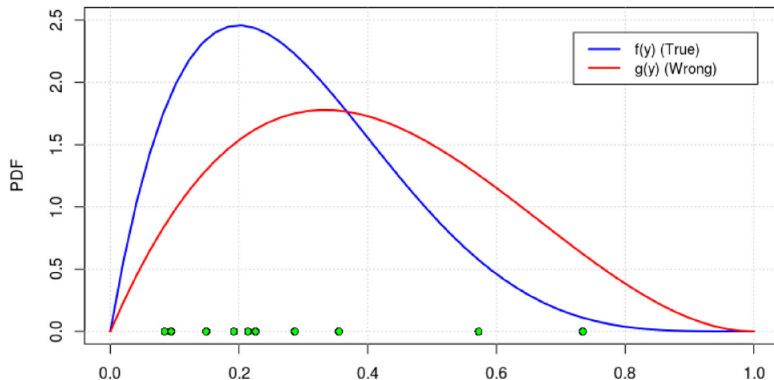
For 10 observations

- True model

$$\overline{\text{Log}S}(f, y) = -0.34$$

- Wrong model

$$\overline{\text{Log}S}(g, y) = -0.23$$

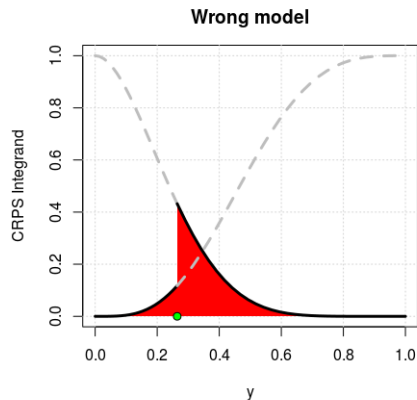
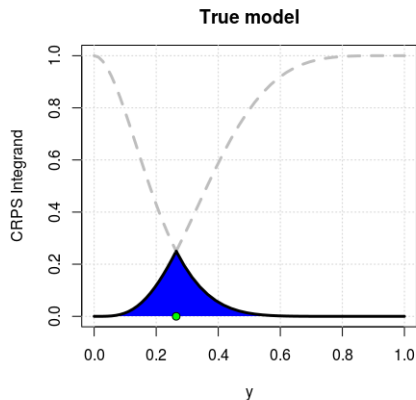


- The *continuous ranked probability score* (CRPS) is based on the cumulative distribution function (CDF) of the forecasted variable, $F(y)$, and is defined as:

$$\text{CRPS}(F, y) = \int_{-\infty}^{\infty} (F(x) - \mathbb{I}(x \geq y))^2 dx$$

- The CRPS rewards observations close to the median of the evaluated model.

- CRPS visualized:



Overview

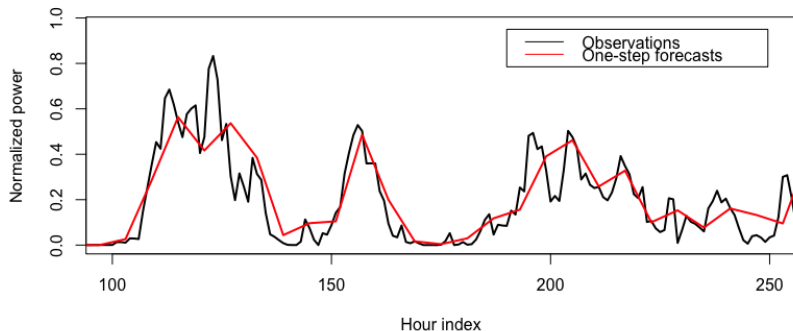
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We consider normalized wind power production at the danish Klim power plant and analyze a data set featuring,

- **Observations:** Hourly average normalized wind power production, y_t for a total of 15600 hours.
- **Predictions:** Multivariate 48-hour point forecasts, $\tilde{\mathbf{p}}_t = (\tilde{p}_{t+1|t}, \tilde{p}_{t+2|t}, \dots, \tilde{p}_{t+48|t})$ issued every 6th hour.

Case Study - Overview

- A subset of the Klim power plant data set (focus on 1-hour forecasts):



- Møller et. al. (2015) attempted to model this data by deriving and proposing the following stochastic differential equation (SDE):

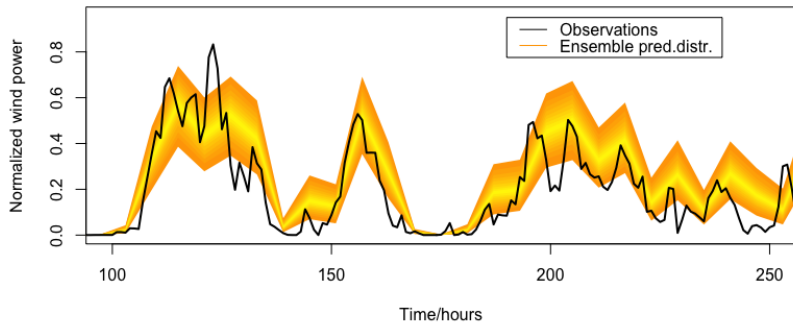
$$dY_t = -\theta(Y_t - \tilde{p}_t - c\tilde{p}_t(1 - \tilde{p}_t)(1 - 2Y_t))dt + 2\sqrt{\theta\alpha\tilde{p}_t(1 - \tilde{p}_t)}dW_t$$

- We can use this equation to generate probabilistic forecast ensembles and subsequently estimate the forecast density $f_{t+h|t}(y_{t+h})$.

In the following, we will be lazy and simply denote this $\hat{f}(y_t)$, where t is really $t + h|t$ and it is assumed that we consider only one specific horizon.

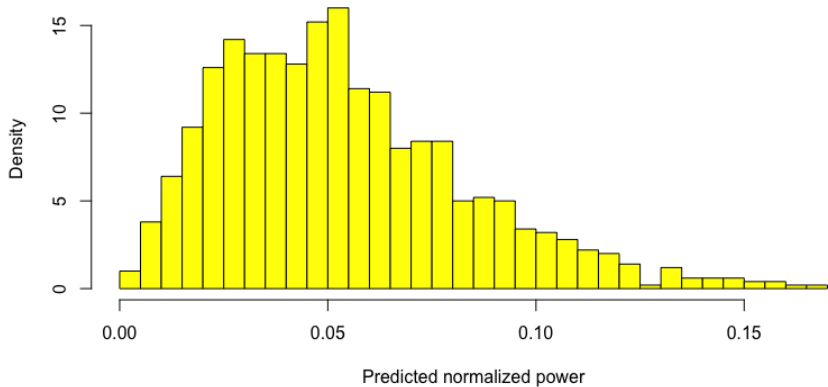
Case Study - Modelling

- Generated probabilistic forecasts from simulations of the SDE:



Case Study - Modelling

- An example of a forecast density for some time t and forecast horizon h obtained by simulating from the SDE model:



- The forecast densities generated by the SDE (slide 23) are double-bounded (0,1) and generally asymmetric. This suggests that the PDF may be approximated by the beta distribution:

$$\hat{f}(y_t) = \frac{1}{B(\alpha, \beta)} y_t^{\alpha-1} (1 - y_t)^{\beta-1}$$

- Alternatively, we could model the forecast density with a kernel density estimate (here h denotes bandwidth, not horizon):

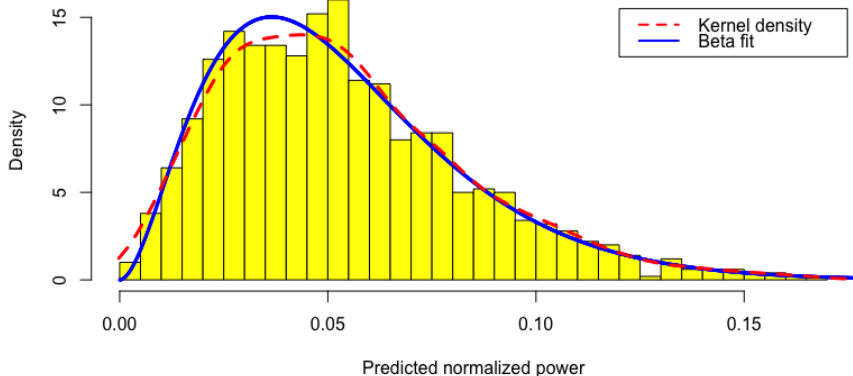
$$\hat{f}(y_t) = \frac{1}{n} \sum_{i=1}^N \frac{1}{N} K\left(\frac{y_t - y_i}{h}\right)$$

- $K(\cdot)$ can for instance be the Epanechnikov kernel or the Gaussian kernel.

Case Study - Modelling

How do the models compare?

- Which model should be preferred in *your* opinion?
- What do you think the *scoring rules* will conclude?



Case Study - Results

- Logarithmic scores:

Horizon	Beta	Kernel
1 hour	3.297	-1.632
2 hours	3.914	-1.084
3 hours	3.989	-0.772

- CRPS:

Horizon	Beta	Kernel
1 hour	0.040	0.039
2 hours	0.060	0.059
3 hours	0.073	0.071

Most important lesson

- LogS penalizes very hard on observations that are unlikely under a model that may otherwise look reasonable. Is this a problem?
- CRPS finds similar models to be similar (robustness) but will more or less ignore differences in the extremes.

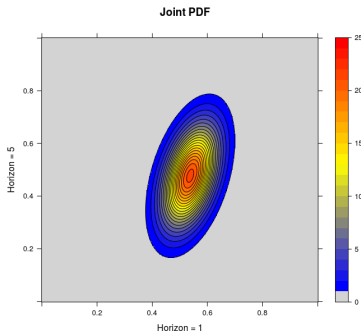
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Multivariate forecast evaluation

Why consider multivariate forecast evaluation?

- Real processes have often significant temporal or spatial correlation, which is not accounted for by univariate evaluation methods.



- Note: published research is currently limited and scattered.

Multivariate probability integral transform

- We have already defined the PIT for a univariate time series,

$$z_t = \int_{-\infty}^{y_t} \hat{f}_t(u) du$$

- We can obtain a multivariate forecast evaluation by splitting the joint density $f(\mathbf{y}_t)$ into all possible chains of conditional densities. For a 2-dimensional forecast, that is:

$$f(\mathbf{y}_t) = f(y_{2,t}|y_{1,t})f(y_{1,t})$$

$$f(\mathbf{y}_t) = f(y_{1,t}|y_{2,t})f(y_{2,t})$$

- If the forecast is correctly calibrated, then the PIT of each of these four univariate densities must be $U(0, 1)$.

- Consider the multivariate stochastic variable, $\mathbf{Y} = (Y_1, Y_2, \dots, Y_N)^T$. If $\mathbf{X}$ is a forecast of $\mathbf{Y}$, then we can evaluate it with the multivariate analogs of the logarithmic score and the CRPS.
- Multivariate logarithmic score:

$$\text{LogS}(f_{\mathbf{X}}, \mathbf{y}) = -\log(f_{\mathbf{X}}(\mathbf{y}))$$

- Multivariate CRPS:

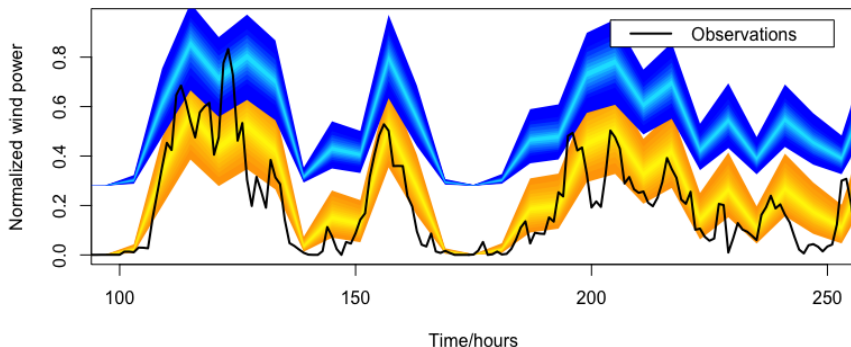
$$\text{CRPS}(F_{\mathbf{X}}, \mathbf{y}) = \int_{-\infty}^{\infty} (F_{\mathbf{X}}(\mathbf{u}) - \mathbb{I}(\mathbf{u} \geq \mathbf{y}))^2 d\mathbf{u}$$

- Scheuerer et. al. (2015) showed that multivariate CRPS has limitations in terms of detection of misspecified correlation.
- To better address this property of a probabilistic forecast, the *variogram score* of order p was suggested,

$$\text{VarS}_p(f_{\mathbf{X}}, \mathbf{y}) = \sum_{i,j=1}^n w_{ij} (|y_i - y_j|^p - E[|X_i - X_j|^p])^2$$

Variogram score

- The variogram score is indeed naturally sensitive to correlation structure, but it cannot detect a misspecified mean:



- Both the blue and yellow forecast density series will yield exactly the same variogram score!

How do we actually compute these scores for higher dimensions in general?

- **Log Score:** Need to estimate the PDF with a kernel density estimator. For example, R offers `kde` (from the `ks` package), which supports 1-6 dimensional densities).
- **CRPS:** Need to estimate the CDF, which is easy, use e.g. the ECDF:

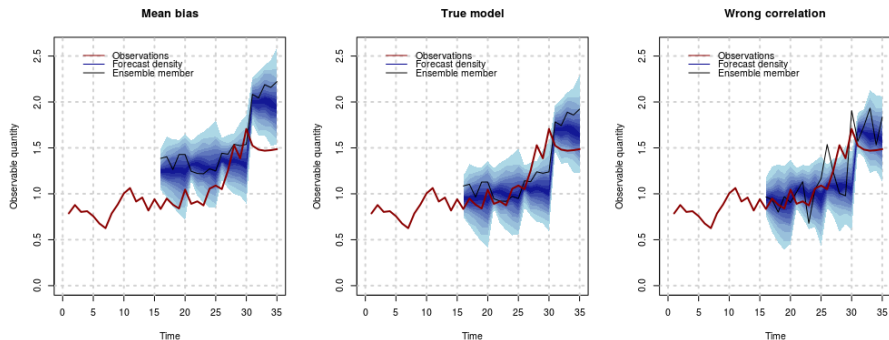
$$\hat{F}(y) = \sum_{i=1}^N \mathbb{I}(x \leq y)$$

Need to integrate the CDF. If the ECDF is used, however, this is trivial.

- **Variogram Score:** Simple arithmetic operations.

Simulation Study 2

- Probabilistic forecasting scenario - three different models:

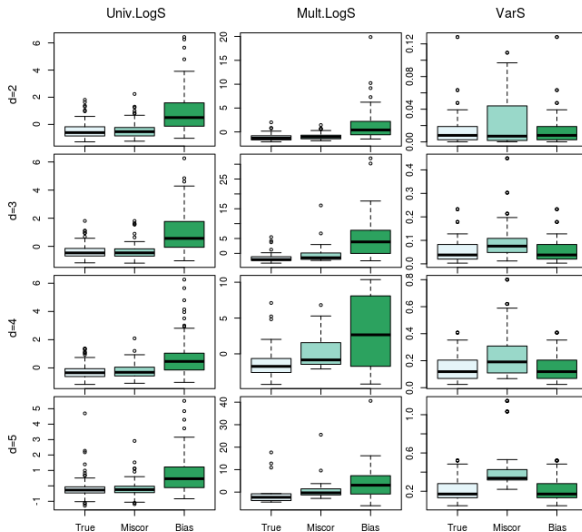


Simulation Study 2 - Scores

Lessons learned:

- Univ.LogS: “True” and “Miscoor” are equal. “Bias” is horrible.
- Mult.LogS: “True” is the superior model followed by “Miscoor”. “Bias” is horrible.
- VarS: “True” is better than “Miscoor”, but “Bias” can’t be distinguished from “True”.

All as expected.



Summary/pros and cons

- Advantages and disadvantages of the scoring rules considered:

	LogS	CRPS	VarS
Calibration	Good	Good	Useless
Correlation structure detection	Good	Useless	Good
Computation speed (non-parametric)	Okay*	Slow	Fast
Computation speed (parametric)	Fast	Fast	Fast
Scalability w.r.t dimension	Okay	Bad	Good

Table: *Computation speed is fast for 1 dimension, but slows down quickly with additional dimensions, hence categorized as 'okay'.

Our overall recommendation for evaluation of multivariate probabilistic forecasts is:

- Apply VarS to the full, multivariate forecast, while
- Simultaneously evaluating its marginal densities by either univariate CRPS or LogS, depending on whether the shapes of the tails are important (LogS) or not (CRPS).

The End

Final comment

- Hence, we don't have one superior proper scoring rule that accounts for everything. We must instead decide what to put emphasis on in a given situation.

By the way

- In case you want to evaluate a quantile forecast: let I be the interval (u, l) such that this interval exactly encloses a $(1 - \alpha) \cdot 100\%$ prediction interval. Then the *interval score* (IS) is defined as,

$$\text{IS}(y) = (u - l) + \frac{2}{\alpha}(l - y)\mathbb{I}(y < l) + \frac{2}{\alpha}(y - u)\mathbb{I}(y > u)$$

- Long story short, narrow prediction intervals are rewarded under IS, as are observations that fall inside the prediction interval.

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