Wind Energy Risk Modelling

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Hedging on wind

Motivation

- Energy generation soon dominated by renewables
- Wind power highly depends on wind conditions
- Sudden wind speed changes of e.g. 11m/s $\rightarrow$ power drop by 80%
- Unsteady wind direction may result in zero wind power generation

- Knowledge about variability of wind is essential for
  - Sustainable energy supply
  - Energy management
  - Hedging wind energy futures

Weather futures

- In agriculture: hedging against
  - Rain, drought, snowfall
- In renewable markets: hedging against
  - Unexpected wind conditions, sun duration, clouds

- Market is growing
- Products are still in development
- Site-specific weather futures (e.g. Chicago Weather Brokerage)

Wind futures: soon at EEX

- Contract: A contract settling against the expected on-site power production of future delivery periods
- Underlying: Average wind load factor per contract period. Alternatives: wind direction, wind speed, wind duration indices.
    - Average daily wind speed over past 20 years as basis
    - Index: Expectation of wind energy for specific period

$$CAWS(\tau_1;\tau_2) = \int_{\tau_1}^{\tau_2} W(s)ds$$

Wind risk

- Risk exposure of wind farms depends on
  - Wind speed
  - Wind direction
- Wind speed consists of three components
  1. Seasonal
  2. Intraday-periodicity
  3. Stochastic term
- Understand core drivers of stochastic component
- Incorporate tail risk using measures of tail-events

Seasonal wind direction dependence

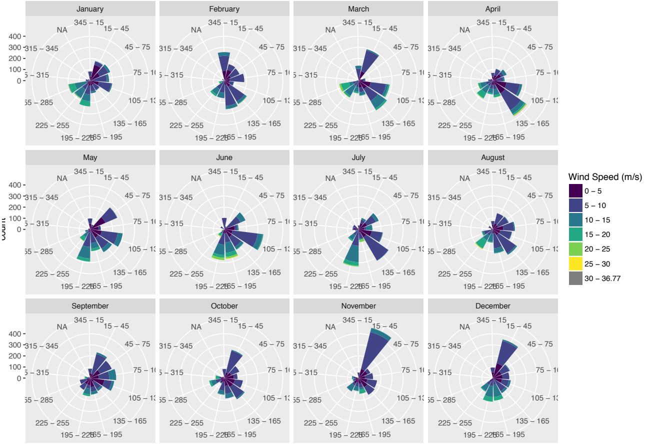


Figure 1: Wind directions for 2014 at Spain, Lugo

Seasonal variance in wind speed

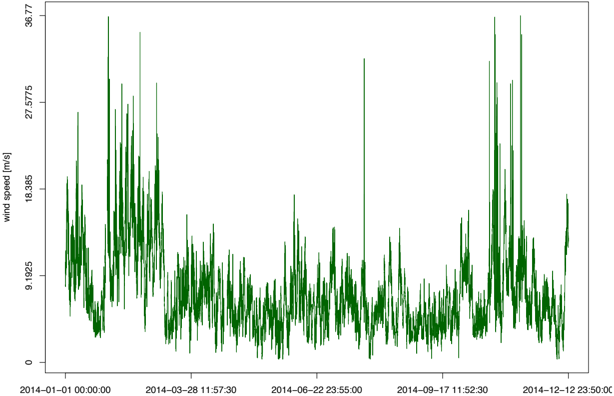


Figure 2: 10-min average Wind speed for 2014 at Spain, Lugo

Understanding volatility: FASTEC

Factorisable Sparse Tail Event Curves on wind speed volatility:

- Common structure
  - Ultra high dimensional (UHD) time series with factors
  - Sparse penalization
- Individual variety
  - Tail behaviour
  - Spread analysis on factor loadings

Chao et al. (2015), Huang et al. (2016)

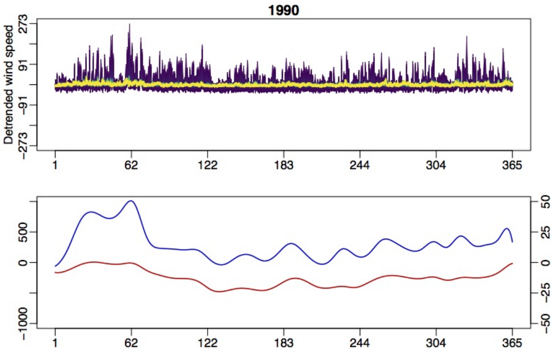


Figure 3: Detrended wind speed and first factor $f_1^\tau(\mathbf{X_i}) = \varphi_{\mathbf{1}}^\top(\tau)\mathbf{X_i}$, 10% and 90% τ-level.

WERMtest

WERM: Challenges

- Wind speed at turbine height
- Wind energy index calculation
- FASTEC in UHD
- Forecast tail moments of wind speed
- Wind energy futures

Agenda

1. Motivation ✓
2. Data preparation
3. FASTEC on wind data
4. Wind energy futures
5. Outlook

Meteorological data

- MERRA reanalysis grid data: Germany & Spain
- Hourly wind speed
- Height levels: 2m, 10m, 50m
- Time horizon: 1990-01-01 - 2014-12-31
- Spatial resolution: $0.5^\circ \times 0.67^\circ$

- MERRA hourly temperature data
- MERRA hourly surface pressure data
- MERRA hourly wind direction data

Wind speed at turbine height

- Extrapolate wind speed to higher levels
  - Extended power law (Sen et al. (2012)) Extended power law
  - Robust shear exponent (Istchenko and Turner (2008)) Robust shear exponent $\widehat{\alpha}_t$

	EPL	MERRA50
RMSE	2.992	3.407
MAPE	0.449	0.570

Table 1: RMSE and MAPE for EPL on MERRA10 data and for MERRA50 data from Spain, Lugo

RSME MAPE

Measures of tails events

- Loss function, Breckling and Chambers (1988)

  $\rho_{\tau,\gamma}(u) = |\tau - \boldsymbol{I}\{u < 0\}|\,|u|^{\gamma}, \quad \gamma \geq 1$

  $z_\tau = \arg\min_{\theta} \mathsf{E}\,\rho_{\tau,\gamma}(Y - \theta)$

  - Quantile - ALD location estimate
    $q_\tau = \arg\min_{\theta} \mathsf{E}\,\rho_{\tau,1}(Y - \theta)$

  - Expectile - AND location estimate
    $e_\tau = \arg\min_{\theta} \mathsf{E}\,\rho_{\tau,2}(Y - \theta)$

Loss Function

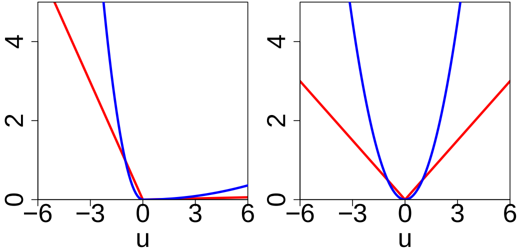


Figure 4: Expectile and quantile loss functions at $\alpha = 0.01$ (left) and $\alpha = 0.50$ (right)

LQRcheck

Tail event structures

- Spread: of $\{e(\tau), e(1-\tau)\}$ τ-range, its changes (expansion, shrinkage, shifting), $0 < \tau < 1$
- Tail: $\tau \approx \{0, 1\}$. Tail event curves (TEC)

Dimension reduction: related structure reduced to lower order factors

FASTEC construction

- Data: $\{(\mathbf{X}_i, \mathbf{Y}_i)\}_{i=1}^{n}$ in $\mathbb{R}^{p+m}$ i.i.d.
- Linear model for τ-expectile curve of Y_j, $j = 1, ..., m, 0 < \tau < 1$:

$$e_j(\tau|\mathbf{X}_i) = \mathbf{X}_i^\top \Gamma_{*j}(\tau), \tag{1}$$

where coefficients for j response: $\Gamma_{*j}(\tau) \in \mathbb{R}^p$

- Sparse factorisation: $f_k^\tau(\mathbf{X_i}) = \varphi_\mathbf{k}^\top(\tau)\mathbf{X_i}$ factors

$$e_j(\tau|\mathbf{X}_i) = \sum_{k=1}^{r} \psi_{j,k}(\tau) f_k^\tau(\mathbf{X}_i), \tag{2}$$

where r : number of factors;
$\Gamma_{*j}(\tau) = (\sum_{k=1}^r \psi_{j,k}(\tau)\varphi_{k,1}(\tau), ..., \sum_{k=1}^r \psi_{j,k}(\tau)\varphi_{k,p}(\tau))$

FASTEC_with_Expectiles

MER formulation: penalised loss

$$\widehat{\Gamma}_{\lambda}(\tau) = \arg \min_{\Gamma \in \mathbb{R}^{p \times m}} \left\{ (mn)^{-1} \sum_{i=1}^{n} \sum_{j=1}^{m} \rho_{\tau} \left(Y_{ij} - \mathbf{X}_i^{\top} \Gamma_{*j} \right) + \lambda \|\Gamma\|_{*} \right\},$$

$\|\Gamma\|_{*} = \sum_{j=1}^{\min(p,m)} \sigma_j(\Gamma)$ nuclear norm of Γ

$\mathbf{X}_i$: B-splines

$\mathbf{Y}_i$: wind power density; $(n \times m)$-matrix

Γ : factor matrix

λ : penalisation parameter Optimal λ

FISTA algorithm

FASTEC: in ultra high dimensional space?

- FISTA: At each iteration SVD
- Singular Value Decomposition, Principal Component Analysis:
  - $n \to \infty, m = const.$
  - $m \to \infty, n = const.$

  not consistent

Solution: matrix approximation with low-rank features

Cost: increased bias

FASTEC in UHD

- Alternating Least Squares SVD
  - fit a low-rank SVD to a matrix by alternating orthogonal ridge regression ▸ ALS

  Hastie et al. (2014)

- Sparse SVD
  - fast iterative thresholding for low-rank SVD ▸ sSVD

  Yang et al. (2011)

Factor Curves

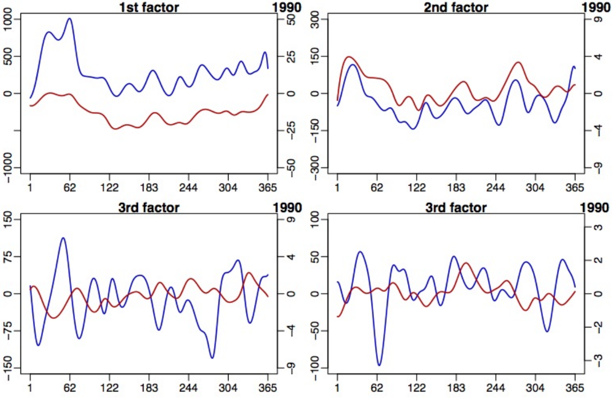


Figure 5: First factors $f_k^\tau(\mathbf{X_i}) = \varphi_\mathbf{k}^\top(\tau)\mathbf{X_i}$, 10% and 90% τ-level.

Wind speed and 1st factor

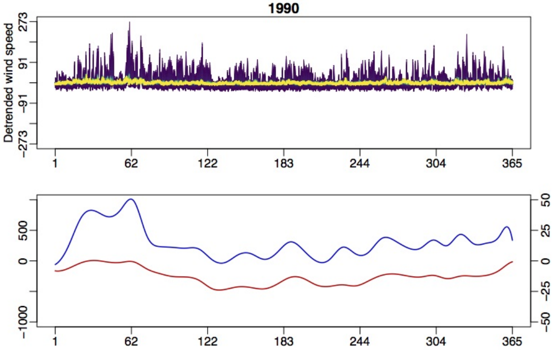


Figure 6: Detrended wind speed and first factor $f_1^{\tau}(\mathbf{X_i}) = \varphi_{\mathbf{1}}^{\top}(\tau)\mathbf{X_i}$, 10% and 90% τ-level.

WERMtest

Spatial loadings

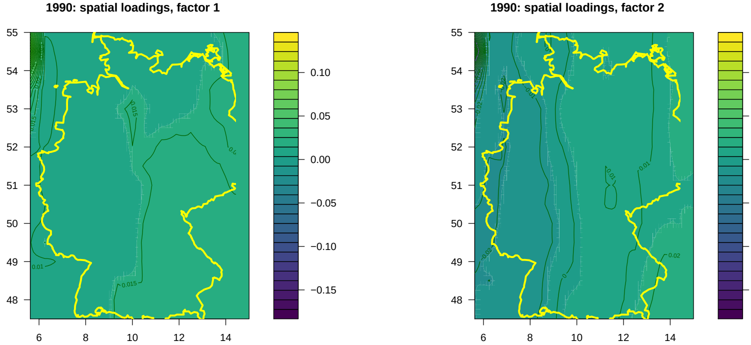


Figure 7: Spatial loadings $\psi_1(\tau)$,$\psi_2(\tau)$ at 10%. WERMtest

Spatial loadings

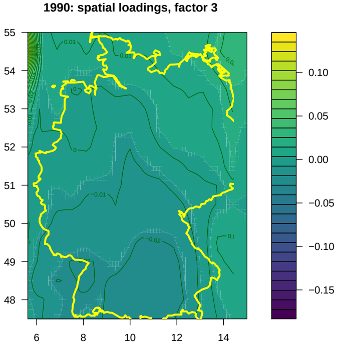


Figure 8: Spatial loadings $\psi_3(\tau)$,$\psi_4(\tau)$ at 10%. WERMtest

Spatial loadings

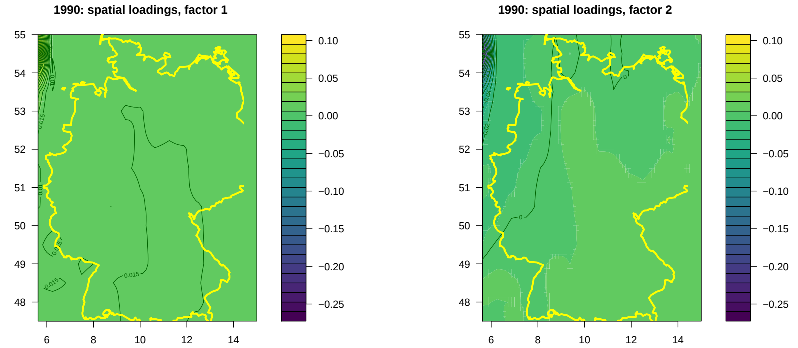
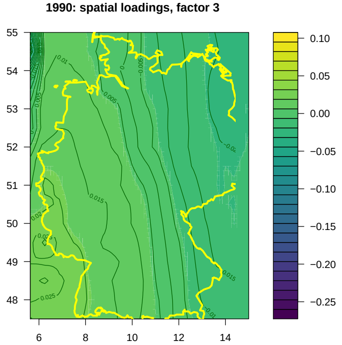


Figure 9: Spatial loadings $\psi_1(\tau)$,$\psi_2(\tau)$ at 90%. WERMtest

Spatial loadings



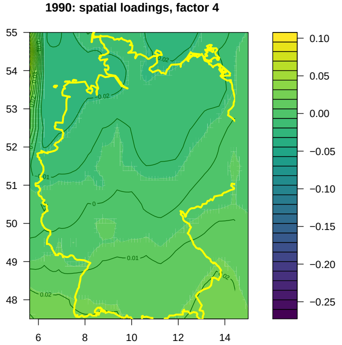


Figure 10: Spatial loadings $\psi_3(\tau)$,$\psi_4(\tau)$ at 90%.

Computation time and error

	ALS	sSVD	eFASTEC	FASTEC
Loss [$\tau = 10\%$]	-4142130	-4142160	-4142130	-
Error	-2183345	-2183336	-2183345	-
Time [s]	2865	2798	3442	>25000
Loss [$\tau = 90\%$]	9683058	9683140	9683058	-
Error	-18639.96	-18640.34	-18639.96	-
Time [s]	11997	11377	14178	>25000

Table 2: Loss, error and computation time for ALS-FASTEC, sSVD-FASTEC, efficient-FASTEC and original expectile FASTEC

Wind energy futures

- Risk products: wind futures

$$CAWS(\tau_1;\tau_2) = \int_{\tau_1}^{\tau_2} W(s)ds$$

- How to smooth seasonal mean, variance?
- How close are the residuals to $N(0,1)$?
- How to infer the market price of wind risk

Algorithm

$$
\begin{gathered}
W_t \\
\downarrow \\
X_t = W_t - \Lambda_t \\
\downarrow \\
X_t = \beta^\top X_{t-L} + \varepsilon_t, \quad \varepsilon_t = \sigma_t e_t \\
\downarrow \\
e_t = \frac{\widehat{X}_t}{\widehat{\sigma}_t} \sim \mathrm{N}(0,1)
\end{gathered}
$$

Härdle et al. (2011)

First results: the time series

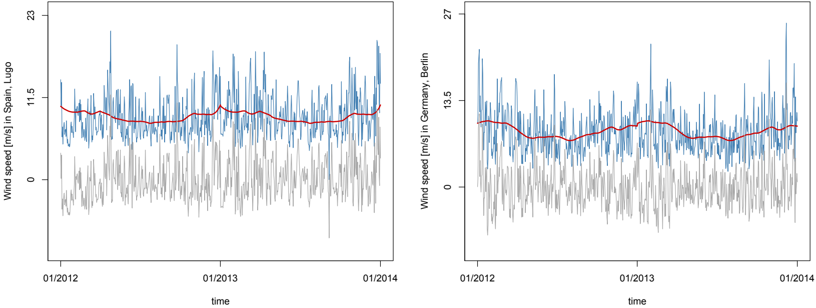


Figure 11: Time series of daily average wind speed of Spain, Lugo and Germany, Berlin.

Seasonal variance

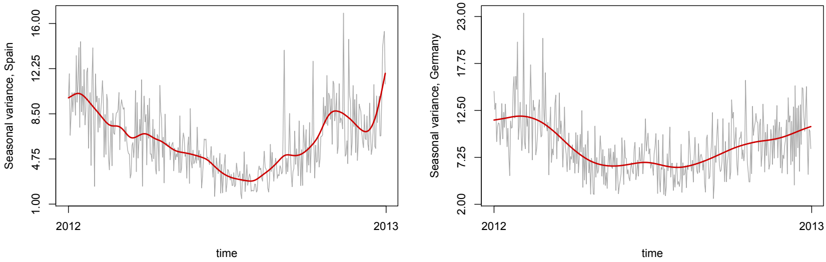


Figure 12: Seasonal variance of wind speed of Spain, Lugo and Germany, Berlin.

Outlook

- Incorporate the spread of factors from FASTEC
- Joint distribution (e.g. with copulae) of wind and solar indices

For Further Reading

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SFB 649 Discussion Paper, **2015-034**

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Journal of Business & Economic Statistics, accepted 20150611

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Power Systems, IEEE Transactions on 26 (4), 1937–1944

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Springer, Berlin

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Extrapolation of Wind Profiles Using Indirect Measures of Stability
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Journal of Research of the National Bureau of Standards, **83** (5), 419–428

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Energy Procedia, 75, 671–676

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Renewable Energy 83, 416–424

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Advances in Meteorology, doi:10.1155/2012/178623

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Modelling the Volatility in Wind Farm Output
eprint:
http://refman.et-model.com/publications/1808/download

Yang, D., Ma, Z., Buja, A. (2011)
A Sparse SVD Method for High-dimensional Data
eprint arXiv:1112.2433v1

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Data

- MERRA for wind profile extrapolation from $(\nu_2, \nu_{10}, \nu_{50})$
  - 01.01.1980-31.12.2014, hourly, 0.5×0.67 deg resolution
- ERA-Interim for wind power density (WPD) estimation
  - 01.01.2010-31.12.2014, 3 hourly, 0.125×0.125 deg resolution
- MARS forecasts for multivariate expectile regression (FASTEC)
  - 01.01.2010-31.12.2014, 6 hourly, 0.5×0.5 deg resolution

WPE: logarithmic law

Logarithmic law

$$\nu_z = \left(\frac{\nu_*}{\kappa}\right) \log\left\{\frac{(z-d)}{z_0}\right\}$$

ν_z : velocity at height z
ν_* : const. friction velocity
d : displacement height
κ : Kármán const. ≈ 0.41
z_0 : surface roughness Return

WPE: power law

Power law (Istchenko & Turner (2008))

$$\nu_{z_2} = \nu_{z_1} \left(\frac{z_2}{z_1} \right)^{\alpha_t}$$

ν_{z_2} : velocity at height z_2
ν_{z_1} : velocity at reference height z_1, $z_2 > z_1$
α_t : power law coefficient Return

WPE: extended power law

Extended power law (Sen et al. (2012))

$$\left(\frac{z_2}{z_1}\right)^{\alpha_t} = \left(\frac{\nu_{z_2}}{\nu_{z_1}}\right)$$

rewritten in terms of time averages $\bar{\nu}_{z_i} = T^{-1}\sum_{t=1}^{T}\nu_{z_i,t}$ and perturbation $s_{\nu_{z_i}} = T^{-1}\sum_{t=1}^{T}(\nu_{z_i,t} - \bar{\nu}_{z_i})^2$ at height z_i and 4th order approximation of Binomial expansion.

$$\left(\frac{z_2}{z_1}\right)^{\alpha_t} = \left(\frac{\bar{\nu}_{z_2}}{\bar{\nu}_{z_1}}\right)\left\{1 - \frac{\mathrm{Cov}(\nu_{z_2}\nu_{z_1})}{\bar{\nu}_{z_2}\bar{\nu}_{z_1}} + \frac{s^2_{\nu_{z_1}}}{\bar{\nu}^2_{z_1}} + \frac{s^4_{\nu_{z_1}}}{\bar{\nu}^4_{z_1}}\right\}$$

$$\alpha_t = \frac{\log\left(\frac{\bar{\nu}_{z_2}}{\bar{\nu}_{z_1}}\right) + \log\left\{1 - \frac{\mathrm{Cov}(\nu_{z_2}\nu_{z_1})}{\bar{\nu}_{z_2}\bar{\nu}_{z_1}} + \frac{s^2_{\nu_{z_1}}}{\bar{\nu}^2_{z_1}} + \frac{s^4_{\nu_{z_1}}}{\bar{\nu}^4_{z_1}}\right\}}{\log\left(\frac{z_2}{z_1}\right)}$$

with $t = 1, \ldots, T,\ T = 25$ years $\times$ 365 days $\times$ 24 hours.

Return

Robust shear exponent

Istchenko and Turner (2008) propose

- Median $\widehat{\alpha}_t$ over time of day
- $\widehat{\alpha}_t$ estimated by
  - Power law Power law
  - Extended power law Extended power law

Return

Local linear smoothing on $\alpha_{d,h}$

Solving (Härdle et al. (2004))

$$\min_{m,\beta} \sum_{d=1}^{D} \{Y_d - m - (x - x_d)^\top \beta\}^2 K_h(x - x_d),$$

where

$$Y = \begin{pmatrix} Y_1 \\ \vdots \\ Y_D \end{pmatrix}, X = \begin{Bmatrix} 1 & (x - x_1)^\top \\ \vdots & \vdots \\ 1 & (x - x_D)^\top \end{Bmatrix}$$

$$W = \operatorname{diag}\{K_h(x - x_1), \dots, K_h(x - x_D)\}$$

leads to

$$\widehat{m}_{1,h}(x) = e_0^\top (\mathbf{X}^\top \mathbf{W} \mathbf{X})^{-1} \mathbf{X}^\top \mathbf{W} \mathbf{Y}$$

with $e_0 = (1, 0, \dots, 0)^\top$.

Optimal bandwidth h for LLS

Estimate h by minimising the cross-validation equation (Härdle et al. (2004))

$$\arg\min_h CV(h;X) = \arg\min_h \sum_{d=1}^{D} \{Y_d - \widehat{m}_{h,-d}(X_d)\}^2 ,$$

where

$$\widehat{m}_{h,-d}(X_d) = \sum_{j\neq d} \frac{K_h(X_d - X_j)Y_j}{\sum_{j\neq d} K_h(X_d - X_j)}$$

Return

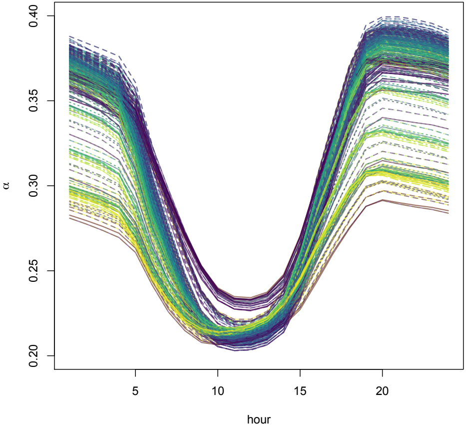
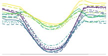


Figure 13: Extended power law: averaged daily $\widehat{\alpha}_t$, based on MERRA velocity data from 01.01.1980-31.12.2014. ▸ Return



Air density estimation

Saturation pressure of water vapour E_s based on dewpoint temperature T_d and coefficients c_0, c_1, c_2

$$E_s = c_0 \cdot 10^{c_1 \frac{T_d}{c_2 + T_d}}$$

Use relationship between actual vapour pressure P_v with the saturation pressure E_s at dew point

$$P_v = E_s$$

Dry air pressure P_d, decomposed into total pressure P and pressure due to water vapour P_v

$$P_d = P - P_v$$

Air density estimation

Substitution of above equations leads to air density ρ given temperature T gas constants dry air R_d and water vapour R_v

$$\rho = \frac{P_d}{R_d \cdot T} + \frac{P_v}{R_v \cdot T}$$

Jones (1978)

Return

Potential wind power density

Theoretical wind power density for a fully efficient $\xi = 1$, (standard efficiencies $\xi = 0.2 \sim 0.4$) wind mill

$$WPD_{i,j,t} = \frac{1}{2} \cdot \rho_{i,j,t} \cdot A \cdot \nu^3_{i,j,t}, \quad i \times j : \text{ lat-lon-grid}, t = d \cdot s$$

where A is the area covered by the rotor blades, ρ is air density, ν is velocity.

Return

Fast Iterative Shrinkage Thresholding Algorithm

- Objective: $\min_\Gamma \left\{ F(\Gamma) \overset{def}{=} g(\Gamma) + h(\Gamma) \right\}$
- g: smooth convex function with Lipschitz continuous gradient

$$\| \bigtriangledown g(\Gamma_1) - \bigtriangledown g(\Gamma_2) \|_F \leq L_{\bigtriangledown g} \| \Gamma_1 - \Gamma_2 \|_F, \quad \forall \Gamma_1, \Gamma_2$$

  where $L_{\bigtriangledown g} = 2(mn)^{-1} \max(\tau, 1-\tau) \|X\|_F^2$ is the Lipschitz constant of $\bigtriangledown g$
- h: continuous convex function, possibly nonsmooth
- $|F(\Gamma_t) - F(\Gamma^*)| \leq \frac{2L_{\bigtriangledown g} \|\Gamma_0 - \Gamma^*\|_F^2}{(t+1)^2}$

FISTA algorithm

1 Initialise: $\Gamma_0 = 0, \Omega_1 = 0$, step size $\delta_1 = 1$

2 For $t = 1, 2, \ldots, T$

- $\Gamma_t = \arg\min_\Gamma \left[\frac{g(\Gamma)}{L_{\bigtriangledown g}} + \frac{1}{2} \left\| \Gamma - \left\{ \Omega_t - \frac{1}{L_{\bigtriangledown g}} \bigtriangledown g(\Omega_t) \right\} \right\|^2 \right]$
- when penalising nuclear norm $\Gamma_t = \mathbf{P}\left(\mathbf{R} - \frac{\lambda}{L_{\bigtriangledown g}} \mathbf{I}_{p \times m}\right) \mathbf{Q}^\top$, and $\Omega_t - \frac{1}{L_{\bigtriangledown g}} \bigtriangledown g(\Omega_t) = \mathbf{PRQ}^\top$ with ALS-SVD (Hastie et al. (2014)) or sparse SVD (Yang et al. (2011))
- $\delta_{t+1} = \frac{1+\sqrt{1+4\delta_t^2}}{2}$
- $\Omega_{t+1} = Gamma_t + \frac{delta_{t-1}}{t+1}(\Gamma_t - \Gamma_{t-1})$

3 $\widehat{\Gamma} = \Gamma_T$

Return

ALS-SVD algorithm

1. Initialise $A = UD$, $U_{m\times r}$ is randomly chosen matrix with orthonormal columns and $D = I_r$
2. Given A, solve for B
   - $\min_B \|X - AB^\top\|_F^\top + \lambda\|B\|_F^2$
   - $\widetilde{B}^\top = (D^2 + \lambda I)^{-1} DU^\top X$
3. Compute SVD $\widetilde{B}D = \widetilde{V}\widetilde{D}^2\widetilde{R}^\top$, let $V \leftarrow \widetilde{V}, D \leftarrow \widetilde{D}, B = VD$
4. Given B, solve for A
   - $\min_A \|X - AB^\top\|_F^\top + \lambda\|A\|_F^2$
   - $\widetilde{A}^\top = XVD(D^2 + \lambda I)^{-1}$
5. Compute SVD $\widetilde{A}D = \widetilde{U}\widetilde{D}^2\widetilde{R}^\top$, let $U \leftarrow \widetilde{U}, D \leftarrow \widetilde{D}, A = UD$
6. Repeat (2)-(5) until convergence of $AB^\top$
7. Compute $M = XV$, its SVD $M = UD_\sigma R^\top$, output: $U, V \leftarrow VR, \mathcal{S}_\lambda(D_\sigma) = diag\{(\sigma_1 - \lambda)+, \ldots, (\sigma_r - \lambda)\}$

Return

FIT-SSVD algorithm

input Observed X, target rank r, threshold function η ▸ η, initial orthonormal matrix $V^{(0)} \in \mathbb{R}^{p \times r}$, threshold level γ ▸ γ,

output $\widehat{U}, \widehat{V}$

repeat

- R-2-L-$\times$: $U^{(k),\times} = XV^{(k-1)}$
- L-thresholding: $U^{(k),thr} = \eta\left(U_{il}^{(k),\times}, \gamma_{ul}\right)$, where

  $\gamma_{ul} = f(X, U^{(k-1)}, V^{(k-1)}, \widehat{\sigma}), \widehat{\sigma} = 1.4826 \cdot MAD(X)$
- L-orthonormalisation QR-decomposition: $U^{(k)} R_u^{(k)} = U^{(k),thr}$
- L-2-R-$\times$: $V^{(k),\times} = X^\top U^{(k)}$
- R-thresholding: $V^{(k),thr} = \eta\left(v_{jl}^{(k),\times}, \gamma_{vl}\right)$, where

  $\gamma_v = f(X^\top, V^{(k-1)}, U^{(k)}, \widehat{\sigma})$
- R-orthonormalisation QR-decomposition: $V^{(k)} R_v^{(k)} = V^{(k),thr}$

until convergence

▸ Return

Thresholding function η

- Allow any thresholding function $\eta(x,\gamma)$, satisfying $|\eta(x,\gamma) - x| \leq \gamma$ and $\eta(x,\gamma)\mathbf{1}_{|x|\leq\gamma}$
  - Soft-thresholding: $\eta_{soft}(x,\gamma) = sign(x)(|x| - \gamma)_+$
  - Hard-thresholding: $\eta_{hard}(x,\gamma) = x\mathbf{1}_{|x|>\gamma}$
  - SCAD-thresholding: $\text{sign}(x)\mathbf{1}_{|x|\geq\gamma}\mathbf{1}_{|x|\leq 2\gamma}\frac{((\alpha-1)x-\text{sign}(x)\alpha\gamma)}{(\alpha-2)}\mathbf{1}_{2\gamma<|x|}\mathbf{1}_{|x|\geq\alpha\gamma}+x\mathbf{1}_{|x|>\alpha\gamma}$

Return

Data: $X \in \mathbb{R}^{n \times p}$, $U^{(k)} \in \mathbb{R}^{n \times r}$, $V^{(k)} \in \mathbb{R}^{p \times r}$, number of bootstraps M,
standard deviation of noise $\widehat{\sigma}$

Result: Threshold level $\gamma \in \mathbb{R}^r$

Subset: $L_u = \{i : u_{i1}^{(k)} = \ldots = u_{ir}^{(k)} = 0\}, H_u = L_u^c, H_v = L_v^c$;
$L_v = \{j : v_{j1}^{(k)} = \ldots = v_{jr}^{(k)} = 0\}$;

if $|L_v||L_u| < n|H_v| \log(n|H_v|)$ **then**
  return $\gamma = \widehat{\sigma}\sqrt{2\log(n)}\mathbf{1} \in \mathbb{R}^r$;
else
  for $i \leftarrow 1$ **to** M **do**
    Sample $n|H_v|$ entries from $X_{L_u L_v}$ and reshape them into a matrix $\widetilde{Z} \in \mathbb{R}^{n \times |H_v|}$;
    $B = \widetilde{Z} V_{H_v:}^{(k)} \in \mathbb{R}^{n \times r}$; $C_{i:} = (\|B_{:1}\|_\infty, \|B_{:2}\|_\infty, \|B_{:r}\|_\infty)^\top$;
  end
  $\gamma_l =$ median$(C_{:l})$; **return** $\gamma = (\gamma_1, \ldots, \gamma_r)^\top$.
end

Return

Some assumptions

- $\{(\mathbf{X}_i, \mathbf{Y}_i)\}_{i=1}^n \in \mathbb{R}^{p+m}$ are i.i.d., $\{X_i\}_{i=1}^n \in \mathbb{R}^p \sim \mathrm{N}(0, \Sigma)$
- Conditional on $\mathbf{X}_i$, $u_{ij} = \{Y_{ij} - \mathbf{X}_i^\top \Gamma_{\cdot j}\}_{j=1}^m$ are cross-sectional independent over j
- $u_{i1}, \ldots, u_{im}$ are sub-gaussian: $\exists C > 0$ s.t. $\mathrm{P}(|u_{ij}| > s) \leq \exp\{1 - \left(\frac{s}{C}\right)^2\}, j \in \{1, \ldots, m\}$
- $K_u \overset{def}{=} \max_{1 \leq j \leq m} \|U_{ij}\|_{\psi_2} = \max_{1 \leq j \leq m} \sup_{p \leq 1} p^{-\frac{1}{2}} (\mathrm{E}\,|u_{ij}|^p)^{\frac{1}{p}}$

Optimal choice of tuning parameter λ

- Under the assumptions of sample setting, selecting

$$\lambda = \frac{2}{m} S \max(\tau, 1-\tau) \sqrt{K_u^2 \|\Sigma\| \frac{p+m}{n}}, \quad \text{for } n \leq 2\min(m, p)$$

  any optimal solution $\widehat{\Gamma}_\lambda$ satisfies error bound conditions (Huang et al. (2016))

- Then

$$P\left\{ \| \triangledown g(\Gamma) \| \leq m^{-1} S \max(\tau, 1-\tau) \sqrt{K_u^2 \|\Sigma\| \frac{p+m}{n}} \right\} \leq 1 - 3 \cdot 8^{-(p+m)} - 4\exp(-n/2),$$

  where S is an absolute constant.

Return

Root mean squared error

$$RMSE = \sqrt{\frac{\sum_{t=1}^{n}(\widehat{y}_t - y_t)^2}{n}}$$

▸ Return

Mean absolute percentage error

$$MAPE = \frac{1}{n}\sum_{t=1}^{n}\left|\frac{y_t - \widehat{y}_t}{y_t}\right|$$

Return