

Novata Webinar Transcript

Scope 3 in Private Markets: How to Get Started and Get It Right

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[00:00:00] **Josh Green:** Hello everybody and welcome to today's webinar on Scope 3 emissions, what it is and how to get started. We're excited to have this conversation today. We've got a great group of folks to talk with you, and a couple of housekeeping notes. First this webinar will be recorded and shared with people who registered.

Second, we welcome questions. So there's a Q&A button at the bottom of your screen. If you have a question at any time, please go ahead and drop it in. We'll do our best to answer it as we go. So, with the housekeeping done, a brief introduction. I'm Josh Green. I am one of the co-founders and co-CEOs of Novata.

Novata is a sustainability platform for the private markets. We help hundreds of investors and thousands of companies track their sustainability data and we have both a technology platform as well as an advisory practice. And we have some of our experts on the call today to talk to you about carbon emissions.

Notably we also have something called the Carbon Navigator, which is a fantastic solution for people who are doing carbon accounting. So we'll talk a little bit about that today as well. So, I want to go around and have my fellow panelists introduce themselves and then we'll do a quick poll and we'll jump into some questions that we've got prepared.

But as I said, please jump in with your own questions as well. We welcome them. So, let me hand it over to Brett to introduce himself. And then Brett, if you can tag either Steve or Oren and then we'll go around and then get going.

[00:01:52] **Brett Juliano:** Thank you Josh, and thank you for having me. Very excited to be here.

My name is Brett Juliano. I lead sustainability at THL Partners. We're a private equity company based in Boston, so my arms are a bit tired from shoveling the past couple days. But we have been very focused on investing in financial service companies, healthcare, and technology business solutions companies.

For the past 50 years, we've focused on leveraged buyouts and currently, we've been measuring carbon emissions across our portfolio, so very excited to share a little bit more about that. I will also just share that the views I express here are my own and do not necessarily reflect the views of THL.

Steve, why don't you take it from here?

[00:02:37] **Steve Cain:** Thanks, Brett. Hi everyone. My name is Steve Cain. I am a Senior Manager on the Novata Advisory team. I've been with Novata for about three and a half years and in the sustainability space for close to 10. And I really spent a lot of time focused on measuring emissions, either supporting investors or individual companies and so, across industries, sectors, and geographies.

And so I'm really excited to meet and discuss this particular topic and share some insights that I've learned along the way, and I'll pass it over to Oren.

[00:03:07] **Oren Karp:** Hi everyone. My name's Oren. I have been with Novata for about two and a half years, and I am the Team Lead for Carbon on our Customer Success team. So, in my day to day, I work with our clients and in particular a lot of our clients who are leveraging our different carbon solutions such as the Carbon Navigator.

And, I do quite a bit of implementation with our users who are using the Carbon Navigator, answering questions, troubleshooting, and generally helping people to calculate their emissions in the day-to-day.

[00:03:39] **Josh Green:** All right. I'm excited to jump in, and I wanna start with a poll for the audience and just to calibrate where we are. We'd love to know where you are in your Scope 3 journey. We have a few options here. We haven't started. We're exploring frameworks and guidance. We're explore, oh, we've got that twice.

And then we've calculated Scope 3 across material categories. So pick the one that's the best fit for you. And if you don't know what Scope 3 emissions is, we're gonna tackle that right now. So Oren, maybe you can just set a baseline for us and provide us with a quick definition of Scope 3 emissions so we all know what we're talking about.

[00:04:20] **Oren Karp:** Absolutely. Scope 3 emissions is something that you might hear getting talked about a lot. It can mean a lot of different things.

Whereas Scope 1 and Scope 2 emissions are relatively confined to your direct energy consumption and your indirect electricity purchases and other purchased energy, Scope 3 is made up of quite a few different subcategories that vary pretty widely. But it's generally thought of as indirect emissions from your value chain. So that includes both upstream and downstream of you. Things that you spend money on, activities of your employees such as commute and travel, how your products are used, all sorts of different things like that.

And one thing that I really like to note when thinking about Scope 3 emissions and something that potentially can cause confusion is that Scope 3 emissions will often include emissions of other businesses. Other businesses' direct emissions will fall under

your Scope 3 emissions through the money that you spend on them or the way that you engage on them.

And this sort of double counting between businesses is explicitly part of the system of GHG accounting. So that's a really simple way you can think about Scope 3. We'll dive into it a lot more, but the most important thing to remember is just that it's made up of a lot of different sub scopes that vary quite a bit.

[00:05:46] **Josh Green:** All right, so thank you, Oren, for that. And Brett, I want to turn to you for the perspective from, the perspective on why this has become so top of mind for folks. You know, just a few years back, I think you'd be hard pressed to find people who knew what Scope 3 emissions was.

Now it's talked about a lot more and more people are measuring it. Why is that happening? What's driving the focus in the private markets and what's changed over the last couple of years?

[00:06:23] **Brett Juliano:** Yeah, it's definitely, I think it's an exciting time, even though there's been a lot discussed around Scope 3 carbon emissions for some time now.

I think, from my view, we operate in the middle market and there is not in-house expertise across most portfolio companies where we invest. And so when you have the macro trends pushing towards this type of disclosure, and I really see three areas and reasons why, I think it just becomes much more important to have an approach and to also have a technology partner because the amount of technology enablement that's happened has been pretty remarkable over the last, I'd say five years. There's a lot of news happening right now that seems to be headed in the wrong direction, but from a long-term perspective, we see three trends really pushing and driving the disclosure.

The first is really the investor demand. So top LPs, the ESG Data Convergence Initiative or EDCI pushing for more high-quality data, and also just broader coverage of investment portfolios on this data. So that's a huge component that's remained remarkably consistent or increased even over the last couple of years.

The second is really the public companies. So the customers of our investments really demanding this disclosure. So these two things together are table stakes, I feel like at this point. You have to address carbon emissions. I think you have to have a framework for when and how you address Scope 3 emissions.

For THL, we definitely encourage it where it makes sense, especially where there's customer or regulatory demand. But just going to the regulatory piece, which is this third macro trend. That has increased globally with the sustainability standards with IFRS, even

the omnibus within the EU still maintains Scope 3 emissions, even though they've narrowed the scope of that.

So while there's a larger context to the types of customers globally that, of our investments customer base, that has increased. Now in the US we have seen the trend that California has been driving a lot of this type of disclosure, and from a regulatory standpoint, we expect that to continue.

But I think the regulatory piece used to be considered the thing that was going to really push and accelerate this. And I think we've reevaluated and seen, it's going to be really driven, we think, from the investor and the customer component to derive the most value from this. So those are the three trends I think Novata, I see as an accelerant to meet and respond to these kind of macro trends.

Technology has become a lot faster to get to the answers that you're hoping to, and the tech cost curve of all of this has come way, way down from both the cost, but also just, again, the speed of which you can do this. So this is, I would say my higher level view of why this matters now.

But again, the customer component and just the ability to execute on the requirements from those customers matters.

[00:09:55] **Josh Green:** Makes sense. So I hear investor pressure, starting with LPs cascading down, customer pressure, regulatory pressure, though those winds are blowing in sometimes opposing directions and then technology's accelerated the ability for people to actually execute on this work. All makes a lot of sense.

I want to push you for a minute on the investor side. How do you use this data? How is Scope 3 relevant to either investment decisions or engagement with the companies that you invest in?

[00:10:30] **Brett Juliano:** Yes, we don't want to be perfect on all of these topics.

I think what we're trying to do really well is be directionally accurate when we engage with our portfolio companies. So we have over 30 companies, and for some it makes sense and for some it doesn't make sense. We need to have a sense of Scope 3 emissions because Scope 3 emissions, in most cases, makes up 80% or more of the full carbon emissions profile of a given company.

And so if we didn't have that information, we would risk not being directionally accurate of where and when to engage. And so I would say the first thing we look for is, is there

customer requirements or demands? The second is, are there regulatory exposures currently or in the next one to two to three years?

Those are things that kind of come first, and then the second is, what does the emissions profile look like? So looking at Scope 3 emissions or including even an estimate of Scope 3 emissions, gives us a good sense of where's the largest intensity or absolute carbon emissions coming from within the portfolio.

And does it make sense to engage from that context? But I think this mosaic of information is not possible without a technology to actually give you the right direction and the right strategy that's data backed. And so that's a little bit of the why or how we think of the approach.

The other piece I would say that's helpful is the spend-based Scope 3 carbon emissions. I saw in the poll you had 67% who've already been doing some amount of carbon emissions and calculations for Scope 3. The spend-based carbon emissions, we think is an area where it's not always perfect, but even having that is a lot better than not having information.

So again, this comes back to engaging potentially portfolio companies to make sure that they're disclosing information where they have these either customer or regulatory engagements. And, if they don't, we ask questions of potentially why, where their industry has this practice.

And, in doing so where we can engage the C-suite to potentially inform them of their level of disclosure. So taking it from that middle management, the people doing the disclosure work, to kind of a higher-level oversight of the disclosures and how it may actually impact their business.

[00:13:31] **Josh Green:** That's super helpful context. And it sounds like, coming back to the regulatory pressure and the customer pressure, you wanna understand whether the companies you're investing in are subject to those pressures, and if they are, you wanna make sure they're doing this work. And sounds like it's also a useful guide to understanding the contours, the business, and where the hotspots might be.

So we've talked a little bit about why. I want to talk a little bit now about how, and Steve, there's the concept of materiality and choosing the material categories. Can you help us understand what that means and how you should approach identifying what those material categories are for your organization?

[00:14:18] **Steve Cain:** Yeah, of course. So when we talk about materiality across Scope 3, I think it's, we first have to define what we actually mean by it. But the Greenhouse Gas

Protocol is pretty clear that it isn't just this rote, what is the percentage of the category and how does it contribute to total emissions?

It also includes other things like what are your stakeholder expectations, industry norms, what's your exposure to risk and does a given category of scope 3 emissions, those categories that Oren showed on screen, is it even relevant to your particular business? But for clarity, when I talk about materiality, I'm just gonna focus on the quantitative sense, so what are the most meaningful contributors to overall emissions?

I think that's a really good first place to start. And if we look across other industry frameworks like CDP, GRI, or SBTi, we can see this commonly working threshold in the range of five to 10% as a practical benchmark. So if a category contributes roughly 5% or more to total emissions, it's likely material and we want to measure it.

But now in practice, what we see from companies reporting on Novata, we see something kind of interesting. So we have recently evaluated all the company responses in our carbon calculator, the Novata Carbon Navigator. And what we see is that on average, and this is pretty close to Brett's figure, Scope 3 constitutes about 70% of total emissions across industries.

And yet, we also see that companies are only attempting to measure about three categories. That's three out of 15 categories of Scope 3, and more than a third of these companies measured categories like business travel and employee commuting. And this is slightly larger than the share of those companies that measured a category called Purchased Goods and Services, which I'll touch on in just a moment.

What I think, what's notable about this is that we see sector as being sort of a big influencer on how you approach your greenhouse gas inventory, whether you decide to measure scopes one through three, and then in particular, what your persistence is or what areas of Scope 3 you tend to focus on.

And what makes this really interesting is that if we, again, we can look at our own Novata benchmarks to show this or external data sets like CDP, there's one category in particular, Scope 3.1, that's the emissions related to the purchased goods and services that you need to run your business. But it can be upwards of 80 to 90% of your overall emissions.

And so what we're observing is this pattern where companies are prioritizing categories of Scope 3 emissions that, in my opinion, have these sort of psychological anchors. Like for example, everybody knows that emissions from travel is like pretty huge, right? So I think in practice we get kind of laser focused on these categories, rather than the ones that are actually sort of driving material emissions. And the results are that Scope 3 is still dominating across all of the different categories of emissions, but we're sort of

systematically underestimating Scope 3 emissions. And the result is that for most companies, their true Scope 3 emissions are likely to be higher.

And so materiality is, what do we measure and why do we justify measuring that? And so I think the next logical extreme is, well, maybe we should measure everything. And you certainly shouldn't do that. I think the most efficient approach that you can take is, look at your industry benchmarks.

See if the categories that your peer companies are measuring make sense for you, they may not, and take your first shot at measuring those categories. I have to say too, one thing that's changed over the last couple years is that you could probably do far worse than opening up your AI chat bot and start interviewing it and say, for my particular company, we do this.

You know, give them statistics like we ship overseas, we do this, that, and have a conversation with it. And you'll probably get a pretty rough guess at what Scope 3 categories you should be covering. I will tell you though, obviously always take anything an AI chat bot tells you with a grain of salt because it tends to be on the pedantic side.

But I think, that's how, what we really wanna be thinking about in terms of materiality.

[00:18:32] **Josh Green:** Got it. Thanks Steve. And it's interesting, I think the dynamic, right, of people underestimating because that leads to a, I think, an unfortunate situation where when people get more rigorous, the numbers start going up. And that's not a good look, right, for a company. Wanna turn to you, Oren.

Walk us through, and the survey results showed that we've got pretty sophisticated group. About two thirds of our audience today are doing calculations already. One third, have not yet started. They're exploring frameworks and their approach. So maybe with the folks who have not yet started in mind, what are some common mistakes that companies make when they're calculating Scope 3?

[00:19:24] **Oren Karp:** Yeah, absolutely. This is a great question, and I think, I have two general ideas of common mistakes that I see, but before I even get into those, I want to generally say that a lot of people are far more scared of Scope 3 than they should be before getting started. You will make mistakes, that's totally fine.

There are common mistakes that can be avoided, but it's better to just get started and do something and make those mistakes than it is to avoid calculating Scope 3 entirely because you're afraid of doing something wrong. But the first common mistake that I see is locating resources.

And I'm gonna touch on this concept of materiality that Steve mentioned earlier. You can think of those 15 Scope 3 subcategories as a general sort of Venn diagram. One circle is going to be the categories that are material to you as a company. And the other circle is going to be the categories where you have data easily available.

There are going to be categories that don't fall into either circle, and that's totally fine. There's going to be some categories that fall into both. Then there's gonna be a couple categories that fall into one side or the other where you have data available, but they're not material or they're material, but you don't have that data available.

The first thing that I'll note is that, that Scope 3 subcategory 1 Purchased Goods and Services that Steve mentioned is likely large enough that if it's not in the middle of this Venn diagram, you should prioritize getting the data for it. And if you can't, you should think about pushing Scope 3 to the next year if that's possible, since that's going to be material for everybody and significant enough in your emissions that you really should be calculating it if you're doing Scope 3.

But generally if it helps, make an actual visual of this as you're beginning your Scope 3 calculations and the first year that you're doing calculations, it's totally fine to just focus on the overlap between those two circles. It's fine to not chase down data even for material categories if that data isn't easily available.

Focus on what you do have and what you can do for what's material and put your energy there. Extra resources can be used to establish processes to get that data for other material categories next year, but it's probably not worth the extra push and allocating your resources towards getting that data if it's going to be really difficult or if it just doesn't exist.

The second common mistake that I see is thinking of Scope 3 as a monolith. We've touched on this a little bit already, but your absolute Scope 3 number should not carry a ton of weight for you. It should really be analyzed category by category, and you should think about all of the different sub scopes that make up your Scope 3. Comparing Scope 3 across different years or even across different companies is extremely difficult unless you are calculating exactly the same sub scopes, using exactly the same methodology, year by year. On the flip side of that, you also don't need to calculate every sub scope. I know that we, I see certainly overachievers in the Carbon Navigator sometimes who think that they need to do every single category.

But if you're a tech company, waste is not going to be super material for you, and you don't need to include the trash that's being taken out of your office. Something is better than nothing. Focus on what you can do, and don't worry about completing every single piece of Scope 3.

[00:23:02] **Josh Green:** That's great.

So get started. Let's not let the perfect be the enemy of the good. Focus your efforts. I like the Venn diagram. That's, I mean, I love a Venn diagram generally, but specifically I think that one's that's very helpful, Oren, so thank you for that. A softball, for you Oren, what changes in technology are making it easier for companies to tackle Scope 3?

[00:23:27] **Oren Karp:** Yeah, absolutely. I mean, like Brett said at the top of the call, the technology is constantly improving here, and of course I'll use Novata's Carbon Navigator as an example. In previous years, this is our third year going through carbon calculations with the Carbon Navigator. Previously for Scope 3.1 Purchased Goods and Services, there was a ton of manual work that was required in the workflow in order to take all of your spend for the full year and then categorize each supplier that your company engaged with.

Even categorizing just the top 80% of your suppliers could easily take an hour or more for some companies and require them to talk to different stakeholders or members of their team to figure out who those suppliers were. We now have AI categorization in the Carbon Navigator that saves those users hours of time and can allow them to get through that Scope 3.1 calculation in 15 minutes if everything, if they have that data prepared and they upload it in the same way that they did in previous years.

So automations and tools are only going to get better. I think our imagination is really the only limit for how we can continue to make this process easier.

But that being said, I mean, I think it's important, it's important to think that, or to note that we shouldn't be overly reliant on the technology and we shouldn't be counting on the technology to take this work off of us. Scope 3 in particular does involve still manual work, and more importantly, subjective thinking about materiality and your business operations and the human aspect of, I think is still very important.

So what I would say is, make the investment now in a technological solution and it will only save you time as we move forward and these tools continue to improve year over year.

[00:25:23] **Josh Green:** Okay. I'm seeing some questions coming in. I want to ask one more question of the audience now, which is, if you're interested in seeing a demo of the Novata Carbon Navigator, would love for you to answer yes to the poll so we know to follow up with you following the webinar.

All right, thanks for that. And Emily has a question. How do you recommend working with suppliers where you source steel, concrete, and cement for construction of wind turbines and solar parks? All right, so.

[00:25:57] **Steve Cain:** I'm hungry for this. Josh, I want this question.

[00:25:59] **Josh Green:** Go, go Steve.

[00:26:01] **Steve Cain:** It's funny enough, I've been working with a lot of infrastructure project finance groups right now, and this is a really notoriously tough one because you can rely on spend based factors here, which, you know, I don't wanna go down to the rabbit hole too much, but like in data quality terms, there's like two things that we really like.

We like knowing the key activity units, like, weight of steel purchase, and the material that, you know, comprises what you bought. We like that way better than we like spend based, right? And one of the things that we can actually do in Carbon Navigator now, and I've been doing it, is we can calculate emissions from activity based.

And so what we do is the best approach you can take is you go to your suppliers and you try to get a list of those supplies. If you didn't get any detail from them whatsoever, like in Carbon Navigator today, you could upload a list of the weights of materials, the types of materials, the quantities, and then, our AI layer will actually do a really good job of pulling up the appropriate emissions factor.

Last time I checked, we've got a hundred thousand emissions factors in that library. And so that's really the first pass, right? You get, sort of weight-based estimates, but then you might be thinking, well, now I wanna make decisions about how to prioritize which supplies to buy. You do have to engage your suppliers to get that data.

And, before you start spinning up a Qualtrics survey or like a Survey Monkey or something like that, start thinking about prioritizing, getting data from the suppliers that are contributing the most amount of emissions. So we take this first pass, we can see that our top two suppliers dominate our emissions profile.

We go out and we reach out to them. It gets really complicated when you're purchasing from wholesale redistributors and things like that, but maybe that's a conversation for another day. But I think it first starts with get solid data on your end if you're not collecting it already. Get the weights of the quantities, the materials you bought.

We already have tools today that can support you calculating that. And then when it comes to engaging suppliers, let's prioritize where the emissions are highest first.

[00:28:01] **Josh Green:** I want to get super tactical for a moment and then, it looks like we've got more questions coming in as well. Steve, one early decision that you can make

when you're calculating Scope 3 that'll make it easier for you, or I guess the other side of it, harder down the line.

[00:28:20] **Steve Cain:** I'm gonna try to keep this really brief and to the point so we can answer more questions. But you might start to hear a consistent theme from the panel today, which is measure Scope 3.1. That is Purchased Goods and Services. Take a spend-based approach. And the reason why you wanna do that is not only is it easier with technology, you could do it faster than you could do it a couple years ago, but you tend to net out other upstream categories of Scope 3 emissions.

So if I go from zero, having never measured Scope 3 to measuring Scope 3, my first step is not to assess how many flights I took in that given year. It's to go to my finance team and say, hey, I need a report for 2025. Please strip out salaries, rent, taxes, financial instruments, and just to leave in widgets we bought, Amazon web services we purchased, flights we booked. Leave in transportation and logistics providers, leave in UPS. And what you're gonna get from that is you're gonna net out not just early data from purchased goods and services, but you're gonna also get a couple bonus categories for Scope 3.

So you can go from zero category coverage to Scope 3 to like three in a day, right? So we see this a lot. And the other thing I would say is don't overcomplicate Scope 3.1. And so most of the industry advice is get a giant list of your suppliers, cobble together a thousand suppliers, and let's categorize them all.

Well at technology, we could do that pretty quickly. But another thing that you could do very quickly that takes far less effort is you can go to the finance team and say, I just need a sum at the ledger account level. We spend X amount on software, we spend X amount on business travel, X amount on whatever.

And you can do that early materiality and assessment for the majority of your Scope 3 pretty quickly based off of numbers. And it's probably less than 10 line items. So when I work with companies, as Oren mentioned, we've been doing this, we're on our third cycle now, the first process when we didn't have these automation tools, maybe it would take us 10 weeks to get these emissions inventories done.

Now we're doing everything Scope 1 through 3, cradle to grave, and, you know, fewer than four weeks. So it's like we're halving the time that it takes us to do this. It's super easy to do and it gives us a great snapshot.

[00:30:33] **Josh Green:** And Steve, you've kind of touched on this, but would welcome thoughts Brett and Oren from you as well in terms of what good looks like year one when you're getting going. What do you look for in terms of, Brett, your portfolio companies that are just getting going? What's the bar that you're hoping they clear year one?

[00:30:57] **Brett Juliano:** Let's take a step back. Our bar is we ask for Scope 1 and Scope 2 emissions and we feel like Novata does that really well and really fast. To take it to Scope 3, I would say it really makes sense in some cases to ask them to disclose or encourage them to disclose. In many cases it does not.

So just having that conversation, it is like the first thing that we would want to have checked off our list with a portfolio company. In the cases where we feel like, yes, this matters, I really feel like just having spend data on purchased goods and services, it takes a couple hours to collect and sort through that data and make sure you have the right owners, but if they can do that and do it in a repeatable way, year over year, that's good.

That's what good looks like to us is having a repeatable process where you can tackle a handful of those Scope 3 categories, those 15 that I think Oren was referring to. That to us is what good looks like. It's basically progress towards more representative disclosure.

[00:32:17] **Steve Cain:** Maybe I'll chime in. I think it's three things, and you're gonna hear some repetition here. Have the conversation. What do you think is material? Just start the conversation to think what you think is most important. Again, first efforts on, Scope 3.1 that's purchased goods and services.

But lastly, I wanna spend maybe just a moment really emphasizing this point, which is something that I don't see a lot of happening. Which is, get your documentation ducks in a row. So we see a lot of people who go through this process, but they report on emissions on an annual basis, and there's employee turnover or they use new data systems where this stuff is living.

And so, document the methods, assumptions, decisions you made. Talk about where you collected, what data did you pull it from, who did you go to, that type of stuff. So you can not only, this is, lays the groundwork for audit in years to come, but it lays the groundwork for no 11th hour, scrambling to get data.

You just have a repeatable process. And I think that speaks to Brett's point about being able to replicate the stuff in the long term is probably far better than taking on more than you can handle in the first reporting season.

[00:33:25] **Josh Green:** Oren, anything you'd add to that?

[00:33:29] **Oren Karp:** No, I mean, I would repeat what both of them said.

I think imagine that if you weren't at your company next year, you want to leave whoever is doing this in a place where they can pick up everything that you did last year and know exactly what they need to do next year. They should have a process in place to get the

data. They should know what you did with the data and they should know what they need to do with the data.

And that way, even if it's you again dealing with it next year, you'll be able to thank yourself for setting everything up in the way that it needs to be.

[00:34:06] **Josh Green:** We've got a couple more questions that have come in. We've got a very specific question about emissions from FERA, fuel used by contractors during construction operation of projects. Is that one that our experts happen to know the answer to, or is that one we should follow up off offline on?

[00:34:26] **Steve Cain:** I'm happy to take a stab at it. My first guess here is that you're spending money on the contractors, so they actually fall into your Scope 3.1. So they would actually register at that level. So in addition to buying materials, you know, contractors, construction services, engineering, and consulting firms land on your books.

And so we would accommodate all of their Scope 1 and 2 emissions. But also there are Scope 3 in some cases, depending on the emissions factors that you're relying on. So I would think about, when it comes to fuel and energy-related activities, probably what's most important are gonna be the ones that are associated with the energy that you directly consumed, that are your Scope 1 and 2 emissions.

So the natural gas you use, the gasoline you burned, the electricity you consumed. The flip side of that coin is energy and fuel-related emissions, which are part of your Scope 3. And I would suggest that the Scope 3 emissions of your suppliers are actually embedded in your Scope 3.1.

And so I would think about that distinction is that the 3.3 or energy-related activities are largely the flip side of the coin of my consumption. And, the rest of it should be considered in 3.1.

[00:35:42] **Oren Karp:** And, I wanna really quickly there, if I can hop in that please. It's totally fine to account for that through a spend-based methodology.

You don't need to have the gallons of diesel that was consumed by the contractors. If that's data that you have available and that you can easily get, that's awesome and you will get more accurate numbers from that. If that's data that they haven't provided to you and that you're not sure that they'll even have in the first place, it's totally fine, especially if you're just starting out to just use the amount of money that you spent on those contractors as a way to account for their emissions.

[00:36:20] **Josh Green:** So that actually it triggers, I think, a question for me. How do you think about proxy data and using estimates generally? I mean, in some respects all of carbon accounting is involving some sort of estimation, but where is it okay to lean on estimates?

Where is it not okay? How do you think about that?

[00:36:43] **Steve Cain:** I think it, it really depends on the use case, but this is something that we're actually really invested here at Novata on. We've got this benchmark data set with thousands of companies reporting through the Novata platform. And so we have really good idea about how companies perform.

And in particular, we're actually able to generate emissions proxy estimates at the scope level, not quite at the category level yet, although that's something that we could look into in the future. And so I think, these proxy tools can be used as a sort of stopgap measure. But the good thing is we've got things that we can point to like data quality scores.

And I would say, use them sparingly. We always want to prioritize getting better activity data that is kilowatts consumed, steel bought, those types of things. But use them as stopgap measure. Then use them as, you know, to Brett's point a directional signal. Like where do we anticipate emissions to be high and are we actually making an effort to measure it there?

So I think that's what's appropriate. And then I think the last piece to that is just be utterly transparent about what you're using and where you're using it. Be able to explain the results. How did you come to it? Where did you use it? We get a ton of questions, particularly on the investor side about the use of proxies.

So investors, if you're a company, make sure that you're fully disclosing the methodologies and assumptions you took to develop those proxies because you likely will get asked about it.

[00:38:06] **Josh Green:** Brett, lifting back up. There's a great question that came in around whether portfolio companies work together, whether PE firms convene working groups of firms that work together, share best practices, when it comes to carbon accounting and tackling emissions. Is that something that you guys either do or you've seen done in the industry?

[00:38:32] **Brett Juliano:** Yeah, this is a great question and I think we could probably do a better job to connect different conversations across our portfolio companies. We really haven't, but I would say there is a broad trend, which comes to probably no surprise to

anyone here, that the hyperscalers that are active in the United States are demanding really intense information and disclosures.

And, I do think that our portfolio companies may not have the leverage individually to engage in kind of a meaningful way. So it's a really interesting question. We haven't made progress on that specifically to convene the working groups that are described in terms of those overlapping suppliers, but I could imagine it making sense depending on the size of the companies that are in question. Maybe a not satisfying response to your question, but it's a great point to raise.

[00:39:43] **Josh Green:** No, totally fair. And I think, and Brett, just to say, I think what you're describing, I think is consistent with what we're hearing from other of our clients and that there is this kind of growing demand I think, in particular, on the AI front with the hyperscalers and data centers, we certainly see that.

But more generally, I think we see this pressure that's flowing down from customers and our customers that are investors trying to figure out how they can be a resource to their portfolio companies that are facing these requests. And if I can put in the plug for Novata, we wanna help when it comes to tackling challenges just like these.

So, we have reached the end of our time and, I want to say a huge thank you, Brett, to you for making time and being so candid and sharing your thoughts today.

Oren and Steve, as always, your expertise is amazing and an incredible asset for Novata and for Novata's customers. So thank you for joining today and for all that you do for Novata's customers, and thanks to the Novata team for facilitating today. And last, but not least, thanks to everybody for joining and spending a little bit of time today talking about Scope 3 emissions.

It's been a pleasure.