

Posted on Sun, Mar. 21, 2010

Marcellus Shale sends short-line railroad booming

By Andrew Maykuth
Inquirer Staff Writer

WELLSBORO, Pa. - Nobody knew there was gold in the sand.

When A.T. "Tom" Myles approached officials in this town three years ago about taking over the ailing Wellsboro & Corning Railroad, he thought the 35-mile short line had potential for transporting lumber to market from northern Pennsylvania.

But that was before the Marcellus Shale natural-gas boom took off and exploration companies were clambering to import sand into Pennsylvania - millions of pounds of special sand used to develop gas wells.

"I didn't even know about the sand when I came in here. I just wanted the railway," said Myles, 65, a fourth-generation railroader from Exton. He is chief executive of the Myles Group, a collection of companies his family owns and operates from Chester County.

The fine, spherical sand from the Midwest that is pumped into gas wells to stimulate production has turned into a lucrative commodity for his Tioga County railroad.

In the two years since Myles took over the Wellsboro & Corning line, cargo traffic has nearly tripled, to 849 railcars last year, the most in its modern history. In a recession, Myles has hired 10 people to transfer sand from the cars into trucks.

He anticipates that business will nearly double this year, to 1,600 railcars. Almost all of that is sand used in hydraulic fracturing, the process that shatters the dense Marcellus Shale under high pressure to unlock its stores of natural gas.

The gas industry's huge appetite for what is known as "frack sand" has spurred a rebirth for the struggling railroad, whose previous operator gave up just before the gas boom.

To keep sand flowing into Wellsboro, Myles took possession last week of four used locomotives he bought to replace a leased one. The engines will be used to collect freight that Norfolk Southern Railroad delivers to Corning, N.Y., for delivery to customers along the 35-mile route to Wellsboro.



A sand car moves down the tracks, above. In the two years since A.T. "Tom" Myles took over the Wellsboro & Corning railroad line, cargo traffic has nearly tripled, to 849 railcars last year. Below, a machine transfers sand from the rail cars into trucks that will move it to natural-gas hydraulic fracturing sites.

The boom in freight traffic also is paying for restoration of the Tioga Central Railroad, a summertime excursion line Myles operates on the same tracks. His family is enhancing the excursion service 1940s-style, including dining cars with linen tablecloths.

"We see a lot of potential in the tourist business," said Myles, who manages his company with sons Tom and William.

Sudden, serendipitous growth like this is not uncommon in the Marcellus region, where suppliers of housing, food, gravel, spare parts, and transportation are experiencing a stunning demand for their services, the indirect effect of billions of dollars flowing into gas extraction.

The full economic effect of the natural-gas boom is only beginning to be understood, said Timothy W. Kelsey, a Pennsylvania State University economist. According to a study by the Pennsylvania Economy League, the oil and gas business was a \$7 billion industry in Pennsylvania before the Marcellus frenzy.

Kelsey anticipates that compared with those of the shale-gas booms in Texas and Arkansas, which began earlier, the effects will filter out broadly across the economy.

"It could be a very big number," he said.

Some Marcellus beneficiaries, such as the Myles Group, have ties to the Philadelphia region.

Preferred Unlimited Inc., a Conshohocken investment firm, bought a Nebraska silica reserve in 2007 and quadrupled production of frack sand to one million tons last year. Preferred is now shipping material into Pennsylvania, said Michael O'Neill, the company's president, and is planning to build a \$12 million facility near Pittsburgh to process sand for the gas industry.

"We sold \$40 million of sand last year," O'Neill said. "This is now our primary business."

Edward Trask, a retired nonprofit executive who grew up near Mansfield, is arranging \$18 million in financing for a restaurant, a motel, and permanent housing for gas workers on his family's 160-acre farm.

Tioga County is experiencing its first population increase in a century, he said.

"There are so many opportunities to make money from this," said Trask, who lives near Harrisburg. "This is such a shock to the system."

Not everyone is exhilarated, though.

Norman Weinberg, 66, of Wyncote, bought 20 acres near Wellsboro two years ago with the aim of creating an idyllic retirement home for him and his wife.

Now, he is worried about gas drilling detracting from the rural splendor. His land does not include mineral rights, so he will receive no direct benefits.

"If my family owned a gas station or a grocery up there, I guess I would be excited," Weinberg said.

Mary Worthington understands the apprehension. Since moving to Wellsboro 39 years ago from Radnor, she has seen nothing like the Marcellus boom and the changes that sudden wealth has brought.

"We're swamped with financial planners," she said. "I've lived here since '71, and I've never seen ads in the paper asking: 'What to do about your money.'"

Worthington is the executive secretary of Growth Resources of Wellsboro, an industrial-development foundation that had bought the railroad in 1992 from Conrail, which was abandoning service on the line. Wellsboro officials said they bought the service to retain its primary customer, an Osram Sylvania lightbulb factory in town.

Richard Robey of Lewisburg, who operated the railroad for 15 years, bowed out at the end of 2007. Other operators offered to step in, but Worthington said only Myles had readily agreed to operate the excursion service, considered a key to local tourism.

"We bought into the excursion thing from Day 1," said Myles, who has introduced a broad menu of special trips - happy-hour specials, treks to view July Fourth fireworks and fall foliage.

Myles intends to build a new station for the Tioga Central and has far more elaborate plans for creating a tourist village next to the railroad yard, he said.

He has worked with railways since 1963, first with the Pennsylvania Railroad, later with Penn Central and Conrail, developing what seems to be a keen understanding of the freight business and a vast network of contacts.

Myles said he had paid \$750,000 for the previous operator's aging equipment: five locomotives, 11 passenger cars, and a caboose.

Last week, technicians crawled over the company's latest acquisition, four 32-year-old SD40-2 locomotives from the Quebec North Shore & Labrador Railway. The 3,000-horsepower engines will become the workhorses of the Wellsboro & Corning.

Myles now has \$1.1 million invested in the railroad, he said, including \$200,000 in a new repair barn. The sand-hauling business could keep his company rolling in cash for the duration of its 20-year operating agreement.

Each horizontal gas well consumes about four million pounds of sand - enough to fill 20 railcars - and the industry plans to drill more than 1,500 wells in Pennsylvania this year. Operators say they could be active for decades in the Marcellus.

"I'm an entrepreneur, and I have a vision for this operation," Myles said. "I've put a lot of people to work here, and I'm going to put a lot more to work."

To see a video and photo gallery of the Wellsboro & Corning Railroad, go to <http://go.philly.com/train>.

Go to <http://go.philly.com/train> to see a video and a photo gallery on the Wellsboro & Corning Railroad.

Contact staff writer Andrew Maykuth

at 215-854-2947 or amaykuth@phillynews.com.