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Gas Boom Aids Pennsylvania, but Some Worry Over the Risk

By **KATHARINE Q. SEELYE**

MONTROSE, Pa. — In the economic downturn three years ago, Adam Diaz idled the trucks at his bluestone quarry and silenced the saws at his lumber mill.

Fortunately for him, the gas companies arrived at about the same time, and Mr. Diaz saw an opportunity.

He started hauling their waste. He parlayed 1 truck into 8 and now has a fleet of 53. Then he revived a weedy rail spur and now leases 210 rail cars to haul more waste containers. His work force grew to 180 from 30 as he created a business that now has revenues of \$45 million a year.

Other residents also began taking advantage of the “gas rush.” Some supplied the companies with machine parts; others laid pipe. One entrepreneurial couple opened a food wagon where they also sell alpaca socks to drillers from Louisiana and Texas who were unprepared for the cold.

The gas boom is transforming small towns like this one (population 4,400 and growing) and revitalizing the economy of this once-forgotten stretch of rural northeastern Pennsylvania. The few hotels here have expanded, restaurants are packed and housing rentals have more than doubled.

“There’s been a snowball effect due to the gas companies coming in,” Mr. Diaz, 33, said recently at his bustling empire near here.

But the boom — brought on by an advanced drilling technique called hydraulic fracturing, known as fracking — has brought problems too. While the gas companies have created numerous high-paying drilling jobs, many residents lack the skills for them. Some people’s drinking water has been contaminated. Narrow country roads are crumbling under the weight of heavy trucks. With housing scarce and expensive, more residents are becoming homeless. Local services and infrastructure are strained.

“Very little tax revenue goes to local governments to help them share in the benefits of the economic development,” said Sharon Ward, executive director of the [Pennsylvania Budget and Policy Center](#), an independent policy research organization.

And some are asking whether short-term gains have obscured the long-term view of an industry marked by boom-bust cycles.

“What happens in the long run is the critical question,” said Kathy Braiser, associate professor of rural sociology at Penn State. “How can communities take advantage of the benefits and try to mitigate the negative issues so that they are well-positioned for when this does tail off?”

The boom has been driven by extensive gas reserves in the Marcellus Shale, the vast rock formation under several Middle Atlantic states and concentrated in Pennsylvania. Industry-backed research says that a typical Marcellus well can generate millions of dollars in economic benefits, including wages, taxes and stimulation through the supply chain. (Critics say the amount is exaggerated.)

In Pennsylvania, more than 3,000 wells have been drilled in the past three years and permits for thousands more have been issued. Here in Susquehanna County, a poor rural county of which Montrose is the seat, 262 wells had been drilled by a half-dozen different gas companies as of the end of July; permits have been issued for 400 more.

At this time of year, the roller-coaster hills are blanketed in the oranges of fall. Dotted among them are industrial well sites, typically three to five acres, where drills crank and groan around the clock, glowing at night like spaceship colonies.

For Mr. Diaz and a charmed circle of local winners — water haulers and motel operators, pipeline workers and waitresses, lawyers, surveyors and launderers — the drilling has fueled an economic turnabout.

John and Phyllis DiGiori, who own an alpaca farm, started a food concession truck along the main road. Along with burgers and fries, they now offer warm clothing to workers from Texas and Louisiana. “Ask us about our alpaca socks and more,” says a handwritten sign taped to the service window.

Dan and Gretchen Backer, who oversee 40 rooms in hotels and apartments, including the Inn at Montrose, responded to the boom by renovating their rooms and adding amenities like flat-screen TVs. Now, Ms. Backer said, they have doubled their rates, to \$2,500 a month, for a two-bedroom rental.

Bill Kelley Sr., and his son, Bill Jr., have expanded their equipment-rental business, Taylor Rental, and now sell hard-to-find items to the gas companies. The senior Mr. Kelley said it has grown 40 percent in each of the last three years. His wife runs her own bustling business, PJ's Cafe, a smoky roadhouse where off-shift gas workers congregate.

"We're not in the recession that the rest of the world is in," Mr. Kelley said.

Indeed, unemployment in the county was 7.5 percent in August, below the state average of 8.5 percent, and below the national figure of 9.1 percent. Mr. Kelley Sr. likes to repeat a piece of wisdom handed down from the forty-niners: it was not the gold miners in California who got rich, it was the people who sold the shovels.

George Stark, a spokesman for the Cabot Oil and Gas Corporation, the dominant gas company here, said that local entrepreneurs like Mr. Diaz and the Kelleys had created more than 400 industry-related jobs. He said Cabot directly employed about 100 skilled workers on the rigs, but over time local residents would be trained for those jobs.

The company expects to be drilling here for at least two decades, he said, and the wells will be producing gas for three decades after that. "This isn't a bust-type situation," he said. "This is probably the sweetest spot in the Marcellus play."

But the gas influx has put a strain on local services. Cabot recently gave \$50,000 to the local Red Cross and has helped a fund-raising drive to build a local hospital. Cabot also spent \$12 million last year on road repairs here.

"That is a heck of a lot of money for a county like Susquehanna," said MaryAnn Warren, a county commissioner. "But Susquehanna is poor, and it doesn't matter how much gas there is."

The companies pay certain taxes, but only to the state, not to the counties. And they do not pay any local property tax. Various proposals, including one offered earlier this month by Gov. Tom Corbett, a Republican, would allow counties to impose a tax on the wells and keep most of the money, but there is no agreement on an approach. Pennsylvania is the only major gas-producing state that does not tax gas extraction directly.

Fully half of the work force in Susquehanna County is employed outside its borders, said Timothy W. Kelsey, a professor of agricultural economics at Penn State. He said that was an unusually high percentage, but the county simply did not have enough employers to keep the work force here.

“The folks who have connections are able to get the dollars and they’re doing very, very well,” Professor Kelsey said. “But the majority of spending associated with **natural gas** isn’t being done in the county.”

There are other strains, some between neighbors, especially those who signed early leases with gas companies that yielded them only \$25 an acre while others waited and got more than \$5,000 an acre.

And some of it is between local residents and out-of-state workers. “We come up here, the housing is expensive and they raise the rates on us,” grumbled one worker from Louisiana who did not want his name used because of the level of local hostility.

Dee Stephens, 47, a former schoolteacher from Missouri, and one of the rare women who work on the wells, said she did not feel welcomed here.

“Everyone feels threatened,” she said of local residents. “We’re doing a job, but they think we’re tearing up the land.” She said that was not the case. “Obviously we won’t put it back as perfectly as Mother Nature made it, but we’re doing the best we can.”

The successful entrepreneurs are highly conscious of the fragility of the new economy and some are hedging their bets.

“At some point they will finish and go away,” said Ms. Backer, owner of the Inn at Montrose, said of the gas companies.

“We’re taking their advice and trying to pay off our liquid debt that we’ve gotten into,” she said. “But we still get our water tested. We’re all concerned about whether the companies are drilling safely and that our watersheds are safe. We’re not putting our heads in the sand.”