UPDATE: 5-CSX train carrying oil derails in Virginia in fiery blast

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(New throughout, updates with fire extinguished, adds comments and details)

By Selam Gebrekidan

(Reuters) - A CSX Corp train carrying crude oil derailed and burst into flames in downtown Lynchburg, Virginia on Wednesday, spilling oil into the James River and forcing hundreds to evacuate.

CSX said 15 cars on a train traveling from Chicago to Virginia derailed at 2:30 p.m. EDT. Fire erupted on three cars, the company said. Photos and video from the scene showed high flames and a plume of black smoke. It was the second oil-train accident this year for CSX.

About two hours after the derailment, CSX said the fire had been extinguished. City officials said there were no injuries, but 300-350 people were evacuated from the area. Around 6:00 p.m., residents were allowed to return to their homes.

The fiery derailment a short distance from office buildings in the city of 77,000 was sure to bring more calls from environmentalists and activists for stricter regulations of the burgeoning business of shipping crude oil by rail.

JoAnn Martin, the city's director of communications, said three or four tank cars were leaking, and burning oil was spilling into the river, which runs to Chesapeake Bay. She said firefighters were trying to contain the spill.

Kathy Bedsworth, owner of the Carriage House Inn bed and breakfast in Lynchburg, the commercial hub of central Virginia, told Reuters flames streaked as high as 60 feet.

"There was black, black, black smoke and huge billows of flames. The flames were taller than the buildings," she told Reuters over the phone after heading to the scene of the incident five blocks from her guest house. UPDATE: 5-CSX train carrying oil derails in Virginia in fiery blast

The U.S. Department of Transportation said it was sending Federal Railroad Administration inspectors to the scene. The National Transportation Safety Board was sending investigators. The Environmental Protection Agency said an official was heading there to help the state monitor air quality.

There was no immediate information about the origin of the cargo or the train's final destination. One of the only oil facilities to the east of Lynchburg is a converted refinery in Yorktown, now a storage depot run by Plains All American . The company did not immediately reply to queries.

It was not clear what caused the accident. CSX said it was "responding fully" with emergency personnel, safety and environmental experts.

NEW RULES

Several trains carrying crude have derailed over the past year. Last July, a runaway train in Lac-Megantic, Quebec, derailed and exploded, killing 47 people. In January, a CSX train carrying crude oil derailed in Philadelphia, nearly toppling over a bridge.

With more trains hauling crude and flammable liquids across North America, U.S. regulators are expected soon to propose new rules for more robust tank cars to replace older models; Canadian authorities did so last week.

"With this event, regulators could try to expedite the process, and they'll likely err on the side of the more costly safety requirements in order to reduce the risk of these accidents in the future," said Michael Cohen, vice president for research at Barclays in New York.

Tougher rules could drive up costs for firms that lease tank cars and ship oil from the remote Bakken shale of North Dakota, which relies heavily on trains. It could also boost business for companies that manufacture new cars, such as Greenbrier Companies and Trinity Industries.

Residents across the country have voiced concern about oil trains, often a mile long, passing near their communities, particularly in New York and the Pacific Northwest. Derailments have occurred in places as far removed

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as Alberta and Quebec in Canada, and North Dakota and Alabama in the United States.

In Virginia, environmental groups including the Sierra Club and the Chesapeake Bay Foundation have opposed expansion of crude-by-rail shipments through the region to the Yorktown terminal, which can handle 140,000 barrels per day. CSX's route through populated areas like Lynchburg and the proximity to the James River have been mentioned as special concerns.

"These trains started bringing Bakken crude oil through Virginia to the Yorktown facility last December," Virginia Chapter Director Glen Besa told Reuters.

"This raises major questions, after numerous instances of derailments and explosions of Bakken crude on railroads in the last year. Now one of the questions is what the impact will be on the James River. Will this stuff sink or float?"

In January, CSX Chief Executive Officer Michael Ward told analysts the company planned to boost crude-by-rail shipments by 50 percent this year. He said the Jacksonville, Florida-based railroad was working with U.S. regulators to address safety concerns in light of recent derailments and fires. (Reporting by Selam Gebrekidan, Joshua Schneyer, Anna Driver, Patrick Rucker, Josephine Mason, Ian Simpson; Editing by David Gregorio)