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The Associated Press

NRG Energy said Sunday that it reached an agreement to buy wholesale power provider GenOn Energy in an all-stock deal worth about \$1.7 billion.

Under terms of the deal, GenOn Energy Inc. shareholders will get 0.1216 of a NRG Energy Inc. share for each of their GenOn shares. Based on NRG's Friday closing stock price, the offer equates to about \$2.20 per GenOn share. That represents about an 18 percent premium over Houston-based GenOn's Friday closing stock price.

NRG, based in Princeton, N.J., sells power on the wholesale market and to retail customers in states that have deregulated their electric power industry. It said the acquisition will allow it to cut costs, while boosting efficiency and cash flow.

"This combination ushers in a new era of scale, scope, and market and fuel diversification in the competitive power industry," NRG President and CEO David Crane said in a statement.

NRG expects the higher profits and lower costs stemming from the deal to increase its free cash flow by about \$300 million per year.

NRG has been hurt by a long and steep decline in wholesale power prices. Prices have fallen because electricity demand has been soft in the sluggish economy and because the price of natural gas, which is used by many utilities to run generators, has fallen to its lowest level in years. Also, the mild winter across much of the country reduced demand for heating across the country and dented the profits of electric companies.

In May NRG posted a first-quarter loss of \$209 million, or 92 cents per share. GenOn, which was formed through the combination of Mirant and RRI Energy in 2010, lost \$32 million, or 4 cents per share in its first quarter.

NRG operates power plants that run on natural gas, coal, oil, nuclear, solar and wind energy. It is one of the biggest power companies in the country with 25,000 megawatts of generating capacity, with two million customers in 16 states.

GenOn has generating capacity of almost 23,000 megawatts, with facilities in a dozen states. It uses coal, natural gas and oil to generate electricity.

Once the deal closes NRG shareholders will own 71 percent of the combined company and GenOn shareholders will own 29 percent. Four members of GenOn's board will join NRG's board, with GenOn Chairman and CEO Edward Muller becoming the board's vice chairman.

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The deal is subject to approval by the shareholders of both companies, as well as federal and state regulators. It's expected to close by the first quarter of next year, the companies said.

Also on Sunday, NRG said that it will pay its first common stock dividend. A dividend of 9 cents per share will be paid on Aug. 15 to shareholders of record as of Aug. 1.

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