

The Depository Trust Company

IMPORTANT

B#: 0421
DATE: August 04, 2000
TO: All Participants
CATEGORY: Reorganization
FROM: DTC Proxy Department
ATTENTION: Proxy/Reorganization Manager
SUBJECT: Costilla Energy, Inc.

Securities

Costilla Energy, Inc. Sr. Sub Noted 10.25% due 10/01/06
Costilla Energy, Inc. Sr. Notes 10.25% due 10/01/06
Costilla Energy, Inc. Sr. Notes 10.25% due 10/01/06

CUSIP #'s

22161G AA 1
22161G AB 9
22161G AD 5

Costilla Energy, Inc. is soliciting acceptances of its Plan of Reorganization, dated July 28, 2000 (the "Plan"). Holders of Costilla Energy, Inc., Securities listed above and (the "Securities"), are eligible to vote by ballot to accept or reject the Plan.

Accompanying the Disclosure Statement dated July 28, 2000 and other materials for voting on the Plan is the attached Notice, which refers to a hearing on confirmation of the Plan, which is scheduled to be held on September 14, 2000. DTC also received the attached Ballot. Participants may obtain copies of the materials for voting on the Plan by contacting:

Sheinfeld, Maley & Kay, PC
Attn: Barbara Howell
Fax Number: 713-658-9756

DTC will provide Costilla Energy, Inc. with a listing of the Participants which had the Securities on deposit with DTC at the close of business on July 20, 2000, so that Participants may vote on the Plan.

Participants are referred to the Disclosure Statement dated July 28, 2000 for a statement of the terms of the Plan.

Participants are advised that acceptances or rejections of the Plan must be received by Counsel no later than September 7, 2000. Executed ballots should be returned to:

Sheinfeld, Maley & Kay, PC
Attn.: Barbara Howell
1001 Fannin, Suite 3700
Houston, Texas 77002-6796
Fax Number: 713-658-9756

The Securities will remain eligible at DTC during the solicitation.

Participants are referred to RIPS Envelope 93 and LENP for details of the Plan.

Karl Baker

Manager

Attachments

**UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF TEXAS
MIDLAND DIVISION**

In re:

**COSTILLA ENERGY, INC.
Tax I.D. No. 75-2658940**

Debtor.

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Case No. 99-70653

Chapter 11

**NOTICE TO ALL CREDITORS AND OTHER INTERESTED PARTIES
OF (A) ORDER APPROVING DISCLOSURE STATEMENT, (B) VOTING
ON PLAN OF REORGANIZATION, (C) DATE, TIME AND PLACE OF
CONFIRMATION HEARING AND (D) OTHER CONFIRMATION ISSUES**

NOTICE IS GIVEN THAT:

1. On July 20, 2000, the United States Bankruptcy Court for the Western District of Texas Midland Division ("Court") entered an Order Approving Disclosure Statement; Fixing Voting Record Date, Voting Deadline; Approving the Forms of Ballots; Fixing a Date for Hearing on Confirmation; and Addressing Matters Ancillary to Solicitation, ("Order"). The Order approved the Disclosure Statement with Respect to Debtor's Plan of Reorganization (Liquidation), As Amended ("Disclosure Statement") dated July 28, 2000, filed by Costilla Energy, Inc. ("Debtor" or "Costilla"). You are being provided this notice with respect to the Debtor's Plan of Reorganization (Liquidation), as Amended ("Plan") dated July 28, 2000.

2. Copies of the Disclosure Statement, (including the Plan as an exhibit), and certain related disclosure materials have been mailed to creditors and other parties in interest at their addresses last known to the Debtor. If you are a creditor of the Debtor, a party to an executory contract or unexpired lease with the Debtor, or a party in interest, and have not received the Disclosure Statement, you may obtain it by writing Barbara Howell, Sheinfeld, Maley & Kay, P.C., 1001 Fannin, Suite 3700, Houston, Texas 77002-6797.

3. The Court has set September 14, 2000, commencing at 10:00 a.m., Central Savings Time, as the date and time for the hearing on confirmation of the Plan and to consider any objections to the Plan. Creditors and other parties-in-interest may, but are not required, to attend the confirmation hearing. The confirmation hearing will be held at the United States Bankruptcy Court, Western District of Texas, San Antonio Division, U.S. Post Office Building, 615 E. Houston St., Courtroom #3, San Antonio, Texas. The hearing may be continued or adjourned from time to time without further notice except for an announcement made at the hearing. In addition, the Plan may be modified without further notice prior to or as a result of the confirmation hearing, or thereafter as otherwise provided in the Bankruptcy Code.

4. Any objections to confirmation of the Plan must be in writing, specify the nature and grounds of the objection, and must be filed with the Court at the address specified in paragraph

3 hereof, and served in a manner so that they are received on or before 5:00 p.m., Central Savings Time, on September 7, 2000, by the following parties:

HENRY KAIM
Sheinfeld, Maley & Kay, P.C.
1001 Fannin, Suite 3700
Houston, Texas 77002-6797
Counsel to the Debtor

-and-

HARRY A. PERRIN
Weil, Gotshal & Manges, L.L.P.
700 Louisiana, Suite 1600
Houston, Texas 77002
Counsel to the Creditors' Committee

5. If the Plan is confirmed and becomes effective, rights you may have against or relating to the Debtor will be affected, discharged and released.

6. IF A BALLOT IS ENCLOSED: Creditors entitled to vote on the Plan are receiving Ballots. If you are one such Creditor, a Ballot is enclosed for you to use to vote to accept or reject the Plan. Your vote is important. The Court will consider the votes of creditors when determining whether or not to approve and confirm the Plan. Only Ballots properly completed, executed and delivered pursuant to the instructions set forth on the Ballot will be counted.

7. IF A BALLOT IS NOT ENCLOSED: If a Ballot was not enclosed, then Costilla's records indicate that you are not entitled to vote on the Plan. Costilla believes that you are not entitled to vote on the Plan for one or more of the following reasons: (a) you are a shareholder of Costilla and, thus, you will receive no distribution under the Plan and are deemed to have rejected the Plan; (b) any Claim you may have had against Costilla was fully paid during the pendency of Costilla's bankruptcy case; (c) you do not have a valid Claim against Costilla; or (d) your Claim against Costilla is unimpaired under the Plan and, thus, you are not entitled to vote and are deemed to have accepted the Plan. You should consult the Disclosure Statement to determine which applies to you. You may dispute the contention that you are not entitled to vote on the Plan by filing a timely objection or motion requesting to vote in connection with the Plan.

Dated: July 28, 2000.

BY ORDER OF:
Ronald B. King
United States Bankruptcy Judge

United States Bankruptcy Court
For The Western District of Texas
Midland Division

In re:

COSTILLA ENERGY, INC.
Tax I.D. No. 75-2658940

Debtor.

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Case No. 99-70653

Chapter 11

**BALLOT FOR ACCEPTING OR REJECTING
DEBTOR'S PLAN OF REORGANIZATION (LIQUIDATION), AS AMENDED
(MASTER BALLOT FOR PUBLIC BOND CLAIMS)**

The Debtor's Plan of Reorganization (Liquidation), as Amended, dated July 28, 2000 (the "Plan") filed by the above-captioned Debtor can be confirmed by the Court and thereby made binding on creditors and other parties-in-interest if it is accepted by the holders of two-thirds (2/3) in amount and more than one-half (1/2) in number of claims in each class. In the event the requisite acceptances are not obtained, the Court may nevertheless confirm the Plan if the Court finds that the Plan accords fair and equitable treatment to the class rejecting it and otherwise satisfies the requirements of section 1129(b) of the Bankruptcy Code. To have your vote counted, you must complete and return this ballot to:

Sheinfeld, Maley & Kay, P.C.
Attn: Barbara Howell
1001 Fannin, Suite 3700
Houston, Texas 77002-6796
Fax: (713) 658-9756

All ballots must be received at the above address on or prior to September 7, 2000, at 5:00 P.M. Central Time. Any ballot received after this date and time will not be counted. Ballots that are untimely, unsigned or not properly completed may not be counted.

Master Ballots will be accepted by telecopy. No confirmation of receipt will be provided.

All questions concerning completion of this ballot should be directed to Barbara Howell at 713-754-6231.

BALLOTS NOT PROPERLY COMPLETED, SIGNED AND RETURNED TO THE ADDRESS ABOVE ON OR BEFORE SEPTEMBER 7, 2000, WILL NOT BE COUNTED.

FAX COMPLETED
BALLOT TO: BARBARA HOWELL,
FAX NUMBER: (713) 658-9756

ITEM 1.

Summary of Votes-Class 7. Please summarize the votes cast by Beneficial Owners of Public Bonds that did **NOT** check the box in Item 2 of the Ballot of Beneficial Owners of Public Bonds and thereby did not elect to reduce their claim to \$5,000 to be treated as a Class 6 Administrative Convenience Claim.

The undersigned is the record or first participatory holder of bonds issued by Costilla Energy, Inc. for the benefit of others. The beneficial holders of such bonds have returned the following properly completed beneficial owner ballots casting the following votes with regard to the Plan:

\$ _____ (in principal amount only) ACCEPT the Plan.

\$ _____ (in principal amount only) REJECT the Plan.

_____ (number of beneficial owners) ACCEPT the Plan.

_____ (number of beneficial owners) REJECT the Plan.

Such Claims, to the extent Allowed, are Class 7 Claims within the Plan.

ITEM 2.

Summary of Votes-CLASS 6. Please summarize the votes cast by Beneficial Owners of Public Bonds that **DID** check the box in Item 2 of the Ballot of Beneficial Owners of Public Bonds and thereby did elect to reduce their claim to \$5,000 to be treated as a Class 6 Administrative Convenience Claim.

The undersigned is the record or first participatory holder of bonds issued by Costilla Energy, Inc. for the benefit of others. The beneficial holders of such bonds have returned the following properly completed beneficial owner ballots casting the following votes with regard to the Plan:

\$ _____ (in principal amount only) ACCEPT the Plan.

\$ _____ (in principal amount only) REJECT the Plan.

_____ (number of beneficial owners) ACCEPT the Plan.

_____ (number of beneficial owners) REJECT the Plan.

Such Claims, to the extent Allowed, are Class 6 Claims within the Plan.

ITEM 3.

Administrative Convenience Claim Election. To the extent that any Beneficial Owners elected Administrative Convenience Claims Treatment under the Plan (by checking the box in Item 2 of the Ballot for Beneficial Owners of Public Bonds), please summarize such elections below. In this regard, the undersigned certifies that the schedule set forth below is an accurate listing of the administrative convenience claim elections indicated by the Beneficial Owners who delivered voting instructions to the undersigned or any intervening nominee electing to reduce their claim to \$5,000 and to have such claim receive treatment under Class 6 (Administrative Convenience Claims) under the Plan. (Please complete the Beneficial Owner Summary Regarding Convenience Claim Elections schedule set forth below. Attach additional schedules as needed.)

BENEFICIAL OWNER SUMMARY REGARDING CONVENIENCE CLAIM ELECTIONS

Customer Account No./Bond No.Principal Amount of Senior Note Claim to be Reduced to \$5,000

_____	_____
_____	_____
_____	_____
_____	_____

Bonds with respect to which an Administrative Convenience Class election has been made must be sufficiently identified to permit distribution on account of such bonds as provided for Class 6 under the Plan.

DATED: _____, 2000.

Name of bank, broker or dealer (Print or Type): _____

Signature: _____

Name of Signatory: _____

Office or Title of Signatory (if applicable): _____

Street Address: _____

City/State/Zip: _____

Telephone: _____